

## The Influence of Current Ratio, Debt to Equity Ratio, and Return on Assets on Company Value

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### ARTICLE INFO

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

*Received :* 01 September 2025

*Revised :* 20 September 2025

*Accepted:* 23 October 2025

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### ABSTRACT

The goal of this research is to examine the influence of independent variables, namely current ratio, debt to equity ratio, and return on assets on company value proxied by price to book value of banking sub-sector companies listed on the Indonesia Stock Exchange in 2020-2024. This research approach is quantitative, using secondary data, namely financial reports obtained from the IDX website. The population is amounted to 47 companies while the sample consisted of 27 companies selected by purposive sampling method. This research applied panel data regression using Eviews 13. Results indicate that current ratio, debt to equity, and return on assets partially and simultaneously has significant influence on company value with determination level of 97%.

## **INTRODUCTION**

Banking has an essential part in the financial industry. Bank's role in the economy of a country is as a fund collector regulated by Banking Law Number 10 of 1998 which explains about a bank role as a business company which collects public's funds for the purpose to deposits and also channelling the funds back to the public as credits and/or others in order to improve citizen's prosperity. Other than just being a collector and distributor of public funds, bank companies that have conducted Initial Public Offering (IPO) can get benefits in the form of additional funds from the public, increasing their company's image, and increasing company value in public.

But the fact is, since the beginning of 2025 there has been a significant decrease of the share prices caused by two factors, i.e. internal factors and external factors. The internal factors in question are sentiments and perceptions from investors and government policies. Meanwhile, external factors are influenced by global economy uncertainty, trade wars and geopolitical escalation, also exchange rate movements. The decline of the IDX Composite surely had an impact on the decline of the company's share prices including bank companies share prices and it is influenced to the decreasing of the company value. This research used Price to Book Value (PBV) as the company value indicator.

Although how current conditions seem less than ideal for investment, as an investor, this kind of situation is nothing new. Therefore, in order for investment decisions to still yield the expected returns, investors need to analyse company's financial performance. These financial performance ratios are among the factors that influence company value, but in this study, only three ratios will be used: liquidity (Current Ratio), solvency (Debt to Equity Ratio), and profitability (Return on Assets) ratios.

There was many previous research researched about how financial ratios, especially Current Ratio (CR), Debt to Equity Ratio (DER), and Return on Assets (ROA) influence Company Value proxied by PBV. But, many differences of the results due to the different objects or different times of the research. So, this research chooses banking companies because this object is rarely chosen as research objects.

Based on the background and research gap from the previous research, the problem statements of this research conducted to how does CR, DER, ROA influence company value of bank sub-sector companies listed on the IDX from 2020-2024 partially and simultaneously.

## **LITERATURE REVIEW**

### **Signalling Theory**

This theory explains that when a sign or signal containing information from the first party to the second party to be used based on the recipient's understanding. Brigham and Houston (2016) in Dr. Yudi Supiyanto et al. (2023) explained that signal theory is a given signal by company management to investors conveying insights regarding the company's performance.

### **Capital Market**

Tandelilin (2017) state that capital market is definite as a place where parties who have extra funds with parties who need the funds meet by trading securities. Capital market also can be interpreted as a place to buy and sell securities which planned to be hold for more than 1 year, such as shares, bonds, and mutual funds.

### **Company Value**

Gunardi et al. (2022) explained that company value is a state where a company will increase the trust of public in its company operational activities since the time a company was founded. Meanwhile, according to Franita (2018), company value is a term that related to investment opportunities when formed from the capital market value indicators. This condition can create positive future company growth, leading to an increase in company value. Company value is proxied using Price Book Value (PBV).

### **Financial Performance**

Faisal M Abdulah (2005) said that financial performance analysis of banks is a critical examination process of bank finances, involving data review, calculation, measurement, interpretation, and providing solutions for bank finances within a specific period. This research uses Current Ratio for liquidity measurement, Debt to Equity Ratio for solvency, and also Return on Assets for the profitability.

### **Current Ratio**

Current Ratio is a tool used to measure a company's ability to pay its current liabilities. Current Ratio is useful for assessing the safety of a company's liquidity, as a reason for making a decision in addressing liquidity issues, and for measuring the financial performance of a company across accounting periods (Kasmir, 2019). If Current Ratio value is too low, condition of the company financial performance is considered as bad, and vice versa. However, the opposite can also occur, where a high Current Ratio indicates low company performance, as stated by Rahmiyatun et al. (2019).

### **Debt to Equity Ratio**

Debt to Equity Ratio definition is a ratio which can be used as a tool to measure assets which paid by debt (Kasmir, 2019). This condition means that a company debt which uses to pay its operations compared to its own capital. Higher Debt to Equity Ratio, which results in a higher composition of debt, the greater the risk of loss, which in turn influences a company's value. Conversely, if the Debt to Equity Ratio is lower, the risk of loss is smaller, resulting in lower returns that can be provided to investors. However, this can also lead to significant profits if the debt can be maximized in its use.

### **Return on Assets**

Edy Sutrisno (2017) argued that Return on Assets, often said as economic profitability which measure a company ability in terms of gaining profits using all the assets they owned. Which in this case, the profit generated is earnings

before interest and taxes or EBIT. Sari & Santoso (2024) argue that a high Return on Assets can be interpreted as the company having good performance, which can trigger an increase in stock demand by investors. So, if the Return on Assets value is low, it can be interpreted that a company has not successfully utilized its assets to maximize profit.

## **RESEARCH HYPOTHESIS**

### **The Influence of Current Ratio Variable on Company Value Variable**

High value of Current Ratio means the company can fulfil its short-term obligations and has sufficient liquidity in the event of bankruptcy that attracts investors to invest their money to the company Annisa & Chabachib (2017). However, if the Current Ratio value seems too high, it can also indicate that a lot of funds are not being utilized efficiently, which can decrease investor trusts (Hermanto & Alfiah, 2024). The statement that a high Current Ratio can influence a high Company Value is reinforced by research conducted by Ika Listyawati & Ida Kristiana (2020), Nur Indah Farawansyah, Sovi Ismawati Rahayu, Nazma Riska Zhafiraah (2024), Kevin Louis Jonathan & Sri Purwaningsih (2023).

**H1: It is assumed that Current Ratio has a significant influence on company value.**

### **The Influence of Debt to Equity Ratio Variable on Company Value Variable**

A higher Debt to Equity Ratio is considered a less favourable condition because it means that the company's capital is more reliant on debt. Nevertheless, financial institutions, particularly, bank's Debt to Equity Ratio above 1 (one) or even more than 2 (two). High value of DER does not mean it is risky; it may be the large debt actually generates greater income, making it very likely to provide higher dividends as well (Rizkya & Syafitri, 2021). Previous research that supports this statement includes studies conducted by Faizal Mujiono & Astrid Dita Meirina Hakim (2021), Novela Tambun, Maryam Mangantar, & Victoria Neisye Untu (2022).

**H2: It is assumed that Debt to Equity Ratio has a significant influence on company value.**

### **The Influence of Return on Asset Variable on Company Value Variable**

When value of ROA is high, it can indicate a company ability to manage its assets efficiently (Harahap (2023) in Astuti & Lestari (2024)). The higher value of ROA value is more interesting to the investors to do investing, as it means a company can manage its assets well, resulting in high profits with those assets (Jonathan & Purwaningsih, 2023). Higher profits can increase company value. The argument is reinforced by earlier research done by Liana Sofiani & Enda Mora Siregar (2022), Asmaul Husna & Ibnu Satria (2019), Rizkya & Yancik Syafitri (2021).

**H3: It is assumed that Return on Assets has a significant influence on company value.**

**The Influence of Current Ratio, Debt to Equity Ratio, and Return on Asset Variables Simultaneously on Company Value Variable**

Previous research supporting this explanation is a study by Kevin Louis Jonathan and Sri Purwaningsih (2023) which explains that CR, DER, and ROA simultaneously influence Company Value.

**H4: It is assumed that Current Ratio, Debt to Equity Ratio, and Return on Asset simultaneously has a significant influence on company value.**

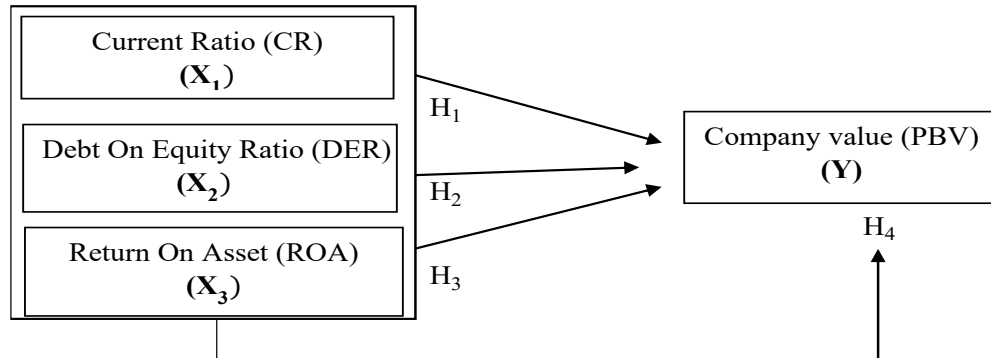


Figure 1. Theoretical Thinking Framework

**METHODOLOGY**

This research applied quantitative approach with cause-and-effect relationship. The population consist of 47 banks listed on the IDX meanwhile the samples chosen by purposive sampling amounted to 27 companies. This research used data panel. Meanwhile the type of data is secondary in the form of bank’s annually financial reports of 2020-2024 collected from IDX website and each company websites.

**RESEARCH RESULT**

**Descriptive Statistics**

Table 1. Descriptive Statistics

	<b>PBV</b>	<b>CR</b>	<b>DER</b>	<b>ROA</b>
<b>Mean</b>	1.874370	1.199704	5.158593	2.078370
<b>Median</b>	1.000000	1.160000	4.820000	1.660000
<b>Max.</b>	18.89000	2.640000	18.20000	11.43000
<b>Min.</b>	0.320000	0.370000	0.290000	0.040000
<b>Std. Dev.</b>	2.243775	0.303757	3.062396	1.808037

The descriptive statistics tests result in this study using 135 annual financial report data from 27 bank company samples over 5 (five) years, starting from 2020 to 2024, are as follows:

1. Price to Book Value mean value is 1.874370% meanwhile the median value is 1.000000% with the std. deviation 2.243775%. The maximum PBV value is 18.89000% at PT Bank Ina Perdana Tbk in 2021, while the minimum value is 0.320000% at PT Bank Mayapada Internasional Tbk in 2024. The mean value of PBV variable is smaller than std. deviation indicates that

the Price to Book Value variable tends to spread far from the mean, it means that the Price to Book Value variable is heterogeneous.

2. Current Ratio mean value 1.199704% and for the median value 1.160000% with std. dev. value is 0.303757%. The maximum Current Ratio value is 2.640000% at PT Bank Oke Indonesia Tbk in 2021, meanwhile the minimum of Current Ratio is 0.370000% at PT Bank Mestika Dharma Tbk in 2024. The mean value is bigger than the std. dev. Which can be indicates that the Current Ratio variable tends to cluster around the mean, which means that the Current Ratio variable is homogeneous.
3. Debt to Equity Ratio has a mean value of 5.158593% and a median value of 4.820000%, with a standard deviation of 3.062396%. The maximum Debt to Equity Ratio value is 18.20000% at PT Bank Tabungan Negara Tbk in 2020, and the minimum is 0.290000% at PT Bank BTPN Syariah Tbk in 2024. The mean value of the Debt to Equity Ratio variable is bigger than the standard deviation means that the DER variable tends to cluster around the mean, which can be mean that the Debt to Equity Ratio variable is homogeneous.
4. Return on Assets mean value is 2.078370% and its median value is 1.660000%, with value of standard deviation 1.808037%. Return on Assets minimum value is 0.040000% at PT Bank Mayapada Internasional Tbk from 2022 to 2024 and the maximum value is 11.43000% at PT Bank Nationalnubu Tbk in 2022. The value of the mean of Return on Assets variable shows that it is bigger than the standard deviation. This condition can indicates that the Return on Assets variable tends to cluster around the mean, which means that the Return on Assets variable is homogeneous.

### Model Selection Method

Table 2. Chow Test

Influences Test	Statistic	d.f.	Prob.
Cross-section F	10.340086	(26,105)	0.0000
Cross-section Chi-square	171.432929	26	0.0000

Table 3. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.495346	3	0.0148

When Chow and Hausman Test obtained the same result, which is FEM, then it does not need to do Lagrange Multiplier Test. Thus, conclusion that can be summarized is that in this study, **Fixed Effect Model (FEM) is chosen as the model used in this research.**

### Normality Test

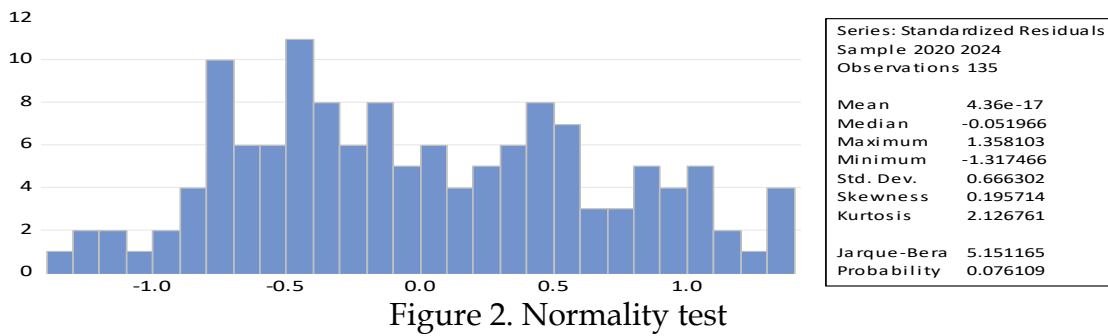


Figure 2. Normality test

This result fulfill the normality test criteria according to Basuki & Prawoto (2017) that if the result of the Jarque-Bera probability value > 0.05, then the data is normally distributed.

### Multicollinearity Test

Table 4. Multicollinearity Test

	CR	DER	ROA
CR	1.000000	-0.220922	0.128729
DER	-0.220922	1.000000	-0.364630
ROA	0.128729	-0.364630	1.000000

Multicollinearity Test result on the Table 4. above show that all variables have a correlation coefficient value < 0.9, which means that there is no multicollinearity.

### Heteroscedasticity Test

Table 5. Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.382305	0.122662	3.116739	0.0024
X1	0.070585	0.094802	0.744559	0.4582
X2	-0.006649	0.013124	-0.506651	0.6135
X3	-0.022126	0.018927	-1.168983	0.2451

Probability values for each independent variable are not significant, with  $p > 0.05$ , which can be concluded that in this study there is no occurrence of heteroskedasticity or no equality of residual variance from one observation to another (Ghozali, 2021).

### Autocorrelation Test

Table 6. Autocorrelation Test

Unweighted Statistics			
R-squared	0.788932	Mean dependent var	1.698763
Sum squared resid	60.66969	Durbin-Watson stat	1.638281

**Selected Panel Data Multiple Linear Regression Model**

Table 7. Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.400285	0.123214	11.36467	0.0000
X1	-0.347480	0.112713	-3.082885	0.0026
X2	0.093727	0.011451	8.185272	0.0000
X3	0.111555	0.033339	3.346045	0.0011
R-squared	0.975777	Mean dependent var		4.471322
Adjusted R-squared	0.969087	S.D. dependent var		4.393113
S.E. of regression	0.752712	Sum squared resid		59.49048
F-statistic	145.8526	Durbin-Watson stat		1.619117
Prob(F-statistic)	0.000000			

The Table 7. shows that, partially, each of independent variables is fulfilling the significant criteria because the prob. value < 0.05. Also, for the F test, as what stated in prob. F-statistic value is 0.0000 which is < 0.05 with the coefficient determination of 97%.

**DISCUSSION**

Current Ratio has a prob. value of 0.0026 which is it means that H0 is rejected and H1 is accepted. Therefore, it can be concluded as Current Ratio significantly influence the Company Value. This partial test result is consistent with the opinion that if Current Ratio has higher value, it can indicate that a company is capable of meeting its short-term obligations and has sufficient liquidity in the event of bankruptcy (Kasmir, 2019).

Debt to Equity Ratio prob. value result is 0.0000 which means that H0 is rejected and H1 is accepted. So, it can be conducted that Return on Assets has a significant influence on Company Value. This result in line with the statement that high value of DER does not mean it is risky and can still be chosen as an investment target; it may be that the large debt actually generates greater income, making it very likely to provide larger dividends as well (Rizkya & Syafitri, 2021). According to Kasmir (2019), the use of company capital through debt aimed at benefiting the company can increase returns for shareholders. Big returns of dividends can interest more investors to invest their money to the company, causing its stock price to rise, which also causing to the increasing of Company Value.

Return on Assets has a prob. value 0.0011 which means that H0 is rejected and H1 is accepted. It can be conducted by the result that Return on Assets has a significant influence on Company Value. These research findings are in line with the theory previously proposed by Harahap (2023) in Astuti and Lestari (2024) that higher the Return on Assets value, the better a company can manage its assets, resulting in higher profits. High profits also mean that investors will gain

benefits through larger dividends. This can be a plus point to attract new investors, as investors are generally more interested in a company's profit achievements. Thus, if investor interest rises, it will also drive up stock prices, influence the increase in Firm Value (Price to Book Value). The same opinion was expressed by Jonathan & Purwaningsih (2023), who argued that a good Return on Assets value can be explain as: profits generated with assets will enhance the company's value.

Prob. F statistic value  $(0.00) < 0.05$  can be defined that  $H_0$  is rejected and  $H_1$  is accepted. This result conducted as Current Ratio, Debt to Equity Ratio, and Return on Assets simultaneously has a significant influence on Company Value. And the coefficient value is 97%, it means that all of the independent variables influence dependent variable by 97% and the rest 3% is influence by the other variables that not being tested here.

## CONCLUSIONS AND RECOMMENDATIONS

Drawing from the analysis and discussion of the research titled The Influence of Current Ratio, Debt to Equity Ratio, and Return on Assets on Company Value (Case Study of Banking Sub-Sector Companies Listed on the Indonesia Stock Exchange for the Period 2020-2024), conclusions of the research is formulated as follows:

1. Current Ratio partially has a significant influence on Company Value.
2. Debt to Equity Ratio partially has a significant influence on Company Value.
3. Return on Assets partially has a significant influence on Company Value.
4. Current Ratio, Debt to Equity Ratio, and Return on Assets simultaneously have a significant influence on Company Value.

## ADVANCED RESEARCH

Suggestions for future researchers is need to consider other factors besides internal factors, need to add up the number of the research periods, and try to use various sectors.

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