Influence Current Ratio and Total Assets Turnover on Stock Returns with Return on Equity as Intervening on the Indonesian Stock Exchange

MUHAMMAD FARHAN ATTHAHIRY[1], YULIANI YULIANI[2*],
SHELFI MALINDA[3], FIDA MUTHIA[4]
[1]Department of Management, Faculty of Economics, Universitas Sriwijaya, INDONESIA

Abstract: **-** This research aims to determine the influence of the Current Ratio and Total Assets Turnover on Stock Returns with Return on Equity as an Intervening. This research was carried out using the Purposive Sampling method to obtain a representative sample according to the specified criteria. The number of samples obtained was 12 companies for the 2011-2021 period. The method used to analyze the data is multiple linear regression analysis. Based on the research results, the Current Ratio has a significant positive effect on stock returns, Total Assets Turnover has no significant effect on stock returns and Return on Equity has a significant positive effect on stock returns. Current Ratio has a significant negative effect on Return on Equity, while Total Assets Turnover has no significant effect on Return on Equity. Return on Equity can mediate the relationship between Current Ratio and stock returns, while Total Assets Turnover and stock returns cannot be mediated by Return on Equity.

Keywords: Current Ratio, Total Assets Turnover, Stock Return, Return on Equity

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1. Introduction

Along with strict competition in the world of business and economics at the moment, this has become a strong trigger for management companies to increase performance the best in influencing investors to interest or embed the investment. According to [1] investment is one mechanism to increase ability seeking funds with investor parties to create efficient allocation of funds. One intermediary in investment is through the capital market.

Definition of capital market according to [2] is an alternative for investors to invest in a period long with period time more than one year, where there is seller, buyer, and the instrument being sold like stocks, bonds, mutual funds, options and futures.

The development of the stock market in Indonesia shows good development. This can be shown by an increase in single investor identification (SID) in Indonesia. SID in Indonesia experienced enhancement of 56.21% in 2020 compared to 2019, and the Indonesian Custodian Stock Index (KSEI) recorded that in April 2021 alone, there was a 31.11% increase in new investors compared to the year then. This phenomenon shows that many people are interested in getting money from passive income as an alternative investment of their money, because one source of passive income is from the stock market.

According to [3] there are two influencing factors return in companies, first internal company factors like announcement about marketing production sales, funding, board of director management, takeover verified, investment, employment, and announcements report finance company. Another factor is external factors such as announcements from the government including foreign exchange rates, inflation, as well as various regulation and deregulation economic announcements issued by the government laws, and announcements of industry securities.

Ratio liquidity in this research is proxied with current ratio. Current ratio is used to know the ability of the company to fulfill short term obligation [4]. Previous studies about the influence current ratio to returns show different results. According to [5]; [6], the current ratio has a positive and significant effect on share returns. Different research conducted by [7]; [8]; [9] explains that CR ratio does not have any significant effect on stock return.

Based on [10] shows that current ratio has a positive and significant effect on price shares. This is supported by [11] who stated there is influence positive and significant between current ratio and price shares. However, re sults in the study are contradictory with [12] which states that current ratio and price share has no correlation.

Ratio activity is proxied with ratio total assets turnover. Results of research conducted by (9) state that total assets turnover positive and significant influence on returns shares. This is contradictory with research conducted by (10) concluding that total assets turnover influential and significant to returns shares, assets owned by a company optimized to produce income on the activities he carries out.

According fro (11) mentions that total assets turnover has a positive and significant influence on price shares. This result is supported by (12). However, results contradict with (13) that total assets turnover does not influence the price of shares.

The profitability in this study is proxied using return on equity. Therefore, it is chosen as the intervening variable based on results of (14), (15), (16) return on equity influential positive and significant to returns shares. Different results obtained by (17), (18) who stated that return on equity has no effect on returns shares. Based on [12] shows that return on equity has a positive and significant effect on price shares; this result is supported by [13]. However, this is contradictory with results research by [14] which states that return on equity does not affect the price of shares.

2. Literature Review and Hypotheses Development

According to [15] fundamental analysis is a technique that tries to predict future stock prices by estimating the value of fundamental factors that affect future stock prices, and applying the relationships between those variables to get stock price estimates. Fundamental analysis studies fundamental aspects such as sales, sales growth, dividend policy, wealth, costs, and evaluation of a company's management that are expected to affect stock prices.

Deep fundamental analysis in this Study is focused on performance finance companies. Financial performance will show performance company, if performance finance company is Good so it will influence the price share and vice versa

Stock Returns

According to [16] returns are results obtained from investment. Return can be in the form of realized returns or expected returns that have not yet been made happen but that is to be expected will happen in the future. Return as total profit and loss from something investment during a certain period calculated with method share distribution asset in a way cash during one period added with change mark investment at the start period. Investors will get profit from owner shares of something company from dividends and capital gains [17].

Current Ratio

Current ratio is ratio shows the ability of a company to pay short term debt [18]; [19]. Current ratio is used as tool measuring ability company in paying short-term obligation by using affluent asset [20].

Current ratio shows extent of assets fluent in cover obligation period short. The more big mark current ratio then the more high ability company in pay obligation period in short. Low current ratio usually companies consider their own problem in liquidation. However, a high current ratio is also lacking, because a lot of funds are idle.

Total Assets Turnover

Total asset turnover is embedded in funding capabilities in whole assets turned in some period or in the capacity of invested capital to generate revenue [21], [22]. According to [23] total assets turnover is a ratio that measures rotation all over an asset company and is calculated with share sale with total assets. The total assets turnover is an illustrative ratio of rotation assets measured by sales volume. The big mark ratio This is a good meaning asset can turn and grab profit faster and show the more efficient use of whole assets in producing sales.

Return On Equity

Return on equity (ROE) is a metric that measures a company's ability to generate consistent profits for its owners or investors by properly allocating capital [24]. According to [25], the ROE ratio shows how much equity contributes to profit development. The higher outcomes return on equity calculation indicates a greater net profit per rupiah of stock invested.

Current Ratio and Stock Return

The current ratio measures his ability to repay his obligations. Management and users utilize external analysis ratios to assess the company's liquidity and efficiency. The current ratio is higher, indicating that the firm can cover a greater amount of debt. Investors typically invest the funds they have, which influences the price of shares and the return on shares. Study from [20], [26] reveals that the current ratio has a strong favorable impact on stock returns.

Total Assets Turnover and Stock Return

Comparison between sale with the total assets owned by the company called total asset turnover. High ratio will affect stock returns. Connection total asset turnover and stock return proven by research [27], [28] which concludes exists connection between ratio total assets turnover against returns share company. According to [27] total assets turnover influential, positive and significant to returns shares.

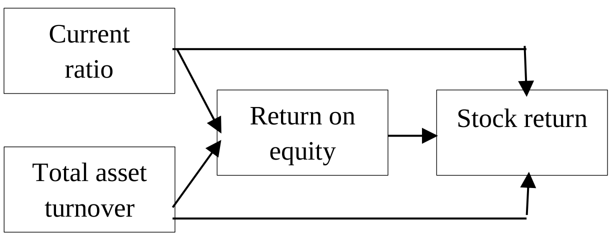

Fig. 1. Framework Empirical Study

Current Ratio and Return on Equity

The current ratio demonstrates a company's capacity to meet obligations or debt for a short period while using assets efficiently. The higher the current ratio, the greater the company's potential to meet obligations or debts in a shorter amount of time [29]. Companies who are unable to satisfy present debts will have an impact on the company's profitability since they will be burdened with further responsibilities.

Total Assets Turnover and Return on Equity

Total assets turnover is one of the ratios that reflects the level of effectiveness of using assets in a company by comparing the amount sold to the total assets owned by the organization [30]. With this, a value will be obtained from the analysis. This demonstrates that every rupiah from assets used will result in how many rupiah sales. The more effective corporation in using assets, with the premise that there is no loss in the sale, the profits will increase significantly (34). Increasing earnings will influence and positively affect the performance of companies [27], [30].

Return on Equity and Stock Return

According to [29] the return on equity ratio reveals how much equity contributes to profit creation. The higher the returns on equity, it signifies that the higher the profit net output from each rupiah invested in equity. According to the explanation, the company succeeds in earning profit from the capital itself, making the owner company stronger, and vice versa. Increasing ROE will mark sell companies that affect pricing and shares. This is linked with enhancement returns share [20].

Hypothesis Study

H_1: Current ratio has a significant effect on return on equity
H_2: Total assets turnover has a significant effect on return on equity.
H_3: Current ratio influential has a significant effect on stock returns.
H_4: Total assets turnover has a significant effect on stock returns.
H_5: Return on equity has a significant effect on stock returns.
H_6: Current ratio has a significant effect on stock returns through return on equity.
H_7: Total assets turnover has a significant effect on stock returns through return on equity.

3. Research methods

According to the data used, this research, including the study quantitative, refers to the calculation and analysis of numerical data. For the 2011-2021 period, all of the companies in this study's sub-sector food and beverages were listed on the Indonesia Stock

Exchange. From 2011 to 2021, there were 26 firms in the food and beverage sector listed on the Indonesia Stock Exchange. This research used a purposive sampling technique.

Table 1. Amount Research Population and Sample

No	Criteria	Amount
1	Population of the food and beverage	26
2	Companies that publish report finance in a way complete during the period 2011-2021	16
3	Companies that experience delisting or move to another subsector	4
Samples of research		12

Definition of Operational Variable

Return on Equity

Return on equity is the ratio that shows the ability of a company to produce profit with the use of their own capital and profit for the owner or investors. Return on equity can calculated with use formula as following [5], [11], [31]:

$$\textit{Return on Equity} = \frac{net\ profit}{total\ equity} \text{ ……….. [1]}$$

Stock Return

Return share is the level of benefits enjoyed on the investment made. The return type used in this study is the realized return often called actual return which is capital gains that is the difference between the price share period moment This with price shares in the period previously shared with the price share period before. The actual return of each share during the period incident is formulated as [31], [32]:

$$R_{it} = \frac{(Pit - Pit-1)}{Pit} \text{ ……………………………. [2]}$$

Current Ratio

The current ratio is the ratio finances show the ability of a company to pay term debt short soon due to use of assets smoothly. According to [31], [33] current ratio can calculated with the formula as follows:

$$\textit{Current Ratio} = \frac{Current\ assets}{current\ liability} \text{ ……………. [3]}$$

Total Assets Turnover

Total assets turnover is a ratio of finances used To measure rotation of all assets and how much amount sales generated from use per rupiah of assets. Total assets turnover can calculated with the formula as follows [13], [33]:

$$\textit{Total Assets Turnover} = \frac{sales}{total\ assets} \text{ …………. [4]}$$

4. Analysis and Discussion

In the first equation, the size coefficient determination R-squared (R^2) is 0.3219 meaning variable current ratio and total assets turnover affect return on equity amounting to the remaining 32.19% influenced by other variables outside research. In equation second, the coefficient determination (R^2) is 0.4168, meaning variable current ratio, total assets turnover, and return on equity affect stock returns amounting to the remaining 41.68% influenced by other variables outside the study.

Table 2. Coefficient Test Determination

Equation 1		
	R-squared	0.3219
	Adjusted R-squared	0.2339
Equation 2		
	R-squared	0.4168
	Adjusted R-squared	0.3977

Source: Data processed

F Statistical Test

The purpose of the F Test is to see the goodness of fit of the model used in this study.

Table 3. F Statistical Test

Equation 1		
	F Statistics	5.4714
	Prob(F-statistic)	0.0052
Equation 2		
	F Statistics	11.767
	Prob(F-statistic)	0.0000

Source: Data processed

In equation first, the magnitude (probability of statistic) is 0.005 < 0.05, and the model of current ratio, total assets turnover, and return on equity has a fit. In equation secondly, the magnitude (probability f statistic) is 0.000< 0.05, meaning that the model of current ratio, total assets turnover, and return on equity to stock returns has a goodness of fit.

Statistical Test t

The purpose of the t test, namely to see the influence of independent variables on independent variable. Following is t test results:

Table 4. Statistical Test t

Equation 1			
Dependent Variable: ROE			
Variable (%)	Coeff.	Prob	Note
C	0.384	0.050	
CR	-0.122	0.000	Influential negative
TATO	-0.007	0.900	No effect
Equation 2			
Dependent Variable: Stock Returns			
Variable (%)	Coefficient	Prob	Note
C	0.422	0.000	
ROE	0.129	0.000	Influential positive
CR	-0.024	0.010	Influential negative
TATO	-0.007	0.150	No effect

Source: Data processed

Based on table 4 above in equation first and second can is known that results testing significance as following that the current ratio has a negative and substantial effect on return on equity (ROA), with a coefficient regression of -0.122 and a value probability of 0.000 < 0.05. The coefficient regression of total assets turnover to return on equity is -0.008, with a value probability of 0.909 > 0.05, indicating that total assets turnover has no effect on ROA. ROA has a considerable positive impact on stock returns, as indicated by a mark coefficient regression of 0.129 and a value probability of 0.000 < 0.05. The current ratio has a negative and significant impact on stock returns, with a regression coefficient of -0.0241 and a value probability of 0.016 < 0.05. Influence the total assets turnover against the return share displays mark.

Sobel Test

Sobel test was performed with method test strength influence no direct variable independent to variable dependent through variable intervening.**Table 5. Sobel Test Results**

Variables	t-Statistics	P-Value	Information
CR	2.864	0.004	Influential significant
TATO	0.114	0.909	No effect

Source: Data processed

Table 5 shows that variable current ratio has a substantial effect on stock returns through ROE as an intervening variable, with a p-value of 2.864 (p-value < 0.05). Second, with a p-value of 0.909>0.05 and a mark Sobel test statistic of 0.114, it can be inferred that variable TATO has no effect on stock returns when ROI is used as an intervening variable.

Discussion

The current ratio has a negative effect on ROE (see Table 4), so the hypothesis (H_1) is accepted. According to Signalling Theory, liquidity shows a company's ability to pay short-term liabilities, and its period is naturally influential to profit. If a company has a large percentage of liabilities for a short period, the profit earned will be small because interest must be paid in large numbers, and vice versa. Therefore, the higher the level of liquidity owned by the company, the lower the burden of. TATO has no substantial effect on ROE, hence H_2 is discarded. TATO is the level of efficiency with which an asset company generates sales volume when total sales and total assets possessed by the company are compared. Signaling Theory suggests that firms can provide valuable information for internal investors to make safe investments, particularly in defensive equities that offer steady dividends and stable profitability regardless of market conditions. This in line with study [20] and [26], contradictory [27].

The CR has a negative effect on stock return (H_3 accepted). These findings show that the higher the CR, the more liquid the company is, thus providing a signal to the capital market. CR indicates the company's ability to pay off short-term obligations or long-term obligations that are due soon. CR is reflected in current assets that have a higher total of current liabilities. Stock return is the growth of the stock price this year compared to last year. This analysis is consistent with studies [34]; [35] that suggest that the CR has a large impact on stock returns. TATO has no effect on stock returns. So that proposed hypothesis is rejected (H_4). The effectiveness of companies in the food and beverage sector can be seen in how large the asset turnover is. However, rapidly rotating assets do not contribute to an increase in stock returns. Signaling theory states that fundamental performance will be a concern for investors. TATO does not give investors any meaning to increase the share price for this sector. The findings of the study are different from previous studies [27] and [36].

Furthermore, the effect of ROE on stock return was determined to be significantly positive, indicating that H_5 was acceptable. The positive influence demonstrates that the higher the ROE, the greater the stock return, which is reflected in an increase in stock prices. This study implies that investors are concerned with the company's profitability since investor motivation consists of two components: capital gains and dividends. As a result, investors should focus on ROE. This study was able to demonstrate the signal theory, which states that profitability performance is an important consideration for investors when deciding whether to acquire shares in this industry. This study's findings support the prior findings of [37], [4], [38].

ROE testing as an intervening for the effect of CR on stock return [see Table 5 with Sobel Test]. The findings showed that ROE acted as an intervention that was partial mediation, so H_6 was accepted. These findings indicate that CR can directly increase stock returns, as well as its indirect influence. The increase will be more optimal if ROE is an intervention to increase stock returns. This result consistent with study [27], [35], [39].

Testing for H_7 of the role of ROE as an intervening on the influence of TATO on stock returns was found not to mediate. Table 5 with Sobel test shows at a p-value of 0.909>0.05. Based on these findings, it rejects H_7. TATO has no direct effect on stock returns. Indirectly, it is also insignificant, so the role of ROE as mediation is not proven. The results of this research are in line with research conducted by [40], and [41].

5. Conclusion

Theoretical Implications

The theoretical implication that financial performance is measured by financial ratios and is fundamental shows that there is proof of signal theory. The liquidity and profitability ratios are able to provide signals on stock returns, while the activity ratio has not been proven in this research. The role of ROE as an intervening can be proof that stock returns will be higher if the company is in a liquid position.

Practical Implication

The results can be used as an input for the company. for investors and potential research investors, the result is expected to be useful in analyzing the condition of the company so that they can make the right decision.

Limitation and Future Research

This study has not been able to find that the activity ratio can increase stock returns, so further research can be carried out using other ratios such as receivable turnover, working capital turnover because the context of food and beverages companies is a manufacturing sector company with a turnover rate that should be more effective.

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