ANALYSIS OF THE EFFECT OF CURRENT RATIO AND DEBT ASSETS RATIO ON DIVIDEND POLICY WITH RETURN ON ASSETS AS INTERVENING

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ABSTRACT

The purpose of this study is to examine the effect of current ratio and debt to asset ratio on dividend policy through return on assets. The research design uses quantitative research conducted on the industry in LQ45, especially manufacturing period 2012 - 2017. Data analysis techniques using Partial Least Square. The direct test results of equations 1 and 2 show that the current ratio has a significant positive effect on ROA, significant positive DAR on ROA, negative current ratio is not significant to DPR, negative DAR is not significant to DPR, significant positive ROA to DPR.The results of the indirect effect of the current ratio have a significant positive effect on the DPR through ROA, and DAR has a significant positive effect on the DPR through ROA. That profitability is able to mediate the relationship of the current ratio, debt to asset ratio, on dividend policy.

PRELIMINARY

LQ 45 Manufacturing Company is inseparable from businesses that aim to gain profits in producing the effectiveness and efficiency of financial management. Therefore the LQ 45 Manufacturing company in the process to find out the company's financial condition requires an assessment of financial performance using several financial ratios such as liquidity ratios related to current ratios, leverage ratios related to Debt to Asset Ratio, and profit ratios closely related to Return On Assets, as a consideration in making decisions and strategic policies so that the company can continue to be sustainable and develop in the era of global competition, not only that the dividend policy factor also has an important role for the company that is the higher the level of profitability that can be achieved by the company, the more also smooth dividend payments to investors. Seeing the importance of the relationship of financial ratio analysis to the assessment of financial performance.

Literature Review

Current Ratio has a standard of 2: 1 or 200% which means that the company's current ratio of more than 200% is considered liquid, if less than 200% is rated liquid (Danang, 2016: 127). This ratio can be formulated as follows (Mamduh, 2016: 75):

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Debt}} \quad\text{...(I)}$$

Understanding debt ratios are used to measure the ratio between total debt to total assets. In other words, how much the company's assets affect the management of assets:

$$\text{Debt to Total Assets Ratio} = \frac{\text{total debt}}{\text{total asset}} \times 100\% \quad\text{...(II)}$$

Return On Assets (ROA) is one of the ratios that is a measure of company profitability, and shows management efficiency, in using all assets owned by the company to generate revenue. Calculation of Return On Asset can be done using the following formula:

$$\text{ROA} = \frac{\text{Earning After Interest and Tax}}{\text{Total Assets}} \quad\text{...(III)}$$

Dividend Payout, the ratio of dividend payments is measured by dividing the amount of dividend per share with net income per share, which can be mathematically asked by the following formula:

$$\text{Dividend Payout Ratio} = \frac{\text{cash dividend per share}}{\text{net income per share}} \quad\text{..................(IV)}$$

Research Methods

The research approach used in this research is quantitative research, this is based on using descriptive research procedures, intervals that aim to show the influence of independent variables on the dependent variable and compared with the theory in order to obtain differences in the results in this study. The sample of this research is 9 companies, so the amount of data observed is 54 annual reports from 2012 to 2017. Sampling using non-probability sampling techniques. In this study the source of data used is secondary data. Descriptive Analysis consists of Convergent Validity Test, Discriminant Validity, Composite Reliability Test and R Square Test.

Results And Discussion

Tabel 1 Value of loading factor

	CR	DAR	KEBIJAKAN DEVIDEN	ROA
CR	1.000			
DAR		1.000		
DPR			1.000	
ROA				1.000

Source: Data processed

The results of processing using SmartPLS can be seen in table 1 The outer model value or the correlation between constructs and variables has fulfilled convergent validity because each has a loading factor value> 0.70 so that the conclusions construct for all variables are feasible or can be used to test hypotheses.

Table 2 Cross loading factor

	CR	DAR	KEBIJAKAN DEVIDEN	ROA
CR	1.000	-0.703	0.204	-0.022
DAR	-0.703	1.000	-0.001	0.418
DPR	0.204	-0.001	1.000	0.640
ROA	-0.022	0.418	0.640	1.000

Source: Data processed

The cross loading ROA value of the dividend policy variable is 0.640 smaller than the loading factor value of the latent variable itself. The relationship of ROA to CR and DAR is also invalid because the cross loading factor value is -0.022, and 0.418 is smaller than 1,000. In conclusion all indicators can explain each variable better than other variables.

Image 1 Average Variance Extracted (AVE)
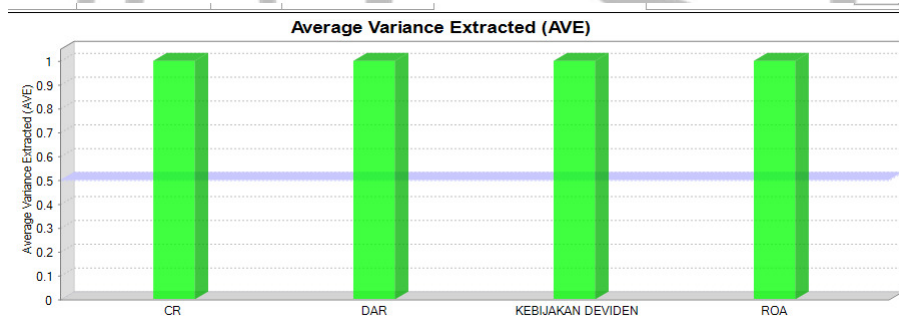
Source: Data processed

Average Variance Extracted (AVE) value illustrates the magnitude of variance or variability of manifest variables that can be possessed by latent constructs. In figure 5.1 above all variables have values above 0.5. Current ratio 1.00, debt to asset ratio 1.00, dividend policy 1,00 and return on assets 1,00. So it can be concluded that the greater the value of AVE shows the higher ability to explain the value of the indicators that measure the latent variable of its construct. Thus the indicator can be declared valid as a latent measure.

Table 3 Composite realibility dan cronbach's alpha

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Ext...
CR	1.000	1.000	1.000	1.000
DAR	1.000	1.000	1.000	1.000
KEBIJAKAN DEVIDEN	1.000	1.000	1.000	1.000
ROA	1.000	1.000	1.000	1.000

Source: Data processed

The data displayed shows a current composite reliability ratio of 1,000, debt to asset ratio of 1,000, Dividend Policy of 1,000 and return on assets of 1,000. These four variables have a high level of reliability because they are greater than the expected standard of 0.7. This is reinforced because Cronbach's alpha is also higher than the standard of 0.7. Current ratio of 1,000, debt to asset ratio of 1,000, Dividend Policy of 1,000 and return on assets of 1,000. So in conclusion, the data used are reliable and able to measure the variables.

Table 4 R Square

	R Square	R Square Adjusted
KEBIJAKAN DEVIDEN	0.497	0.467
ROA	0.321	0.294

Source: Data processed

Showing the value of R2 return on assets influenced by dividend policy is only 0.32 or 32% the remaining 78% is another factor not examined in this study. According to the classification the number is very weak. While the dividend policy variable which is influenced by debt to asset ratio and current ratio also shows a low value and includes a weak classification that is only 0.49, meaning that 49% of the effect and the remaining 61% is influenced by other variables outside this study.

Discussion

1. The results of this test indicate that the p-value of the variable ratio of the current ratio of return on assets is 0.001 smaller than 0.05 and the t-value of 3.295 is greater than 2.026 (t-table). The current ratio variable to return on assets has a significant effect, because it is seen from the p-value of $0.001 <^{\alpha} 0.05$ plus the t-test value of 3.295> 2.026. So H1 is accepted.

2. The debt to asset ratio to return on assets variable shows that the p-value of the variable debt to asset ratio to return on assets is 0.002 smaller than 0.05 and the t-value of 3.137 is greater than 2.026 (t-table)). The debt to asset ratio variable to return on assets has a significant effect, because seen from the p-value of $0.002 <^{\alpha} 0.05$ plus t-count value of 3.137> 2.026. So H2 is accepted.

3. The current ratio variable does not influence the dividend policy shows that the p-value of the variable current ratio to the dividend policy is 0.921 greater than 0.05 which means there is no significant effect, it is reinforced by the t-value 0.099 which is smaller than at 2,026 (t-table). So H3 is rejected.

4. The debt to asset ratio variable does not affect the dividend policy shows that the p-value of the debt to asset ratio variable to the dividend policy variable is 0.073 greater than 0.05 and the t-value of 1.795 is smaller than 2.026 (t -table). Because t-count is smaller than t-table. So H4 is rejected.

5. Variable return on assets on dividend policy there is a significant effect, because seen from the p-value $0,000 <^{\alpha} 0.05$ plus t-count value 5.658> 2.026. Because t-count is greater than t-table. So H5 is accepted.

6. The effect of the current ratio on dividend policy through the intermediary return on assets. The relationship of the three of them is 0.001 <0.05 and t-test3.219> 2.026, so these three variables are said to have a significant positive positive relationship of 0.419. Because t-count is more bigger than t-tables. So H6 is accepted.

7. Variables that mediate in this study are return on assets that mediate the variable debt to asset ratio and dividend policy. The effect of debt to asset ratio on dividend policy through the return on asset intermediaries. The p-values of the three relationships are 0.010 <0.05 and t-count 2.577> 2.026. So these three variables are said to have a significant positive relationship of 0.622. Because t-count is greater than t-table. So H7 is accepted.

Conclusions

1. Current ratio has a significant positive effect on Return On Assets for LQ 45 manufacturing companies listed on the Indonesia Stock Exchange for the period 2012-2017. So H1 is accepted.

2. Debt to asset ratio has a significant positive effect on Return On Assets for LQ 45 manufacturing companies listed on the Indonesia Stock Exchange for the period 2012-2017. So H2 is accepted.

3. Current ratio has no effect on dividend policy on LQ 45 manufacturing companies listed on the Indonesia Stock Exchange for the period 2012-2017. So H3 is rejected.

4. Debt to asset ratio has no effect on dividend policy on LQ 45 manufacturing companies listed on the Indonesia Stock Exchange for the period 2012-2017. So H4 is rejected.

5. Return on Assets has a significant positive effect on dividend policy on LQ 45 manufacturing companies listed on the Indonesia Stock Exchange for the period 2012-2017. So H5 is accepted.

6. Current ratio has a significant positive effect on dividend policy through Return on Assets as an intervening variable to LQ 45 manufacturing companies listed on the Indonesia Stock Exchange for the period 2012-2017. So that H6 is accepted.

7. Debt to asset ratio has a significant positive effect on dividend policy through Return on Assets as an intervening variable on LQ 45 manufacturing companies listed on the Indonesia Stock Exchange for the period 2012-2017. So H7 is accepted.

Suggestion

For companies: In order to increase profitability companies must take into account the composition of debt to asset ratio, dividend policy and current ratio. Because if the four ratios are in optimal conditions, the return on assets will increase. Utilizing the company's total assets should utilize the company's strengths to penetrate business opportunities, and improve company performance.

For future researchers: Not only using the variables contained in this study but can add other variables that influence dividend policy such as total asset turnover, managerial ownership, company size or other ratios other than those used in this study. And so on and it is hoped that further researchers can add to this research reference.

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