

MANUFACTURING COMPANIES

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**THE EFFECT OF FINANCIAL RATIOS ON THE
PERFORMANCE OF MANUFACTURING
COMPANIES (CASE STUDY ON FOOD AND
BEVERAGES COMPANIES LISTED ON IDX IN
2018-2020)**

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Abstract

This study aims to analyze the effect of liquidity ratio, leverage ratio, and activity ratio on the performance of food and beverages manufacturing companies that are listed on the Indonesian stock exchange during the period of 2018-2020. The object used for this study is the food and beverages manufacturing companies that have fully published their financial statements for the fiscal year 2018-2020 and have a positive profit flow during the entire period of the study. The number of companies that qualify for the study based on the predetermined criteria amounted to 10(ten) companies. The sampling technique used is the purposive sampling method whereby the researcher determines the sample based on predetermined criteria set by the researcher. The data collection method used for this study is the documentation method, and the data analysis used is a descriptive quantitative analysis using current ratio, debt to equity ratio, inventory turnover ratio, and return on assets.

Keywords: current ratio, debt to equity ratio, inventory turnover ratio, returns on assets, and company performances.

Introduction

In the current era of globalization, advances in science and technology cause world economic activities to experience rapid development. This has encouraged buying and selling transactions between producers and consumers to become more widespread (global). This does not only take place in the domestic transaction, but also the international market. Indonesia is among the countries that participate in international trade.

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A study conducted by Kirankabeş and Başarir (2012), reported that there is considerable evidence that there exists a long-term significant relationship between the growth of the economy and the stock market of a country. The results pointed to the fact that the stock market helps the economy in three critical ways which are helping investors to invest their funds in the economy, helping the savers to beat inflation, and helping businesses to fund the growth of the economy.

The capital market is one example of progress in science and technology that is more modern in the economic field. The capital market is a very effective medium to be able to channel and invest funds that have a productive impact and benefit investors Kasmir (2016).

According to Kiseleva (2019), Businesses in the world are traditionally divided or categorized into two parts mainly; profit-centered or commercial oriented and non-profit oriented or none commercial oriented. Irrespective of the profit-oriented motive or social well-being motive, financial performance plays a key role in an organization in the path to achieving its goals.

A study done by Khyareh and Oskou (2015), concludes that there is a close and decided relationship between the development of an economy, and the growth of the stock market. It tends to point out the fact that the stock market becomes larger as the economy of the country grows. Financial analysis of companies listed on the stock exchange can be done in many ways, including the analysis of financial ratios.

The research on financial ratios to predict the performance of a firm has been carried out by Martani (2009). The results of this research show that financial ratios, firm size, and cash flow from operating activities have got a significant contribution or influence towards the profit that a business can obtain both in the short and long term.

The study by Alqam (2021), reported that financial analysis using financial ratios has effect on the quality of decision making by the investors who are interested in investing their funds in the economy. It further elaborated that investor's decision making is closely associated with the accuracy and quality of financial information provided by means of financial ratios.

Financial statement analysis by mean of ratios is of vital important those running business which they can use as a tool to assess the considerable risk, and see a way in

which they can protect their businesses from collapsing Mukamwiza and Claude (2020). There are various unseen risks that can occur when starting and growing a business, and thus financial analysis will play a vital role when making investment decisions.

The food and beverages sector is one of the many promising sectors that is helping Indonesia's economic growth today. It's therefore expected that the food and beverages sector is profitable to the extent that it will add value to overall Indonesia's economy. IDX plays a major role in projecting the status of companies to the public which can capture the interest of the public, especially investors.

Several types of research have examined the relationship between liquidity ratios, leverage ratios, and activity ratios on the performances of companies such as Kariyawasam (2019) found that the Current ratio, leverage, and the firm size had a significant relationship with the company's performance. While the study carried out by Lumbantobing (2020), explained that activity ratios do not have many effects on the possibility of financial distress.

However, Liquidity ratios have a profound negative impact on the company's performance and could result in the possibility of financial distress. Nonetheless, he further expressed that debt ratios and earnings ratios can altogether influence the chance of financial misery.

In general, the types of financial ratios that can be used to assess management performance vary widely. The use of each ratio depends on the company's needs, meaning that sometimes not all ratios are used. It's just that if you want to see the condition and position of the company in full. Based on the background description above, the researcher is interested in researching the effects of Current Ratio (CR), Debt to Equity Ratio (DER), and Inventory Turnover Ratio (ITOR) on the performances of Food and

Beverages manufacturing companies listed on Indonesia Stock Exchange (IDX) during 2018-2020.

Literature Reviews

Liquidity ratio is a ratio that is used to measure the ability of a company to meet its debts and obligations and its margin of safety through the calculation of metrics such as current ratio, quick ratio, and operating cash flow ratio. A study by Jihadi (2021), Define liquidity ratio as a ratio that describes the ability of a company to meet short-term obligation (debt).

In this study, the liquidity ratio will be measured (proxied) by the current ratio. In essence, the current ratio is one of the liquidity ratios that measure, in particular, the ability of a company, a firm, or an organization to pay its short-term obligations or those due within one year or less. It tells the investors and analysts how a company can maximize the current assets on its balance sheet in order to satisfy its current debt and others payable in the current year. The current ratio is calculated by dividing current assets by current liabilities.

$$\text{Current ratio} = (\text{Current Assets} / \text{Current Liabilities})$$

Leverage ratio can be used to measure the extent to which the firm's assets are being financed using debts or borrowings Kashmir (2016). To serve the purpose of this study, the Debt to equity ratio (DER) will be used to measure the leverage ratios of selected companies for this study. The DER ratio is a financial ratio that compares the company's total liabilities to its shareholders' equity, then evaluates how much leverage a company is using. Debt to Equity Ratio is calculated by dividing total debt with total equity as expressed below.

$$\text{Debt to equity ratio} = (\text{Total Liabilities} / \text{Total Equity})$$

An activity ratio is a kind of financial metric that is used to indicate how efficiently a company is leveraging the assets on its balance sheet, in order to generate revenues and cash. According to Jihadi (2021), an activity ratio is used to measure firm's efficiency through the use of its assets. To meet the needs of this study, the activity ratio will be (proxied) by the inventory turnover ratio. Inventory Turnover Ratio is calculated by dividing total debt with total equity as expressed below.

$$\text{Inventory Turnover Ratio} = (\text{Cost of goods sold} / \text{Average Inventory})$$

Profitability Ratio. Dyah (2020), profitability ratio is used to measure the general management efficacy aimed at the size of the level of profits attained relative to sales and investment. The ability of a company to wisely use the existing resources is what can be interpreted as profitability DWI (2020). When a company gets more return from its investment, it tends to use less of the debt, and the stock price goes up as investors feel more confident enough to invest in the company Profitability ratios shows to what degree the company efficiently generates profit and value for shareholders. It also shows how well a company utilizes its assets to produce the desired profit and value to its shareholders. It indicates the ability of a company to generate earnings against cost during a given period. This study will use Return on assets (ROA) as a proxy for calculating the profitability ratios of the selected food and beverages manufacturing companies for this study. Return on assets (ROA) Ratio is calculated by dividing net income by total assets as expressed below.

$$\text{Return on Assets} = (\text{Net income} / \text{Total Assets})$$

Current Ratio towards Return on assets. The current ratio is calculated by comparing

current assets with current liabilities. According to Ghoniyah (2017), a low ratio means that a company is unable to pay its short-term liabilities and therefore not able to take advantage of cash cut or other expected affluence, whereas a high current means that a company has more cash than it can use to pay its short-term obligations, A study conducted by Yameen (2019), shows that current and quick ratios have a significant impact on the profitability of the firms. It means that when a company has a higher liquidity ratio, the chances of making more profit, and staying in the business are higher. In essence, businesses are not supposed to be run on debts or obligations, and a higher liquidity ratio is just a great indicator that a firm is doing well, whereas a low liquidity ratio means business is not doing well and may reach a point of collapse if its liquidity position is not raised.

It can thusly be reasoned that a higher liquidity ratio implies that a business is running admirably and can pay its present obligation when they come due, while the low liquidity ratio is a sign that the business is very nearly breakdown, and needs more money streaming into the business. Given the above depiction, the hypotheses used in this study are as follows:

H1: Current ratio affects the Company's performance.

Debt to Equity towards Return on assets.

The debt to equity ratio looks at how much the company is using debt to fund or run the affairs of its business operation. An excess of obligation or debts can be awful to the organization's life and may prompt insolvency when the lenders request their compensation.

Having an excessive number of resources owing debtors isn't dependably a splendid move for the organization since it accompanies a ton of interest's payment, however when the firm is making a good profit and is

paying less on return, then the investment in debt is considered to be meaningful to the business operation since debt is the cheapest way of consolidating funds to run the business.

According to Septiari (2017), indicates that the use of high debt to fund or to meet the company's operational needs is not necessarily able to improve the financial performance of the firm. This is true because debt will always cause too much outflow of cash from the business in form of interest. It's therefore not important to invest too much debt into the business because it will negatively affect the normal operation of the business in both the short and long run. Based on the description above, the hypotheses for this study are as follows:

H2: Debt to Equity ratio affects the company's performance

Inventory Turnover Ratio towards Return on assets.

According to, Nugraha (2015) inventory turnover ratio refers to a ratio that indicates the number of times a company is able to sell or replace its old inventory with the new ones in a year, and how funds invested into the business rotate by means of inventory that the business has.

According to Nasution (2020), higher inventory turnover ratio can lead to a higher cost which can be suppressed during the operation, which eventually lead to higher profit to the business. Equally, if the turnover of the inventory is slow, then a company is expected to gain little profit.

Similar study carried out by Kwak (2019), asserted that inventory turnover is an effective indicator of an operational efficacy, in that it can be used to measure an overall performance of a company by looking at how many times it takes to have all the stocks or inventories sold out, and realise returns from the sales. Based on the description above, the hypotheses for this study are as follows:

H3: Inventory Turnover ratio affects the company's performance

Research method

Data

There are two variables used in this study:

Dependent variable. The dependent variable for this study is company's performance which is proxied by Return on assets (ROA).

Independent Variable. The independent variables for this study are Current Ratio, Debt to Equity Ratio, and Inventory Turnover Ratio.

SAMPLE

This study uses the quantitative approach of data analysis, with an aim of investigating a certain population or sample used in this study. The source of data in this study is secondary data. Data is obtained from the company's fiscal financial statements of food and beverages manufacturing companies that are listed on the Indonesian Stock Exchange (IDX) during the year 2018-2020. The population used for this research is food and beverages companies that are listed on IDX. Table 1 presents the sample of this study which is obtained by using the purposive sampling method based on the predetermined criteria set forth by the researcher.

Table 1. Sample Selection

No	Criteria	Amount
1	Data of food and Beverages Sub-sector Manufacturing Companies listed on IDX for a period of 2018-2020	12
2	Companies that have negative profit growth during the research period of 2018-2020	(2)
3	Manufacturing companies in the Food and Beverages Sub-sector that earn net profit during the year 2018-2020	10

Method Analysis

The dependent variable used for this study company's performance which is being measured by return on assets. Return on assets show the ability of a company to get return or profit from its investments. Higher ratio of return assets is considered to depict the good performance of a company, whereas low ratio of return on assets means that the company is performing poorly. The inde-

pendent variable used for this study is current ratio, debt to equity ratio, and inventory turnover ratio.

In essence, higher current ratio portrays the company's ability to pay its short-term obligation, and it also shows the high liquidity position of a company or the availability of cash, however, high current ratio sometimes means that most of the company's cash are tied up in old inventory that may be written off or with debtors in form of account receivables

which may take long to be collected, and result in creating an account known as bad debt account.

The Debt to equity ratio shows the ratio of total debt held by the company's as compare to its shareholders' equity. Higher ratio of debt to equity is detrimental to the company's progress if not monitored well.

An inventory turnover ratio shows the number of days it takes for a company to have all its inventory sold out, and restock. Higher ratio of inventory turnover ratio is considered useful for the progress of the company in its quest to obtain profit.

Normality test. The test of normality identifies whether in regression model, the dependent variable and the independent variable has a normal distribution or not Ghozali (2012). A Good Regression Model has a normal distribution of the data or close to normal. To detect the normality results, it can be done with statistical test.

Multicollinearity test. According to Ghozali (2018:107-108), Multicollinearity test is a kind of test that is carried out to determine or identifies whether there is a correlation between or among the independent variables in the study. A good multicollinearity test should show no correlation between the independent variable. It can be seen from the tolerance value or the variance inflation factor as seen below. If the value of tolerance or tolerance value > 0.1 VIF value < 10 , it can be concluded that there is no multicollinearity between independent variables in the regression model. If the tolerance value $< 0,1$ VIF value > 10 , it can be concluded that there is multicollinearity among the independent variables in the regression model

Autocolleration test. According to Ghozali (2018:111-112), Autocorrelation is a test aimed at testing whether linear

regression model has correlation between fault disturber in the t period with the fault disturber in the period t-1 (earlier). If there is a correlation, then it's concluded that there is a problem with autocorrelation.

Multiple regression analysis. Multiple regression analysis is used to measure the relationship strength among various independent variables on one independent variable Pattiasina (2018).

T-Test. The t-test is a test that shows how far an explanatory variable or independent individually influences or effects an explanatory variable or dependent variable. This is basically the test of significant. The test of significance of an individual parameters test (t-test) is as follows: If the probability or a significance $\alpha > 0.05$, then the independent variable, individually is considered to have no effect towards the dependent variable. If the significance $\alpha < 0.05$ then the independent variable, individually is considered to have an effect towards the dependent variable

F-test. The f-test is a test that is done purposely to show whether all independent variables that are included in the model have an influence towards the dependent variable.

The determination Coefficient R². The value used for the determination coefficient is between zero and one. A small value of R² denotes that the ability of independent variables, explaining the dependent variable is very limited. The point to be made is that, the determination coefficient R² measures how far the model is capable of explaining the dependent variations.

RESULTS AND DISCUSSION

RESULT

Normality Test. Is a test of the distribution of the data to be analyzed, whether the distribution is under the

normal curve or not? The method used in this study uses the One-Sample Kolmogorov-Smirnov test method, to determine the distribution of the data, whether it is normally distributed or not? The residual

is said to be normally distributed if the significance value is more than 0.05 (Sig > 0.05). The following are the results of normality testing using the One-Sample Kolmogorov-Smirnov.

Table 2. Normality Test Results

One-Sample Kolmogorov-Smirnov Test					
		CR	DER	ITOR	ROA
N		30	30	30	30
Normal Parameters ^{a,b}	Mean	2.88644	.73980	7.12368	.11662
	Std. Deviation	2.001012	.616918	4.033268	.101810
Most Extreme Differences	Absolute	.150	.201	.151	.180
	Positive	.150	.201	.151	.180
	Negative	-.141	-.180	-.136	-.131
Kolmogorov-Smirnov Z		.821	1.101	.826	.988
Asymp. Sig. (2-tailed)		.510	.177	.502	.284
a. Test distribution is Normal.					
b. Calculated from data.					
Source: SPSS data processing output 22					

Based on the above test results obtained under One-Sample Kolmogorov-Smirnov Test, it can be established that the distribution is normal, given the significant value is higher than alpha 0.05, which is 0.510 for this case, hence data is normal.

Multiple Regression. Is a linear regression approach that is used to explain the relationship between single dependent variable and several independent variables under study?

Table 3. Multiple Regression Test Results

Model	Unstandardized Coefficients		Standardized Coefficients Beta	T	Sig.
	B	Std. Error			
1 (Constant)	.089	.063		1.414	.169
CR	.010	.011	.189	.841	.408
DER	.032	.039	.194	.814	.423
ITOR	-.003	.005	-.130	-.628	.536

Dependent Variable: ROA

Source: SPSS data processing output 22

Based on the above, the regression is:

$$Y=0.089+0.010CR+0.032DER+-0.003TOR$$

Where Y is the dependent variable (return on assets). The constant value of 0.089 denotes that if independent variables which are CR, DER, and ITOR are assumed to be constant, then the corresponding value of Y will be 0.089. Meanwhile regression coefficient that is associated with CR, DER, ITOR are 0.010, -0.032, and -0.003 respectively, this implies that an increase in each unit of independent variable is also associated with same value of regression coefficient. For example, if Current Ratio (CR) increases by 1 unit, then have influence of 0.089 unit of return on assets.

R² Test. Determination Coefficient (R²) is a test carried out on independent variables to check how far the model was able to explain the dependent variable. The value of determination coefficient is taken between zero and one for a given data. A small value of R² means that the ability of independent variables in explaining the dependent variable is very limited.

Table 4. R2 Test Results

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.206 ^a	.043	-.068	.105207

Model Summary

Predictors: (Constant), ITOR, DER, CR

Source: SPSS data processing output 22

Determinants to see the magnitude of the effect of x on y, obtained from r square times 100 (4.3%), this implies that the ability of independent variable (Current Ratio, Debt to equity Ratio, and ITOR) used in this study to explain the dependent variable (performances of food and beverage manufacturing companies as measured by return on assets) can only be explained by 4.3% of independent variables. The rest of 95.7% can be explained by variables that are not included in this study.

F- Test. F-test is done to see whether there is an effect of x (independent variable) simultaneously on y (dependent variables).

Table 5. F-Test Results

ANOVA^b

Model		Sum Squares	of Df	Mean Square	F	Sig.
1	Regression	.013	3	.004	.386	.764 ^a
	Residual	.288	26	.011		
	Total	.301	29			

- a. Predictors: (Constant), ITOR, CR, DER
 b. Dependent Variable: ROA

Source: SPSS data processing output 22

The result shows the value of sig/p value = 0.764 > 0.05 means that there is no significant effect of x simultaneously on y.

T –Test. The T-test is similar to the F test but the x variable is tested separately (partial). T-test is a statistical test that is carried out to determine whether there is an impact of each or single independent variable separately as seen in the table below towards dependent variable in question.

Table 6. T-Test Results

Coefficients ^a		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	.089	.063		1.414	.169
	CR	.010	.011	.189	.841	.408
	DER	.032	.039	.194	.814	.423
	ITOR	-.003	.005	-.130	-.628	.536

Dependent Variable: ROA

Source: SPSS data processing output 22

The Interpretation of T-test results as done by SPSS can be seen below for each of the independent variables.

X1 sig = 0.408 > 0.05 means that there is no partial effect.

X2 sig = 0.423 > 0.05 means that there is no partial effect.

X3 sig = 0.536 > 0.05 means that there is no partial effect.

Discussion

The effect of liquidity ratio on the company's performance. The Liquidity Ratio Hypothesis (H1) as proxied by the Current Ratio for this research is not accepted. Based on the results of the T-test, it can be established that the Current Ratio doesn't have a positive or partial effect on the performance of Foods and Beverages Manufacturing companies that are used for this study.

The value of significance of the current ratio as shown in the T-test results is 0.408 which is higher than alpha 0.05, hence no partial effects between the cur-

rent ratio and the company's performance as measured by return on assets (ROA). The results of this research show that the current ratio can't be used to measure the performance of the company as seen through the lenses of return on assets (ROA).

The results of this research are in line with the research conducted by Pangkong et al. (2017). Their research stated that the Current Ratio doesn't have any ability to predict significant profit changes in the firm. However, the results of this study do not support the research conducted by Susanti & Widyawati (2016), which stated that: Current ratio has

significant influence on profit changes of the company, and can therefore be used to predict the future profit changes.

The effects of debt to equity ratio on the company's performance.

The leverage ratio Hypothesis (H2) as proxied by Debt to Equity Ratio for this research is rejected. Based on the results of the T-test, it can be seen that Debt to Equity Ratio doesn't significantly affects the performance of foods and beverage companies taken for this research.

The value of significant of Debt to Equity Ratio as seen above is 0.423, which is higher than alpha 0.05, hence has no partial effects on the performance of foods and beverages manufacturing companies taken for this study, using Return on Assets as the measurement for companies' performance. The results of this study agree with the study conducted by Imani et,al (2018) which reported that debt to equity ratio has no significant effect on the return on assets. There results, however disagrees with research conducted by Hantono (2018), which stated that debt to equity ratio individually has significant influence on the profitability of a company as proxied by a return on assets.

The effects of inventory turnover ratio on the company's performance.

The activity ratio Hypothesis (H3) as proxied by Inventory Turnover Ratio for this research is not accepted. Based on the results of the T-test, it can be seen that activity Ratio doesn't significantly affects the performance of foods and beverage companies that are used as the objects of this study.

The value of significant of Inventory Turnover Ratio as seen above is 0.536, which is higher than alpha 0.05, hence has no partial effects on the perfor-

mance of foods and beverages manufacturing companies taken for this study, using Return on Assets as the measurement for companies' performance. The results of this study agrees with Lumbantobing (2020), which stated that inventory turnover ratio does not significantly affect the performance of the company.

Conclusion

This study aims to examine the effects of financial ratios of the Current Ratio, Debt to Equity Ratio, and Inventory turnover ratio on the performance of food and beverages companies listed on the Indonesian stock exchange during 2018-2020. The performance of the companies used for this study is measured by the dependent variable Return on assets (ROA). The results of the study were obtained using regression testing. Based on the results of the tests performed above, the researcher draws some of the conclusions given below: The current ratio has no significant influence on the performance of foods and beverages manufacturing companies, as measured through Return on assets (ROA) for companies that were listed on the Indonesian Stock Exchange (IDX), which published their year-end financial statement for 2018-2020 period.

Debt to Equity Ratio has got no significant influence on the performance of foods and beverage manufacturing companies that were listed on the Indonesia Stock Exchange, based on the Return on assets as a measure of the company's performance. This means that the use of debts in running the daily operations of Foods and Beverages manufacturing businesses can not improve

the financial performance of the companies in question.

The Inventory Turnover ratio has no significant influence on the performance of foods and beverages manufacturing, as measured through Return on assets (ROA) for companies that were listed on the Indonesian Stock Exchange.

Suggestion.

In accordance with the results of the study, conclusions, and limitations obtained. Definitive suggestions for further researchers are as follows:

For any further researcher, it's recommendable that the number of objects be increased, so as to obtain more samples to be studied in order that data will not decrease much when there are some data that are not normally distributed.

Increasing the research period is highly recommended that it can reflect the general condition of the company in the long run.

Further research is recommended to use a sample of food and beverages companies alongside other sectors so that the results can be comprehensive.

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