



# The Effect of Current Ratio, Cash Ratio, Earning Per Share, and Return on Equity on Stock Prices

Reika Happy Sugiastuti<sup>(✉)</sup>, Mellenia Rizky Ananda Putri Harianto,  
and Achmad Husaini

Faculty of Administrative Sciences, Brawijaya University, Malang, Indonesia  
Reikahappy.s@ub.ac.id

**Abstract.** The purpose of this research is to determine the effect of financial ratios on stock prices. This research was made for doubts about making investment decisions in the capital market by analyzing financial ratios to stock prices. The results showed that the Current ratio, Cash ratio, Earning Per Share, and Return On Equity have a significant influence on the stock prices of civil building construction sub-sector companies listed on the Indonesia Stock Exchange for 2016–2021.

**Keywords:** Current Ratio · Cash Ratio · EPS · ROE · Stock Price

## 1 Introduction

Investment is something that is currently in great demand nowadays, so it is called the era of investment without space and time limits [1]. Investors with high investment interests must balance their literacy level. The lack of knowledge makes investment actors or investors can take the wrong steps in allocating their capital. Currently, the implementation of investment is very widespread as a trend in certain circles, this is certainly not a clear investment goal.

The presence of the capital market provides a learning space for investors to be able to understand how it works, and the benefits and risks of investing in the capital market so as not to become a victim of fraud under the guise of investment [2]. The rise of fraud under the guise of investment makes investment actors or investors have to be more careful in choosing a broker to be used as an intermediary between investors and securities issuing companies.

### 1.1 Current Ratio

Current ratio is the ratio used to measure the company's ability to pay short-term obligations that are due soon [3]. A company can be said to be liquid if most of its current assets are in the form of cash and receivables that have not yet matured [4]. A current ratio that is too high is considered unfavorable because it indicates the existence of idle funds, so that which can affect the company's ability [5].

## 1.2 Cash Ratio

The cash ratio is a measure of the amount of all cash or cash equivalents (bank deposits, checking accounts) available for short-term debt repayment needs [3]. The greater the value of the cash ratio, the easier it is for the company to pay its debts. The increase in the value of the cash ratio will also affect the increase in stock prices [6].

## 1.3 Earning Per Share

Earning Per Share (EPS) is a form of profit ownership for the shareholder in each share owned [1]. Earning per share is an indicator of a company's success [7].

## 1.4 Return on Equity

Return on Equity (ROE) is a ratio that can show effective management of the company's own capital (net worth) [7]. The results of a high ROE calculation indicate that the company has a good return on investment and effective cost management [4], so it can have an impact on increasing stock prices and investment decisions.

# 2 Method

This quantitative research uses an explanatory approach or explanatory research. The purpose of explanatory research is to explain the relationship between one variable and another [8]. This study uses secondary data sources from documents in the form of annual financial reports of each company.

The population in this study are civil building construction sub-sector companies listed on the Indonesia Stock Exchange for the 2016–2021 period, the total population is 23 companies. The sample is part of a population and must represent a population. The sample taken must be representative so that conclusions can be drawn correctly and accurately. The sampling technique used is the purposive sampling method. Data analysis techniques used descriptive statistics and inferential analysis.

# 3 Findings

## 3.1 Normality Test

The normality test results showed a significance value of 0.200. The value is greater than 0.05, then the data distribution is considered normal and the assumption of normality is met.

## 3.2 Multicollinearity Test

Multicollinearity test shows the tolerance value 0.270 for Current ratio, 0.259 for cash ratio, 0.865 for EPS, and 0.802 for ROE. The Variance Inflation Factor (VIF) value is 3.700 for the current ratio, 3.865 for the cash ratio, 1.156 for the EPS, and 1.247 for the ROE. The data shows that this study does not experience symptoms of multicollinearity because the tolerance value for all variables is  $> 0.1$  and the Variance Inflation Factor (VIF) value is  $< 10$ .

### 3.3 Heteroscedasticity Test

The results showed the Glejser test with a significance value of 0.242 for the current ratio, 0.515 for the cash ratio, 0.222 for the Earning Per Share variable, and 0.189 for the Return On Equity. The results of the significant value of all variables are more than 0.05 which is the minimum benchmark in determining the presence of heteroscedasticity symptoms. Based on the calculation results, this study does not indicate a heteroscedasticity problem.

### 3.4 Autocorrelation Test

The results of the autocorrelation test using the Cochrane-Orcutt method produced a Durbin-Watson value 2.033 with a reduction in the number of (n) to 29. The du was 1.7426 and dl was 1.1241, 4-du was 2.2574 and 4-dl was 2.8759. The result of the calculation when included in the equation will be  $1.7426 < 2.033 < 2.2574$ . Based on these equations, there is no autocorrelation in the regression model and the study is declared to have passed the autocorrelation test.

### 3.5 Coefficient of Determination Test (R<sup>2</sup>)

The results of testing the coefficient of determination show the number 0.661 or 66.1% which means that the Current ratio, Cash ratio, Earning Per Share, and Return On Equity have an influence of 66.1% on stock prices, while the remaining 33.9% is influenced by other variables outside of the variables studied.

### 3.6 F Test (Simultaneous)

The calculated F value is 13.048 while the F table value is 2.74 which is obtained from the F table = k formula; n-k (4; 25) then it can be seen in table F the value of 4; 25 is 2.76. Based on these calculations, simultaneously the variables Current ratio, Cash ratio, Earning Per Share, and Return On Equity have a significant effect on stock prices.

### 3.7 t-Test (Partial)

The value of  $t_{\alpha/2}$  in this study is 2.052 which is obtained from the value of df (degree of freedom) = n-(k-1); 30-(4-1); 30-3:27, and a probability of 0.025. Based on the calculation of the t-test, the result is:

- Current ratio has a significant effect on stock prices.
- Cash ratio has a significant effect on stock prices.
- EPS has a significant effect on stock prices.
- ROE has a significant effect on stock prices.

## **4 Discussion**

### **4.1 The Effect of Current Ratio to Stock Price**

The value of the current ratio, which is calculated by comparing current assets and current liabilities, tends to be negative, this happens because the current assets owned by the company are large, large current assets indicate that the company's funds are idle which causes the company's effectiveness to be disrupted. The company's idle funds should be used in other activities related to investment and company operations so that it causes the company's share price to decline. Along with the decline in stock prices, investors can review in determining the purchase decision.

### **4.2 The Effect of Cash Ratio to Stock Price**

The allocation of cash and cash equivalents is considered effective because it can encourage an increase in the company's stock price. The existence of a significant influence between the cash ratio and stock prices is something that is attractive to investors. The decision to purchase shares is made with the hope that there will be an increase in stock prices in the future so that with a significant influence between the cash ratio on stock prices, it can be used as a trigger for investors to make stock purchases decisions.

### **4.3 The Effect of Earning Per Share to Stock Price**

Earning Per Share shows a positive significance to stock prices. The increase in Earning Per Share occurred in line with the increase in stock prices. This shows that the company can provide large profits for investors. Small Earnings Per Share indicates that the profits that investors get are also small. Purchase decisions and market demand will also increase along with the increase in Earning Per Share. This makes investors feel guaranteed if the company has a large Earning Per Share, resulting in a trusting relationship between investors and the company.

### **4.4 The Effect of Return on Equity to Stock Price**

The average ROE 9.35% is considered less fulfilling the criteria for the ideal value of ROE. This means that on average the sample companies are considered less able to manage capital from investors efficiently, so the company cannot generate large profits because the results of this study indicate that ROE has a negative sign so an increase in ROE is accompanied by a decrease in stock prices. These results are not in accordance with the statement that the increase in Return On Equity is usually followed by an increase in stock prices [9]. This can happen because the company's debt is getting bigger from year to year (2016–2021) due to reduced income from company operations. A high amount of equity can also hamper the company's productivity in generating profits.

#### **4.5 The Effect of the Current Ratio, Cash Ratio, Earning Per Share, and Return on Equity to Stock Price**

The results of the study show that the variables have a significant effect on stock prices. It is proven by the results of the F-test calculation. This means that the test results show that simultaneously the variables have a significant effect on stock prices. The results of the coefficient of determination test show the number 0.661 or 66.1% which means that the variables Current ratio, Cash ratio, Earning Per Share, and Return On Equity have an influence of 66.1% on stock prices, while the remaining 33.9% is influenced by other variables outside of the variables studied.

### **5 Conclusion**

Based on the result, the company is advised to be able to improve the company's performance and efficiency of capital management so that Earning per Share have a high value and attracts investors, and so that Return On Equity can be of maximum value. In addition, investors are encouraged not to stick to one study only in order to obtain more accurate analysis results, so further researchers are expected to be able to expand and update the year of observation so that the results obtained are more accurate and produce more critical and informative research, as well as expand the object of research. so that the research is not limited to the civil building construction sub-sector, so that the results of the study can assist investors in analyzing the effect of the variables used on stock prices in related companies.

### **References**

1. Fahmi, I.: *Manajemen Keuangan Perusahaan dan Pasar Modal*. Mitra Wacana Media (2014).
2. Susilo, B.D.: *Pasar Modal, Mekanisme Perdagangan Saham, Analisis Sekuritas, dan Strategi Investasi Di Bursa Efek Indonesia BEI*. UPP STIM YKPN (2009).
3. Kasmir.: *Pengantar Manajemen Keuangan*. Prenada media Group. Kustodian Sentral Efek Indonesia (KSEI). (2016).
4. Van Horne, J.C., Wachowicz JR, J.M.: *Fundamentals of Financial Management (Prinsip-prinsip Manajemen Keuangan)*. Salemba Empat (2009).
5. Sawir, A.: *Analisa Kinerja Keuangan dan Perencanaan Keuangan Perusahaan*. PT Gramedia Pustaka Umum (2009).
6. Nazara, L.K., Sitorus, F.D., Perangin-Angin, J.R.W., Saputri, M.W.: *Pengaruh Debt To Equity Ratio, Return on Equity, Cash Ratio, dan Total Asset Turn Over Terhadap Harga Saham Pada Perusahaan Jasa Periode 2017-2019*. *Jurnal Ilmiah MEA (Manajemen, Ekonomi, Dan Akuntansi)* 5(1), 33–49 (2021).
7. Darmawan.: *Dasar-dasar memahami rasio & laporan keuangan* (D. M. Lestari (ed.)). UNY Press (2020).
8. Wirartha, I.M., Hardjono, D.: *Metodologi Penelitian Sosial Ekonomi*. Andi (2006).
9. Mulyono, T.P.: *Analisis Laporan Keuangan untuk Perbankan*. Djambatan Najmudin (1995).

**Open Access** This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

