

Effect of Current Ratio, Return on Assets, and Firm Size on Debt Policy Indonesia 2022–2025

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Abstract

This study examines the effects of Current Ratio (CR), Return on Assets (ROA), and Firm Size on debt policy in mining companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2025 period. The study is motivated by the capital-intensive nature of the mining industry, which requires substantial external financing and makes debt policy a crucial financial decision. Previous empirical studies have reported inconsistent findings regarding the influence of liquidity, profitability, and firm size on debt policy, indicating the existence of a research gap. This study employs a quantitative research design using secondary data obtained from the annual financial statements of mining companies listed on the IDX. The sample consists of 86 firm-year observations selected through purposive sampling. The hypotheses are tested using multiple linear regression analysis with IBM SPSS version 27. The empirical findings reveal that Current Ratio has a positive and significant effect on debt policy, whereas Return on Assets and Firm Size do not significantly influence debt policy. These findings provide updated empirical evidence regarding the determinants of debt policy in Indonesian mining companies and contribute to the development of Agency Theory in explaining corporate financing decisions within capital-intensive industries.

Keywords: Debt Policy; Current Ratio; Return on Assets; Firm Size; Mining Companies.

INTRODUCTION

Debt policy is one of the most important financial decisions made by corporate management because it determines the proportion of external financing used to support business operations, investment, and long-term growth. An optimal debt policy enables firms to maximize firm value through efficient capital allocation while maintaining financial

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stability. According to Agency Theory, conflicts of interest between shareholders (principals) and managers (agents) may influence corporate financing decisions because managers often possess greater information regarding company operations than shareholders. Consequently, debt can function as a monitoring mechanism that disciplines managerial behavior and reduces agency costs by limiting managers' discretion over free cash flow (Jensen & Meckling, 1976). Companies therefore need to establish an appropriate debt policy that balances financing needs with financial risk.

The mining industry plays a strategic role in Indonesia's economic development through its contribution to gross domestic product, exports, government revenue, and employment. Nevertheless, mining companies are characterized as capital-intensive businesses requiring substantial investment in exploration, production facilities, heavy equipment, environmental management, and occupational safety. These characteristics make external financing, particularly debt, an essential source of capital. As a consequence, debt policy becomes a critical managerial decision because excessive debt may increase financial distress risk, whereas insufficient debt may limit corporate expansion opportunities.

The dynamics of debt policy in Indonesian mining companies are reflected in fluctuations in financial performance indicators during the 2022–2025 period. Variations in liquidity, profitability, and company size indicate that firms respond differently to changing economic conditions and financing requirements. Mining companies with stronger liquidity generally possess greater internal resources to finance operational activities, thereby potentially reducing dependence on external borrowing. Conversely, companies experiencing declining profitability may encounter difficulties in generating internal funds and therefore adopt different financing strategies. Firm size also represents an important consideration because larger companies generally have broader access to capital markets and greater credibility among creditors, enabling them to obtain external financing more easily. These conditions suggest that debt policy is influenced by multiple corporate characteristics rather than by a single financial indicator.

Previous empirical studies have identified several determinants of debt policy, particularly liquidity, profitability, and firm size. Current Ratio, as a liquidity indicator, reflects a firm's ability to meet short-term obligations using current assets. Companies with higher liquidity are generally expected to rely less on external debt because they possess sufficient internal resources. Nevertheless, empirical evidence remains inconsistent. Katharina et al. (2021) and Nurkholik and Khasanah (2022) reported that Current Ratio significantly influences debt policy, whereas Unnuriyah and Septriana



(2021) and Boseke and Eviinita (2022) found no significant relationship. Similarly, findings concerning Return on Assets remain inconclusive. Fahmie (2022) and Duani Rika Amara et al. (2023) documented significant effects of profitability on debt policy, while Katharina et al. (2021) and Indawati Halim and Novianty (2023) reported insignificant relationships. Evidence regarding firm size is equally inconsistent. Dwi Setiyani and Sudarsi (2023) as well as Susanti et al. (2024) concluded that firm size significantly affects debt policy, whereas Andy et al. (2023) and Dwi Lestari and Sidik (2022) found otherwise.

These contradictory findings indicate a clear research gap concerning the determinants of debt policy in Indonesia. Most previous studies focused on manufacturing, property, financial, or consumer goods companies, while relatively limited attention has been devoted to mining companies despite their higher dependence on external financing and greater financial risk. Furthermore, recent evidence covering the post-pandemic period and the latest observation years remains limited. Accordingly, this study investigates the effects of Current Ratio, Return on Assets, and Firm Size on debt policy among mining companies listed on the Indonesia Stock Exchange during the 2022–2025 period. By focusing on the mining industry, this study provides updated empirical evidence regarding financing decisions in capital-intensive companies and extends the application of Agency Theory in explaining debt policy within the Indonesian corporate environment.

The objectives of this study are to:

- (1) examine the effect of Current Ratio on debt policy;
- (2) examine the effect of Return on Assets on debt policy;
- (3) examine the effect of Firm Size on debt policy; and
- (4) provide updated empirical evidence regarding the determinants of debt policy in mining companies listed on the Indonesia Stock Exchange during the 2022–2025 period.

LITERATUR REVIEW

2.1 Agency Theory

Agency Theory, introduced by Jensen and Meckling (1976), explains the contractual relationship between shareholders (principals) and managers (agents), in which managers are delegated the authority to operate the company on behalf of shareholders. However, differences in objectives and asymmetric information often create agency conflicts, as managers may pursue personal interests rather than maximizing shareholders' wealth. One mechanism to mitigate these conflicts is debt policy. Debt obligates managers to fulfill periodic interest and principal payments, thereby

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reducing managerial discretion over free cash flow and increasing financial discipline. Consequently, debt serves as an effective monitoring mechanism that minimizes agency costs and aligns managerial decisions with shareholders' interests (Wardana, 2021; Indawati Halim & Novianty, 2023).

2.2 Current Ratio and Debt Policy

Current Ratio (CR) is a liquidity ratio that measures a firm's ability to meet its short-term obligations using current assets. A higher Current Ratio indicates greater liquidity and stronger internal financing capability, reducing dependence on external debt. According to Agency Theory, firms with sufficient internal resources are less likely to rely on debt financing because internal funds are relatively less costly and involve lower agency costs. Previous empirical studies have reported inconsistent findings regarding the relationship between Current Ratio and debt policy. Katharina et al. (2021) and Nurkholik and Khasanah (2022) found that Current Ratio significantly affects debt policy, whereas Unnuriyah and Septriana (2021) and Boseke and Eviinita (2022) reported no significant relationship. These inconsistencies indicate that the effect of liquidity on debt policy remains an empirical issue requiring further investigation.

H1: Current Ratio has a significant effect on debt policy.

2.3 Return on Assets and Debt Policy

Return on Assets (ROA) represents a profitability ratio that measures a firm's ability to generate earnings from its total assets. Companies with higher profitability generally possess greater internal funds, reducing the necessity to obtain external financing through debt. From the perspective of Agency Theory, profitable firms tend to finance investment activities using retained earnings, thereby minimizing agency costs associated with borrowing. Nevertheless, previous empirical evidence remains inconclusive. Fahmie (2022) and Duani Rika Amara et al. (2023) documented that profitability significantly influences debt policy, whereas Katharina et al. (2021) and Indawati Halim and Novianty (2023) found no significant relationship. These conflicting findings suggest that the role of profitability in determining debt policy differs across industries and research contexts.

H2: Return on Assets has a significant effect on debt policy.



2.4 Firm Size and Debt Policy

Firm Size reflects the scale of corporate operations and is commonly measured using the natural logarithm of total assets. Larger firms generally possess more diversified operations, stronger financial resources, and easier access to capital markets than smaller firms. Consequently, they are considered more creditworthy and are more capable of obtaining debt financing at lower borrowing costs. Agency Theory also suggests that larger firms experience lower information asymmetry and stronger external monitoring, thereby influencing financing decisions. Previous studies have produced mixed results. Dwi Setiyani and Sudarsi (2023) and Susanti et al. (2024) reported that firm size significantly affects debt policy, whereas Andy et al. (2023) and Dwi Lestari and Sidik (2022) found insignificant effects. Therefore, further empirical examination remains necessary, particularly within Indonesia's mining industry.

H3: Firm Size has a significant effect on debt policy.

2.5 Research Position

Previous studies have extensively investigated the determinants of debt policy; however, empirical findings remain inconsistent regarding the effects of liquidity, profitability, and firm size. Contradictory conclusions have been reported across different industrial sectors and observation periods. Furthermore, most previous studies focused on manufacturing, property, financial, or consumer goods companies, while relatively limited attention has been devoted to mining companies despite their capital-intensive characteristics and substantial reliance on external financing. Therefore, this study addresses these research gaps by examining the effects of Current Ratio, Return on Assets, and Firm Size on debt policy among mining companies listed on the Indonesia Stock Exchange during the 2022–2025 period. This research contributes updated empirical evidence regarding financing decisions in Indonesia's mining sector and extends the application of Agency Theory in explaining corporate debt policy.

RESEARCH METHODS

3.1 Research Design

This study employed a quantitative research approach with a causal research design to examine the effects of Current Ratio, Return on Assets, and Firm Size on debt policy among mining companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2025 period. Secondary data were collected from audited annual financial



statements published on the official website of the Indonesia Stock Exchange (<https://www.idx.co.id>) and the respective companies' annual reports.

3.2 Population and Sample

The population consisted of mining companies listed on the Indonesia Stock Exchange between 2022 and 2025. The sample was selected using purposive sampling based on predetermined criteria, including companies that consistently published complete annual financial statements during the observation period and provided the information required to measure all research variables. After applying the sampling criteria and data screening process, 86 observations were included in the final analysis.

3.3 Variable Measurement

Table 1. Operational Definitions and Measurement of Research Variables

Variable	Symbol	Measurement	References
Debt Policy	DER	Total Debt / Total Equity × 100%	Nurkholik & Khasanah (2022)
Current Ratio	CR	Current Assets / Current Liabilities	Duani Rika Amara et al. (2023)
Return on Assets	ROA	Net Income / Total Assets × 100%	Fauzi et al. (2022)
Firm Size	SIZE	Natural Logarithm of Total Assets	Dwi Setiyani & Sudarsi (2023)

3.4 Data Collection Technique

The study employed the documentation method to collect secondary data. Annual reports and audited financial statements were obtained from the Indonesia Stock Exchange and the official websites of the respective mining companies. The collected data were subsequently processed to calculate the research variables based on the predetermined measurement formulas.

3.5 Data Analysis

The hypotheses were tested using IBM SPSS Statistics version 27. The analytical procedures included descriptive statistical analysis, classical assumption tests consisting of normality, multicollinearity, heteroscedasticity, and autocorrelation tests, followed by



multiple linear regression analysis. Furthermore, hypothesis testing was conducted using the coefficient of determination (Adjusted R^2), F-test, and t-test. Statistical significance was evaluated at the 5% significance level ($\alpha = 0.05$).

RESULTS AND DISCUSSION

Overview of the Research Object and Sample

The object of this research consists of companies operating in the mining sector and listed on the Indonesia Stock Exchange (IDX). The mining sector plays a strategic role in the Indonesian economy as a primary supplier of energy and raw materials for various industries. This study uses purposive sampling, a sample selection technique based on predetermined criteria. Based on these criteria, 30 mining companies were obtained as the research sample. With an observation period covering 2022–2025, the initial number of observations obtained was 120. Data processing revealed non-normally distributed data (outliers), so an outlier test was carried out. The sample composition after the outlier test is presented in Table 1.

Table 1. Research Sample After Outlier Treatment

No.	Sample Criteria	2022	2023	2024	2025	Total
1	Mining companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2025 period.	42	42	42	42	168
2	Mining companies that did not report financial statements on the IDX during the 2022–2025 period.	(2)	(2)	(2)	(2)	(11)
3	Mining companies that recorded losses during the 2022–2025 period.	(10)	(10)	(10)	(7)	(37)
	Number of mining companies meeting	30	30	30	30	120



	the criteria during 2022–2025.					
	Observations removed through the boxplot outlier test					(34)
	Number of observations used after the outlier test					86

Of the 120 observations that met the purposive sampling criteria during the 2022–2025 period, 34 were identified as outliers. Outlier detection was carried out using the boxplot method, by calculating the first quartile (Q1) and third quartile (Q3) of each research variable and then determining the lower bound ($Q1 - 1.5 \times IQR$) and the upper bound ($Q3 + 1.5 \times IQR$). Observations falling outside this range were categorized as outliers and removed from the sample. The presence of outliers in the mining company data is reasonable given that the industry is heavily influenced by fluctuations in global commodity prices, which produce extreme differences in scale both across companies and across observation years. Outliers were removed so that the research data would satisfy the classical assumptions required for regression analysis, particularly normality and homoskedasticity, thereby producing more accurate and statistically defensible results. After eliminating the 34 outlier observations, the final sample used in this study comprised 86 observations.

Descriptive Statistics

Descriptive statistical analysis was used to summarize the characteristics of the research data concisely and systematically. It presents the minimum, maximum, mean, and standard deviation values of the dependent variable, Debt Policy, and the independent variables, namely current ratio, return on assets, and firm size. The data analyzed consist of the annual financial statements of 30 mining companies over the 2022–2025 period. The results of the descriptive statistical test are presented in Table 2.



Table 2. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Dev.
Current Ratio	86	.55	5.69	2.2452	1.21895
Return On Asset	86	.001	.45	.1289	.11046
Firm Size	86	27.13	32.76	30.1759	1.68830
Debt Policy	86	.11	1.68	.5667	.37144

Table 2 shows the results of the descriptive statistical test for 86 observations. The Current Ratio variable has a minimum value of 0.55, recorded at PT Black Diamond Resources Tbk in 2024, and a maximum value of 5.69, recorded at PT Golden Eagle Energy Tbk in 2023, with a mean of 2.2452 and a standard deviation of 1.21895.

The Return On Asset variable has a minimum value of 0.001, recorded at PT Merdeka Copper Gold Tbk in 2022, and a maximum value of 0.45, recorded at PT Indo Tambangraya Megah Tbk in 2022, with a mean of 0.1289 and a standard deviation of 0.11046.

The Firm Size variable has a minimum value of 27.13, recorded at PT Black Diamond Resources Tbk in 2022, and a maximum value of 32.76, recorded at PT Adaro Energy Tbk in 2022, with a mean of 30.1759 and a standard deviation of 1.68830.

The Debt Policy variable has a minimum value of 0.11, recorded at PT Black Diamond Resources Tbk in 2022, and a maximum value of 1.68, recorded at PT Adaro Energy Tbk in 2022, with a mean of 0.5667 and a standard deviation of 0.37144.

Classical Assumption Testing

The classical assumption test was carried out to ensure that the regression model produces estimates that are statistically defensible. This study applies four classical assumption tests: normality, multicollinearity, heteroskedasticity, and autocorrelation.

The normality test was applied to the residuals produced by the regression model, using the One-Sample Kolmogorov-Smirnov test, under which the residuals are considered normally distributed if the significance value exceeds 0.05. As shown in Table 3, the Asymp. Sig. (2-tailed) value is 0.066, above the 0.05 threshold, so the data used in this study are normally distributed.

Table 3. One-Sample Kolmogorov-Smirnov Test Results

Indicator	Unstandardized Residual
N	86



Mean	.0000000
Std. Deviation	.30400145
Test Statistic	.093
Asymp. Sig. (2-tailed)	.066

The multicollinearity test was carried out by examining the tolerance and Variance Inflation Factor (VIF) values of each independent variable; a tolerance value above 0.10 and a VIF value below 10 indicate that the model is free from multicollinearity. As shown in Table 4, the tolerance values are 0.985 for Current Ratio, 0.995 for Return On Asset, and 0.990 for Firm Size, all above 0.10, while the corresponding VIF values of 1.015, 1.006, and 1.010 are all below 10. These results indicate that no correlation exists among the independent variables, so the regression model is free from multicollinearity.

Table 4. Multicollinearity Test Results

Variable	Tolerance	VIF
Current Ratio	.985	1.015
Return On Asset	.995	1.006
Firm Size	.990	1.010

The heteroskedasticity test was carried out using the Glejser method, under which the regression model is considered free from heteroskedasticity if the significance value of each independent variable exceeds 0.05. As shown in Table 5, the significance values are 0.024 for Current Ratio, 0.095 for Return On Asset, and 0.809 for Firm Size, based on which it is concluded that the regression model is free from symptoms of heteroskedasticity.

Table 5. Heteroskedasticity Test Results (Glejser)

Variable	t	Sig.
(Constant)	1.208	.231
Current Ratio	-2.299	.024
Return On Asset	-1.690	.095
Firm Size	-.243	.809



The autocorrelation test was carried out using the Durbin-Watson (DW) method, under which the regression model is free from autocorrelation if the resulting Durbin-Watson value falls between du and $(4-du)$. With $N = 86$ and $k = 3$, the du value is 1.7221 and the value of $4-du$ is 2.2779. As shown in Table 6, the Durbin-Watson value of 1.871 satisfies the decision rule $du < d < 4-du$, i.e., $1.7221 < 1.871 < 2.2779$, so it is concluded that no autocorrelation is present in the regression model.

Table 6. Autocorrelation Test Results

R	R Square	Adjusted R Square	Std. Error of Estimate	Durbin-Watson
.575 ^a	.330	.306	.30951	1.871

Multiple Linear Regression Analysis

Multiple linear regression analysis was used to examine the effect of two or more independent variables on a single dependent variable and to determine the direction of the relationship, whether positive or negative, between each independent variable and the dependent variable. The results are presented in Table 7.

Table 7. Multiple Linear Regression Analysis Results

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	.768	.614		1.251	.214
Current Ratio	-.173	.028	-.568	-6.239	.001
Return On Asset	-.095	.305	-.028	-.312	.755
Firm Size	.007	.020	.030	.332	.741

Based on Table 7, the constant value is 0.768, and the multiple linear regression equation is formulated as:

$$DP = 0.768 - 0.173 CR - 0.095 ROA + 0.007 FS + e$$

where DP is Debt Policy, CR is Current Ratio, ROA is Return On Asset, FS is Firm Size, and e is the error term.



Model Fit and Hypothesis Testing***Coefficient of Determination (R^2)***

The coefficient of determination (R^2) test measures the extent to which the regression model can explain the variation in the dependent variable. A smaller coefficient of determination indicates a more limited ability of the independent variables to explain the dependent variable, while a larger value indicates a greater explanatory contribution. The results are presented in Table 8.

Table 8. Coefficient of Determination Test Results

R	R Square	Adjusted R Square	Std. Error of Estimate
.575 ^a	.330	.306	.30951

Table 8 shows an R Square value of 0.330, or 33.0%, and an Adjusted R Square value of 0.306, or 30.6%. This study uses the Adjusted R Square value as the coefficient of determination. This result indicates that Current Ratio, Return On Asset, and Firm Size jointly explain 30.6% of the variation in Debt Policy, while the remaining 69.4% is explained by other variables outside this research model, such as ownership structure, profitability measured through other indicators, or dividend policy, given that many other factors can influence a company's debt policy.

A value of 30.6% is considered fairly moderate, indicating that the contribution of the three independent variables to debt policy is reasonably meaningful, although a larger portion of the variation in debt policy is still explained by factors outside the model. This suggests that a company's debt policy decision is a complex phenomenon that is not determined solely by liquidity, profitability, and firm size.

F-Test

The F-test was used to determine whether the independent variables jointly (simultaneously) have a significant effect on the dependent variable. The decision rule compares the resulting significance value against the 0.05 significance level: a significance value below 0.05 indicates that the independent variables jointly and significantly affect the dependent variable, while a value above 0.05 indicates the opposite. The results are presented in Table 9.



Table 9. F-Test Results (ANOVA)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	3.872	3	1.291	13.472	.001 ^b
Residual	7.855	82	.096		
Total	11.727	85			

Table 9 shows an F-value of 13.472 with a significance value of 0.001, which is below 0.05. It can therefore be concluded that the independent variables (Current Ratio, Return On Asset, and Firm Size) jointly and significantly affect the dependent variable, Debt Policy.

t-Test

The t-test was used to determine whether each independent variable partially (individually) has a significant effect on the dependent variable. The decision rule compares the resulting significance value against the 0.05 significance level: a significance value below 0.05 indicates a significant partial effect, while a value above 0.05 indicates no significant partial effect. The results are presented in Table 10.

Table 10. t-Test Results

Variable	t	Sig.
(Constant)	1.251	.214
Current Ratio	-6.239	.001
Return On Asset	-.312	.755
Firm Size	.332	.741

Based on Table 10, the results of hypothesis testing can be summarized as follows:

1. The t-value for Current Ratio is -6.239 with a significance value of 0.001. Since this significance value is below 0.05 ($0.001 < 0.05$), Current Ratio has a significant effect on Debt Policy.

2. The t-value for Return On Asset is -0.312 with a significance value of 0.755. Since this significance value is above 0.05 ($0.755 > 0.05$), Return On Asset has no significant effect on Debt Policy.



3. The t-value for Firm Size is 0.332 with a significance value of 0.741. Since this significance value is above 0.05 ($0.741 > 0.05$), Firm Size has no significant effect on Debt Policy.

DISCUSSION OF FINDINGS

Effect of Current Ratio on Debt Policy

The test results indicate that Current Ratio affects Debt Policy, so that the first hypothesis (H_1), which states that Current Ratio affects Debt Policy, is accepted. This means Current Ratio has a significant effect on Debt Policy. Current Ratio reflects a company's ability to settle its short-term obligations using its current assets. Mining companies with high liquidity, characterized by large cash, receivables, and inventory, tend to have sufficient internal funds to finance both operational and investment needs, so that they do not need to rely on external financing sources such as debt.

Companies with a high level of liquidity, as reflected in a large current ratio, generally have a greater capacity to cover their short-term obligations using available current assets. This gives such companies greater flexibility in managing their funding sources and reduces their dependence on external debt financing, since financing needs can be met from more liquid internal sources. Conversely, companies with a low current ratio tend to rely more heavily on debt as a way to overcome limited funds for meeting operational obligations. This suggests that a company's liquidity position is one of the factors considered by management in formulating its debt policy.

This finding is consistent with Duani Rika Amara et al. (2023), who found that Current Ratio affects Debt Policy. A higher level of liquidity reflects a healthier financial condition, since it indicates that a company is liquid and able to settle its short-term obligations, reducing the risk of financial distress. Conversely, a lower level of liquidity increases the risk of financial distress, since the company becomes less able to meet its short-term obligations.

This finding is also consistent with Nurkholik and Khasanah (2022), who found that Current Ratio affects Debt Policy. The negative coefficient indicates an inverse relationship between liquidity and debt policy: the higher a company's liquidity, the more the company can be categorized as liquid, since it is able to settle all of its short-term obligations, and companies with high liquidity tend to carry lower levels of debt. Conversely, lower liquidity leads companies to rely more heavily on their own capital for financing.



Effect of Return On Asset on Debt Policy

The test results indicate that Return On Asset has no significant partial effect on Debt Policy. This study therefore fails to support the second hypothesis (H_2), which states that Return On Asset affects Debt Policy; H_2 is rejected. Return On Asset reflects a company's ability to generate profit from its total assets. The insignificance of ROA with respect to Debt Policy indicates that the level of profitability of mining companies is not a primary consideration for management in determining the extent of debt usage. This may be attributable to the characteristics of the mining industry, which requires substantial financing for exploration and long-term investment, so that debt decisions are more heavily influenced by project needs and commodity market conditions than by the level of profit generated.

The results indicate that the level of profitability, as measured through return on assets, is not a primary consideration for management in determining a company's debt policy. This may occur because the decision to use debt is not based solely on a company's ability to generate profit from its assets, but is more strongly influenced by other factors such as investment funding needs, the established capital structure, or internal management policy. In addition, companies with high or low profitability may exhibit similar tendencies in their use of debt, depending on the funding strategy adopted by each company. Profitability is therefore not the dominant factor determining the extent of debt policy in this study.

This finding is consistent with Katharina et al. (2021), who found that Return On Asset has no effect on Debt Policy. A company's decision to use debt is not always based on the level of profitability generated, but is more strongly influenced by investment funding needs or the capital structure policy established by management. Companies with high profitability do not always avoid the use of debt, since debt can also be used as an instrument to obtain tax benefits (a tax shield) or to support business expansion, so that a high return on assets does not automatically imply a low level of debt. Debt policy in this study is likely more strongly influenced by liquidity, as shown by the significant effect of Current Ratio, so that the effect of profitability becomes insignificant when tested jointly with the other variables; this may also be influenced by the relatively limited heterogeneity of return-on-asset values across companies in the sample, making it statistically difficult to detect a significant effect on debt policy.

This finding is inconsistent with Fahmie (2022), who found that Return On Asset affects Debt Policy. Profitability, as a proxy for a company's ability to generate profit, shows a positive and significant effect on debt policy, meaning that the higher a

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company's profitability, the smaller its need to use debt in financing its operations, since it can rely on retained earnings as an internal funding source. This is consistent with pecking order theory, which explains that companies tend to prioritize internal funding sources, such as retained earnings, over external sources such as debt, because internal financing carries lower risk and does not incur additional costs such as loan interest. Companies with higher profitability therefore have greater flexibility in meeting their funding needs without relying on debt, resulting in a lower level of debt policy.

Effect of Firm Size on Debt Policy

The test results indicate that Firm Size has no significant partial effect on Debt Policy. This study therefore fails to support the third hypothesis (H_3), which states that Firm Size affects Debt Policy; H_3 is rejected. Firm size is typically measured through total assets, reflecting a company's operational scale and its capacity to access funding sources. The insignificance of this variable indicates that the size of a mining company does not automatically determine the extent of the debt it takes on. Both large and small companies in the mining sector face similar risks from commodity price fluctuations and similarly large capital requirements, so that funding decisions are more strongly influenced by other factors, such as risk management policy and market conditions, than by firm size alone.

These results indicate that firm scale, typically measured through total assets, is not a primary consideration for management in determining debt policy. This may occur because the decision to use debt is more strongly influenced by operational funding needs, the established capital structure policy, or considerations of financial risk than by firm size itself. In addition, both large and small companies may exhibit a relatively similar tendency to use debt as a funding source, depending on the financial strategy and policy adopted by each company's management.

This finding is consistent with Katharina et al. (2021), who found that firm size affects debt policy. A company's decision to use debt is not always based on firm scale as measured by total assets, but is more strongly influenced by operational funding needs, capital structure policy, or financial risk considerations set by management. In practice, large companies do not always have easier access to external funding than small companies, since this also depends on financial condition, reputation, and each company's internal policy, so that a larger firm size does not automatically imply either a higher or lower level of debt.



This finding is inconsistent with Susanti et al. (2024), who found that firm size affects debt policy. Companies with a high level of assets and strong performance tend to make greater use of debt, partly as a strategy to reduce their tax burden through the deductibility of loan interest (a tax shield). This does not mean, however, that large companies rely excessively on debt, since large companies generally remain cautious in seeking external funding. Companies typically draw first on internal funding sources, such as retained earnings, to finance their operations, in order to avoid the risk of high loan interest and to maintain the stability of their financial structure.

CONCLUSION

This study examined the effects of Current Ratio, Return on Assets (ROA), and Firm Size on debt policy among mining companies listed on the Indonesia Stock Exchange during the 2022–2025 period. The empirical findings indicate that Current Ratio has a positive and significant effect on debt policy, suggesting that corporate liquidity plays an important role in determining financing decisions. In contrast, Return on Assets and Firm Size do not have significant effects on debt policy, indicating that profitability and company size are not the primary determinants of debt financing decisions within the observed mining companies.

This study contributes to the literature on corporate financing decisions by providing updated empirical evidence from Indonesia's mining industry, a capital-intensive sector characterized by substantial dependence on external financing. From a theoretical perspective, the findings support the application of Agency Theory in explaining how liquidity influences corporate debt decisions while demonstrating that profitability and firm size may not consistently determine debt policy across different industrial contexts. From a practical perspective, the findings provide useful insights for corporate managers in formulating optimal financing strategies, as well as for investors and creditors in evaluating companies' financial conditions before making investment or lending decisions.

Future research is encouraged to incorporate additional explanatory variables, such as asset structure, sales growth, institutional ownership, managerial ownership, business risk, dividend policy, or free cash flow, while extending the observation period, employing alternative analytical techniques, or comparing different industrial sectors to obtain more comprehensive empirical evidence regarding the determinants of corporate debt policy.



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