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THE INFLUENCE OF CURRENT RATIO AND DEBT TO EQUITY RATIO ON COMPANY VALUE WITH RETURN ON EQUITY AS INTERVENING VARIABLES

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ABSTRACT

The goal of this study is to analyze and assess the effect of the debt to equity ratio and the current ratio on the company's value, with return on equity serving as an intervening variable. An associative approach was used in this investigation. Questionnaires and observational techniques were used in this study to collect data. The statistical analysis used in this study's quantitative data analysis includes inner model analysis, Auter model analysis, and hypothesis testing. The data processing program utilized in this study is called Partial Least Square. The study's conclusions show that a company's value is unaffected by its debt to equity ratio and current ratio. The current ratio and the debt to equity have no bearing on return on equity.

Keywords: Current Ratio, Company Value, Return on Equity and Company Value.

INTRODUCTION

Making a profit is the main objective of a company that has gone public or registered on the IDX, allowing the owners or shareholders to benefit from an increase in the company's worth, which may be a sign of the health of the business. Stock market values function as a barometer for the general assessment of all market players and as a gauge of how well corporate management is doing its job (Gultom et al., 2013)).
Company value not only reflects the fundamental worth of the company now, but also its goals and aspirations for future wealth value growth.(Wahyuni, S. F., & Hafiz, 2018)
Price Book Value compares the market price of a company's shares to its book value in order to assess how well it has performed. The technique of calculating an organization's market value as a percentage of its measured assets is called price to book value (Hani, 2015).
How much money a company makes in relation to the quantity of assets it uses is shown by a ratio known as return on assets (Kasmir, 2018).
An investor's interest in investing in a firm may be piqued by a high return on assets ratio, since it indicates that the company is highly competent in utilizing all of its resources to achieve very high profits (Siregar, Nuraisah, et al., 2021)
The ability of the company to produce a profit with its own cash after taxes is shown by return on equity. This percentage rises in proportion to how well the management of the company spends its own funds (Sudana, 2015). Profit is the end product of operating operations that gauges shifts in shareholder wealth over time, shows the profitability of the business, and is a projection of future profitability (Hani, 2015)
According to (Munawir, 2015) Short-term debt, also known as current debt, refers to a company's financial obligations that must be repaid within a year of the balance sheet date using the company's current assets.
According to (Kasmir, 2018) The ratio of the company's debt to equity, or DER, measures how much of its own capital is in debt. The ideal capital structure will be reflected in the best ratio of own capital to foreign capital.

LITERATURE REVIEW

1. Understanding Company Value

According to (Zurriah & Sembiring, 2020) The significance of company value lies in the fact that a high value corresponds with great shareholder wealth; in other words, the higher the share price, the higher the company value.
According to (Januri & Kartika, 2021) The weighted average cost of capital is used to calculate the present value of future free cash flow at a discount rate, which determines the company's worth.
According to (Fahmi, 2012) In order for investors to be willing to purchase company shares at a price greater than the shares' book value, company value provides information on how much the public values the company.
According to (Christiana et al., 2020) The worth of future profits that will be realized in accordance with projections and recalculated at the appropriate interest rate is known as the firm value.
According to (Ammy & Ramadhan, 2021) The amount that potential purchasers are willing to pay to purchase a company is known as its company value. The owner of the business is more prosperous the higher the firm value.
According to (Houstoun, 2016) Investors' assessment of a firm's success, or corporate value, is frequently correlated with share prices.

2. Return On Equity

According to (Kasmir, 2019) A ratio called return on equity is used to calculate net profit with own capital after taxes. When it comes to managing firm assets, the more profit is made the higher the Return On Equity. (Isna Ardila et al., 2019)

According to (Hery, 2017) Return on Equity: Basically, the more net profit created from each rupiah of money invested in equity, the higher the return on equity.

3. Current Ratio

The ratio that is most frequently used to assess a company's liquidity is the current ratio, which indicates how well it can use current assets to pay off debts that must be settled right now (Hani, 2015).

Another meaning of the current ratio is a ratio that assesses a company's capacity to use its readily available current assets to satisfy its short-term obligations that are due right away (Hery, 2017).

The higher the current ratio, the greater the company's ability to meet short-term financial obligations (Siregar & Bahar, 2020). However, a high ratio measurement does not automatically signify a successful firm.One probable explanation is that cash is not being used to its full potential (Kasmir, 2018).

4. Debt To Equity Ratio

One sort of solvency ratio that assesses a company's capacity to pay its debts, particularly in the event of a liquidation, is the debt to equity ratio (Darsono & Ashari, 2014).

Debt to Equity is a ratio that describes the extent to which the owner's capital can cover debts to outside parties (Harahap, 2018).

Ratios are generally higher in companies with steady cash flows than in those with irregular cash flows. The higher this ratio, the less profitable it is for banks. In the meantime, larger ratios are preferable for businesses. (Wahyuni, S. F., & Hafiz, 2018).

The higher the ratio, the better for businesses. However, if there is a decrease in asset value, the limit for borrowers will be higher with a low ratio (Kasmir, 2018)

Conceptual Framework

1. Current Ratio's Impact on Return on Equity

The ability of the business to settle several short-term debts, usually in less than a year, is measured by its current ratio. Another way to calculate this current ratio is to divide current assets by current liabilities. Inventory, cash, short-term securities, and receivables are all considered current assets. In 2019, A company's current assets and current liabilities are compared using the current ratio (Rialdy, 2019). Since the company is more able to meet its short-term or current obligations, a higher current ratio will have a positive effect on the business. A high current ratio suggests that the company has excess current assets that can pay its current liabilities. (Saragih et al., 2021)

2. Debt to Equity Ratio's Impact on Business Value

The ratio of debt to equity is used to compare the quantity of equity and debt. The quantity of loan capital that results from the company's obligation to carry debt increases with the Debt To Equity Ratio; the higher the debt load, the more profit will be reduced (Zulia Hanum, 2019).The company's ability to make a profit is significantly impacted by its debt to equity ratio (Rialdy, 2021). One measure used to evaluate debt vs equity is the debt-to-equity ratio. Comparing all debt—including current debt—with all equity yields this ratio. Knowing the quantity of money provided by borrowing from business owners can be done with the use of this ratio. Put differently, the purpose of this ratio is to determine each rupiah of personal capital that is employed as loan collateral. The usage of debt to finance asset investments rises with a higher Debt to Equity Ratio, increasing the financial risk to the organization. (Kasmir, 2018).

3. Current Ratio's Impact on Return on Equity

A company's ability to pay short-term obligations or debts that are immediately due when they are billed in full can be determined using the current ratio. entire. How much of existing assets can be used to pay down impending short-term obligations? One way to gauge a company's degree of security is by looking at its current ratio (Rialdy, 2019). The company's ability to turn a profit is reduced if the current ratio value rises since current assets and current liabilities automatically decline. Conversely, if the current ratio value falls, current liabilities and assets rise automatically, which boosts the business's capacity to turn a profit (I. Ardila et al., 2021).On the other hand, an excessively high current ratio points to either an excess of current assets or a low level of liquidity relative to current assets, and vice versa. This will serve as the foundation for calculating return on equity. Previous research indicates that the Current Ratio has a large and partially negative impact on Return on Equity (Rialdy, 2019).

4. Debt to Equity Ratio's Impact on Return on Equity

A ratio called the debt to equity ratio can be used to evaluate the amount of debt compared to equity for each amount that serves as security for the total amount of debt. The ability of a business to meet all of its short- and long-term obligations can be evaluated using this ratio (Saragih et al., 2021). The ability of the business to turn a profit declines as the Debt To Equity Ratio rises, which also causes total debt and equity to rise automatically. Conversely, when the Debt to Equity Ratio falls, the overall debt and equity of the company also tend to drop, which in turn boosts the company's profitability.

5. Impact of Equity Return on Company Value

The revenue offered to business owners for the capital they put in the company is measured by return on equity. Additionally, a larger ratio is preferable. This indicates that the owner of the business is becoming more powerful, and vice versa (Kasmir, 2016). Return on Equity is a metric used to determine how much profit a capital owner is entitled to. The owner of the company will be in a better position if the ROE is higher, and this will improve investor perception of the business and raise the share price and total value. This implies that a company's share price will rise in tandem with an increase in profits, boosting the company's overall worth. Investors use return on equity as a benchmark to determine if a company can properly manage its resources (L. P. Putri et al., 2021).

6. Current Ratio's Impact on Firm Value with Return on Assets Acting as an Intervening Changeable

The ratio of total assets to income before taxes is known as return on equity. Return on Equity indicates the amount of profit the business has made from the assets that have been invested in it. The ability of a business to turn a profit while utilizing all of its assets is gauged by this ratio. Net profit after taxes is divided by total assets to get this ratio (Kasmir, 2018).

7. Return on Equity as an Intervening Variable: The Impact of Debt to Equity Ratio on Company Value

Every business needs a variety of resources to execute its operations, particularly financial resources so that the business can function as it should. In order to grow or extend new ventures or investments, money is also required. This implies that a specific quantity of money must constantly be on hand within the organization in order to be available when needed. In (Z Hanum, 2021). If the company can use all of its assets to produce net profit, the higher the Return on Equity, the better the Company Value. Profits for the company may then rise (L. P. P. Putri et al., 2019). A financial ratio called the debt-to-equity ratio can be used to determine how much of your own capital is financed by debt. The higher this ratio is, the more debt the business has taken on to finance its operations. According to (Munawir, 2015), a high debt-to-equity ratio implies that the business is obligated to pay back the principle and interest as well as the loan. The following is the conceptual framework:

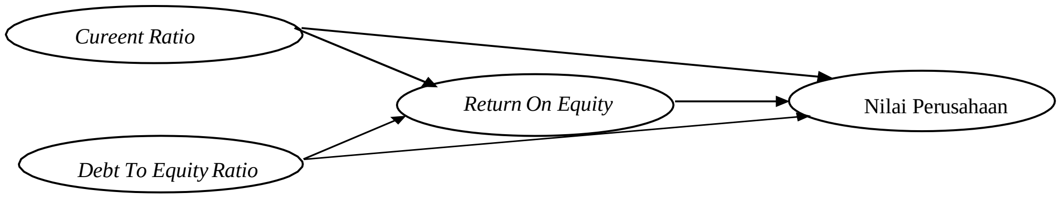

Figure 1 Conceptual Framework

Hypotheses

A hypothesis is a short-term solution to a problem statement for a study. Since the response is merely based on pertinent theory and is not yet supported by empirical facts gathered through data gathering, it is claimed that the goal is transient. Thus, rather than being an empirical response, a hypothesis can instead be defined as a theoretical response to a problem formulation (Sugiyono, 2019). The following are the research's hypotheses:

1. For the years 2020 through 2022, the current ratio will affect the company value of companies in the food and beverage subsector that are listed on the Indonesia Stock Exchange.
2. Among companies in the food and beverage subsector listed on the Indonesia Stock Exchange for the 2020–2022 timeframe, the debt to equity ratio has an impact on the company value.
3. For the years 2020–2022, the current ratio has an impact on return on equity for companies in the food and beverage subsector listed on the Indonesia Stock Exchange.
4. For the years 2020–2022, companies in the food and beverage subsector listed on the Indonesia Stock Exchange will see a shift in Return on Equity based on their Debt to Equity Ratio.
5. For the years 2020–2022, companies in the food and beverage subsector listed on the Indonesia Stock Exchange are influenced by return on equity when determining their company value.
6. For food and beverage sub-sector businesses listed on the Indonesia Stock Exchange for the 2020–2022 timeframe, the current ratio determines the company value along with return on equity.
7. Among the food and beverage sub-sector businesses listed on the Indonesia Stock Exchange for the 2020–2022 timeframe, the Debt to Equity Ratio has an impact on Return on Equity and Company Value.

RESEARCH METHOD

The type of research used in this research is an associative approach. The associative approach is a research problem formulation that is questioning in nature relationship between two or more variables. This research uses secondary and empirical data, where the data is obtained from documents by browsing the official website of the Indonesia Stock Exchange (BEI), while the research approach used is a quantitative approach, where this approach is data analysis of data containing certain numerical figures (Sugiyono, 2019). Companies in the Food and Beverage Sub-Sector listed on the Indonesia Stock Exchange (BEI) for the 2020–2022 period were the subject of this study collecting financial report data available on the official website www.idx.co.id. The research period starts from March 2023 to August 2023.

The population of this research is all Food and Beverage Sub-Sector companies listed on the Indonesia Stock Exchange (BEI), namely 33 companies. The sample used in this research was Purposive Sampling. The researcher took the data used in this research, which is quantitative data sourced from secondary data which is in accordance with existing research on data, namely financial reports published by the Indonesian Stock Exchange from its official website, namely www.idx.co.id. The technique used by researchers in collecting data is by using external data. In order to do route analysis using latent variables, this data will be evaluated quantitatively using the partial least squares – structural equation model (PLS-SEM) statistical analysis method (Ghozali & Latan, 2015). This analysis is frequently referred to as the second generation of multivariate analysis. Making predictions is the goal of (Partial Least Square) PLS. Predicting the relationship between constructs is the goal of these predictions, which also assist researchers in obtaining latent variable values for their research. The indicators' linear aggregates are known as latent variables. Based on how the inner model a structural model that links latent variables and outer model a measurement model, specifically are constructed, the weight estimate for developing latent variable score components is determined.

According to (Hair Jr et al., 2017) There are two group stages for analyzing SEM-PLS, namely

a. Analysis of the measurement model (Outer Model), namely: convergent validity, reliability and construct validity, discriminant validity
b. Structural model analysis (Inner Model), namely: Coefficient of determination, f-square; and hypothesis testing

The parameter estimates obtained with (Partial Least Square) PLS can be categorized as follows: the first category is the weight estimate which is used to create latent variable scores. The second category reflects the path estimate (Path Estimate) that connects latent variables and between latent variables and their indicator blocks (Loading). The third category is related to the means and location of parameters (regression constant values) for indicators and latent variables.

RESULTS

Analysis of the Measurement Model (Outer Model)

Evaluation of the construct variables under study, as well as the reliability and validity of a variable, are the goals of the measurement model analysis (outer model).

Differential Validity

When a construct variable's Heterotrait - Monotrait Ratio of Correlation (HTMT) value is less than 0.90, it is considered to have excellent discriminant validity and is therefore legitimate. This is the goal of discriminant validity analysis. (Hair Jr et al., 2017).

Collinearity (Collinearity / Variance Inflation Factor / VIF)

Collinearity testing is to prove whether the correlation between latent variables/constructs is strong or not. If there is a strong correlation, it means that the model contains problems from a methodological point of view, because it has an impact on the estimation of statistical significance. This problem is called collinearity. The value used to analyze it is by looking at the Variance Inflation Factor (VIF) value (Hair Jr et al., 2017). If the VIF value is greater than 5.00, it means there is a collinearity problem, and conversely there is no collinearity problem if the VIF value is <5.00 (Hair Jr et al., 2017).

Structural Model Analysis (Inner Model)

Structural model analysis or (inner model) aims to test the research hypothesis. The parts that need to be analyzed in the structural model are collinearity, hypothesis testing, and the coefficient of determination (R Square).

Direct Effect Testing

Direct influence The purpose of hypothesis testing is to directly (and without the use of middlemen) demonstrate the following hypotheses about the influence of one variable on another:

1. An rise in one variable's value is followed by an increase in another variable's value if the path coefficient value is positive.
2. A negative path coefficient value suggests that a rise in one variable is accompanied by a fall in the value of another. (Hair Jr et al., 2017)

Additionally, the probability value is:

1. Ho is rejected (meaning there is a substantial influence of one variable on other variables) if the probability value (P-Value) < Alpha (0.05).
2. When the probability value (P-Value) surpasses Alpha (0.05), Ho (the impact of one) is acknowledged.

Testing the Indirect Effect Hypothesis

Indirect influence hypothesis testing aims to prove hypotheses about the influence of a variable on other variables indirectly (through intermediaries).

1. If the indirect influence coefficient value <direct influence coefficient, then it mediates the relationship between one variable and another variable.
2. If the indirect influence coefficient value > direct influence coefficient, then it does not mediate the relationship between one variable and another variable (Hair Jr et al., 2017).

Coefficient of Determination (R Square)

The Coefficient of Determination (R Square) aims to evaluate the accuracy of predictions of a variable. In other words, to evaluate how variations in the value of the dependent variable are influenced by variations in the value of the independent variable in a path model. (Hair Jr et al., 2017).
1. An R Square value of 0.75 indicates a strong PLS model.
2. An R Square of 0.50 indicates a moderate PLS model.
3. An R Square value of 0.25 indicates a weak PLS model (Ghozal & Latan, 2015).

Tabel 1 Koefisien Determinasi

	R Square	Adjusted RSquare
Y. Nilai Perusahaan	0.702	0.674
Z. Return On Equity	0.246	0.200

Sumber : SEM PLS (2022)

In the table above, the results show that the influence of the Current Ratio and Debt To Equity Ratio on Company Value is 0.702, meaning the magnitude of the influence is 70.2%, this means it shows a strong PLS. Then, the results of the influence of the Current Ratio and Debt To Equity Ratio on Return On Equity are 0.246, meaning the magnitude of the influence is 24.6%, this means it shows a weak PLS.

DISCUSSION

The Influence of the Current Ratio on Company Value

It can be concluded from the research's findings that there is no relationship between the Current Ratio and Company Value since the Current Ratio variable on the Company Value variable has a path coefficient of -0.116 (positive) and a P-Values value of 0.247 > 0.05. firms in the computer and service subsector for the years 2020–2022. The ability of the business to settle several short-term debts, usually in less than a year, is measured by its current ratio. Another way to calculate this current ratio is to divide current assets by current liabilities. Inventory, cash, short-term securities, and receivables are all considered current assets. (Sanjaya & Sipahutar, 2019)

A company's current assets and current liabilities are compared using the current ratio (Rialdy, 2019). Since the company is more able to meet its short-term or current obligations, a higher current ratio will have a positive effect on the business. A high current ratio suggests that the company has excess current assets that can pay its current liabilities (Rambe et al., 2021)

The Influence of Debt To Equity Ratio on Company Value

According to the study's findings, the Debt To Equity Ratio for the Company Value variable had a path coefficient of -0.009 (negative) and a P-Values value of 0.529 > 0.05. For the 2020–2022 period, this means that the Debt To Equity Ratio had no discernible impact on Company Value in companies in the computer and service sub-sector. The ratio of debt to equity is used to compare the quantity of equity and debt. The quantity of loan capital that results from the company's obligation to carry debt increases with the Debt To Equity Ratio; the higher the debt load, the more profit will be reduced (E. P Nainggolan, 2020).

The company's ability to make a profit is significantly impacted by its debt to equity ratio (Rialdy, 2018). One measure used to evaluate debt vs equity is the debt-to-equity ratio. Comparing all debt—including current debt—with all equity yields this ratio. The quantity of money given to business owners by loans (creditors) can be determined with the use of this ratio. Put differently, the purpose of this ratio is to determine each rupiah of personal capital that is employed as loan collateral. The usage of debt to finance asset investments rises with a higher Debt to Equity Ratio, increasing the financial risk to the organization.(Kasmir, 2018)

The Effect of Current Ratio on Return on Equity (ROA)

According to the research findings, there is a significant relationship between the Current Ratio and Return On Equity in computer and service sub-sector companies for the 2020–2022 period. The current ratio's direct influence on the Return On Equity variable has a path coefficient of -0.039 (positive) and a P-Values value of 0.853 > 0.05. A company's ability to pay short-term obligations or debts that are immediately due when they are billed in full can be determined using the current ratio. entire. How much of existing assets can be used to pay down impending short-term obligations? One way to gauge a company's degree of security is by looking at its current ratio (Siregar & Harahap, 2021) The company's ability to turn a profit is reduced if the current ratio value rises since current assets and current liabilities automatically decline. Conversely, if the current ratio value falls, current liabilities and assets rise automatically, which boosts the business's capacity to turn a profit (Rialdy, 2019).

On the other hand, an excessively high current ratio points to either an excess of current assets or a low level of liquidity relative to current assets, and vice versa. This will serve as the foundation for calculating return on equity. Previous research indicates that the Current Ratio has a large and partially negative impact on Return on Equity (Edisah Putra Nainggolan, 2016)

The Effect of Debt To Equity Ratio on Return On Equity (ROE)

Based on the research findings, it can be concluded that there is no significant relationship between the Debt To Equity Ratio and Return On Equity in computer and service sub-sector companies for the 2020–2022 period. Specifically, the Debt To Equity Ratio for the Return On Equity variable has a path coefficient of 0.479 (positive) and a P-Values value of 0.225 > 0.05.

A ratio called the debt to equity ratio can be used to evaluate the amount of debt compared to equity for each amount that serves as security for the total amount of debt. The ability of a business to meet all of its short- and long-term obligations can be evaluated using this ratio(Siregar, Rambe, et al., 2021)

The ability of the business to turn a profit declines as the Debt To Equity Ratio rises, which also causes total debt and equity to rise automatically. Conversely, when the Debt to Equity Ratio falls, the overall debt and equity of the company also tend to drop, which in turn boosts the company's profitability. A higher ratio means that the company's overall debt is made up of a larger percentage of its own capital, which means that it will burden external parties (creditors) more heavily. This is due to the fact that interest will be paid on the advantages received from creditors.

Growth of Return on Equity (ROE) on Company Value

Based on the research findings, it can be concluded that Return On Equity significantly influences Company Value in computer sub-sector companies, with a path coefficient of 0.852 (positive) and a P-Value of 0.000 < 0.05. and service time frame 2020–2022. The income that business owners—both common and preferred shareholders—are able to get in exchange for the capital they invest in the company is known as return on equity. Additionally, a larger ratio is preferable. This indicates that the owner of the business is becoming more powerful, and vice versa (Kasmir, 2018).

Return on Equity is a metric used to determine how much profit a capital owner is entitled to. The owner of the company will be in a better position if the Return On Equity is higher, and this will improve investor perception of the business and raise the share price and overall value. This implies that a rise in profits will also result in an increase in the share price of the business, raising its overall worth. Investors use return on equity as a benchmark to determine if a company can properly manage its resources (I Ardila & Fadhila, 2018).

The Effect of Current Ratio on Company Value with Return on Equity (ROE) as an Intervening Variable.

The study's findings indicate that, for the 2020–2022 period, the Debt To Equity Ratio of the Company Value variable with Return On Equity has no effect on Company Value with Return On Equity as an intervening variable in computer & service sub-sector companies, with a path coefficient of -0.033 (negative) and a P Value of 0.812 > 0.05.

The ratio of total assets to income before taxes is known as return on equity. Return on Equity indicates the amount of profit the business has made from the assets that have been invested in it. The ability of a business to turn a profit while utilizing all of its assets is gauged by this ratio. Net profit after taxes is divided by total assets to get this ratio (Siregar & Delia, 2022).

Because the company value will rise in tandem with a lower debt load and an increased current ratio, this ratio is assumed to affect return on equity.

The Influence of Debt To Equity Ratio on Company Value with Return On Equity (ROA) as an Intervening Variable.

Based on the research findings, it can be concluded that for the 2020–2022 period, the Current Ratio of the Company Value variable with Return On Equity has no effect on Company Value with Return On Equity as an intervening variable in computer & service sub-sector companies. The current ratio has a path coefficient of 0.408 (positive) and a P Value of 0.173> 0.05.

Every business needs a variety of resources to execute its operations, particularly financial resources so that the business can function as it should. Money is constantly required to pay for all or some of the essential expenses. In order to grow or extend new ventures or investments, money is also required. This implies that money must constantly be available within the organization in a specific amount so that it is available when needed(Julita, 2019).

The level of Company Value increases with the level of Return on Equity. whether the business is able to turn a profit by using all of its resources. Profits for the company may then rise (Hafiz et al., 2019).

CONCLUSION

The research's findings plus the previously mentioned discussion allow for the following conclusions to be made: The debt to equity ratio and the current ratio have no bearing on the performance of companies in the food and beverage subsector listed on the Indonesian Stock Exchange. And Mojitos on the Stock Exchange of Indonesia? The Return On Equity (ROE) of Food and Beverage Sub Sector companies listed on the Indonesian Stock Exchange is not impacted by the Current Ratio, and the Return On Assets of these companies is not impacted by the Debt To Equity Ratio. However, the Return On Equity (ROE) of these companies has an effect on their performance.

LIMITATION (OPTIONAL)

Limitations in this research, there are several obstacles that researchers must pay attention to, namely: This research can be used as a means of information to increase insight and knowledge about the extent of the influence of the Current Ratio and Debt to Equity Ratio on company value with return on equity as variable intervention . It is hoped that this research can provide input for science, especially those related to the discipline of economics, especially accounting, as well as studies of the application of theory and other literature to actual conditions.

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DECLARATION OF CONFLICTING INTERESTS

There is no conflict of interest for the author of this essay.

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