International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

Financial Leverage and Profitability as Determinants of Liquidity in Indonesian Food and Beverage Firms

Subhan Nur Azmi[1], Ika Maherta Sutadji[2], Purwo Atmojo[3]

[1,2,3]Accounting Study Program, Faculty of Economics and Business, Universitas Balikpapan, Balikpapan, East Kalimantan, Indonesia

Abstract

This study examines the effects of the Debt-to-Equity Ratio (DER), Return on Equity (ROE), and Net Profit Margin (NPM) on the Current Ratio (CR) of food and beverage companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. Previous studies have reported inconsistent findings regarding the relationships between capital structure, profitability, and corporate liquidity, indicating an unresolved empirical gap. This study addresses this gap by simultaneously investigating the effects of leverage and profitability indicators on liquidity using recent financial data from Indonesian food and beverage companies in the post-pandemic period. A quantitative explanatory research design was employed using purposive sampling, resulting in 52 companies with 208 firm-year observations. Secondary data obtained from annual financial statements were analyzed using multiple linear regression with SPSS version 26. The findings reveal that Debt-to-Equity Ratio, Return on Equity, and Net Profit Margin each have a significant effect on the Current Ratio. These findings support Pecking Order Theory by demonstrating that firms' financing preferences and profitability influence their liquidity management decisions. This study contributes to the corporate finance literature by providing updated empirical evidence regarding the determinants of liquidity among Indonesian food and beverage companies under post-pandemic economic conditions.

Keywords: Debt-to-Equity Ratio; Return on Equity; Net Profit Margin; Current Ratio; Food and Beverage Companies

INTRODUCTION

Liquidity is one of the most fundamental indicators of corporate financial health because it reflects a company's ability to fulfill its short-term obligations while maintaining

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

operational continuity. Companies with adequate liquidity are generally considered financially stable and capable of meeting creditor expectations, whereas insufficient liquidity may increase the risk of financial distress despite satisfactory profitability. Consequently, corporate liquidity has become a crucial consideration for investors, creditors, managers, and other stakeholders in evaluating business sustainability and financial performance.

The food and beverage industry plays a strategic role in Indonesia's economy because it produces essential consumer goods with relatively stable demand. Nevertheless, during the post-pandemic period of 2021–2024, companies operating in this sector faced significant challenges, including global supply chain disruptions, increasing raw material prices, inflationary pressures, and changing consumer purchasing behavior. These conditions created substantial fluctuations in corporate financial performance, particularly regarding liquidity and profitability. As a result, several firms experienced declining Current Ratios, while others successfully maintained strong liquidity positions through more effective financial management (Sukmadiana & Faeni, 2025).

Current Ratio (CR) is widely used to measure corporate liquidity by comparing current assets with current liabilities. An adequate Current Ratio indicates that a company possesses sufficient liquid resources to satisfy its short-term obligations. However, excessively high liquidity may also indicate inefficient utilization of current assets because idle resources generate limited returns (Sa'adah & Nur'ainui, 2020). Therefore, maintaining an optimal liquidity level requires effective management of both financing decisions and profitability.

Several financial indicators are considered determinants of corporate liquidity, particularly the Debt-to-Equity Ratio (DER), Return on Equity (ROE), and Net Profit Margin (NPM). Debt-to-Equity Ratio reflects a firm's capital structure by measuring the proportion of debt relative to shareholders' equity. Excessive leverage may reduce liquidity because companies must allocate larger cash flows to debt repayment and interest expenses (Fadli & Purwantina, 2025). Meanwhile, Return on Equity evaluates management efficiency in generating profits from shareholders' investments. Higher profitability generally strengthens internal financing capacity, thereby improving liquidity through retained earnings (Kutaningtyas et al., 2024). Similarly, Net Profit Margin measures operational efficiency by indicating the proportion of net income generated from sales. Companies with higher profit margins possess greater financial flexibility to maintain adequate cash reserves and current assets (Pardede & Munthe, 2023).

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

Although numerous studies have investigated the relationship between financial ratios and corporate liquidity, their findings remain inconclusive. Previous research by Gita Cahyani and Kosadi (2024) reported that Debt-to-Equity Ratio negatively affects corporate liquidity because higher leverage increases financial obligations and reduces available current assets. Conversely, Andika Pratama et al. (2022) found no significant relationship between DER and Current Ratio, arguing that debt financing may support productive current assets without reducing liquidity.

Similarly, previous findings regarding profitability indicators remain inconsistent. Lestari et al. (2023) concluded that stronger profitability significantly improves corporate liquidity by increasing internally generated funds. In contrast, Wijayanto et al. (2022) argued that higher profitability does not necessarily improve liquidity because earnings may be tied to receivables or inventory rather than cash. These conflicting findings indicate that the relationships between Return on Equity, Net Profit Margin, and Current Ratio remain unresolved, particularly within Indonesian food and beverage companies during the post-pandemic recovery period.

Compared with previous studies, this research offers several important contributions. First, it focuses exclusively on food and beverage companies listed on the Indonesia Stock Exchange, a sector characterized by rapid cash turnover and relatively stable consumer demand. Second, the study employs the most recent observation period (2021–2024), reflecting post-pandemic economic recovery and contemporary business conditions. Third, this study simultaneously examines Debt-to-Equity Ratio, Return on Equity, and Net Profit Margin as determinants of corporate liquidity, providing a more comprehensive assessment of financial factors influencing the Current Ratio than previous studies that typically investigated these variables separately.

OBJECTIVES

This study aims to:

1. Examine the effect of the Debt-to-Equity Ratio on the Current Ratio.
2. Analyze the influence of Return on Equity on the Current Ratio.
3. Investigate the effect of Net Profit Margin on the Current Ratio among food and beverage companies listed on the Indonesia Stock Exchange.

The novelty of this study lies in providing updated empirical evidence regarding the determinants of corporate liquidity among Indonesian food and beverage companies during the post-pandemic period (2021–2024). While previous studies have extensively

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

examined leverage and profitability individually, empirical findings remain inconsistent regarding their influence on corporate liquidity. This study addresses these inconsistencies by simultaneously examining Debt-to-Equity Ratio, Return on Equity, and Net Profit Margin within a single empirical model. Furthermore, the study extends the application of Pecking Order Theory by demonstrating how financing preferences and internally generated profits jointly influence liquidity management decisions under post-pandemic economic uncertainty. Accordingly, this research contributes to the corporate finance literature by providing more recent empirical evidence and practical implications for managers, investors, creditors, and other stakeholders in evaluating liquidity management strategies among Indonesian food and beverage companies.

LITERATURE REVIEW

Pecking Order Theory

Pecking Order Theory was first introduced by Donaldson (1961) and further developed by Myers (1984). The theory explains that companies follow a hierarchy of financing preferences by prioritizing internal funds, followed by debt financing, and finally issuing new equity. This financing hierarchy arises because managers possess more information than external investors, creating information asymmetry. Consequently, firms prefer financing sources that minimize information costs and adverse market reactions. In this study, Pecking Order Theory explains how profitability and capital structure influence corporate liquidity. Companies with higher profitability tend to rely more on internally generated funds, whereas firms experiencing financing shortages are more likely to increase debt, thereby affecting their liquidity position.

Current Ratio (CR)

Current Ratio (CR) is a liquidity ratio used to measure a company's ability to meet its short-term obligations using current assets. A higher Current Ratio indicates better short-term financial capability; however, an excessively high ratio may also indicate inefficient utilization of current assets because idle resources generate lower returns (Sa'adah & Nur'ainui, 2020). Within the context of this research, Current Ratio represents corporate liquidity, which is influenced by financing decisions and profitability. The formula for Current Ratio is:

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

Debt-to-Equity Ratio (DER)

Debt-to-Equity Ratio (DER) is a leverage ratio that measures the proportion of debt relative to shareholders' equity. The ratio reflects the extent to which a company's assets are financed through external debt. Higher DER indicates greater financial leverage, which may increase financial risk and reduce liquidity because larger cash flows are required to fulfill debt obligations (Fadli & Purwantina, 2025). The formula for Debt-to-Equity Ratio is:

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Liability}{Total\ Equity}$$

Return on Equity (ROE)

Return on Equity (ROE) is a profitability ratio that measures management's effectiveness in generating net income from shareholders' equity. Higher ROE indicates more efficient utilization of owners' capital and greater capability to generate internal financing. According to Pecking Order Theory, firms with higher profitability tend to rely less on external financing, thereby maintaining stronger liquidity positions (Kutaningtyas et al., 2024). The formula for Return on Equity is:

$$Return\ On\ Equity = \frac{Net\ Income}{Total\ Equity}\ x\ 100\%$$

Net Profit Margin (NPM)

Net Profit Margin (NPM) is a profitability ratio that measures the percentage of net income generated from total sales after deducting all operating expenses, taxes, and interest. Higher NPM reflects greater operational efficiency and stronger capability to generate earnings from sales. Companies with higher profit margins generally possess greater financial flexibility to maintain adequate liquidity, although retained earnings may also be allocated to investment or debt repayment rather than increasing current assets (Pardede & Munthe, 2023). The formula for Net Profit Margin is:

$$Net\ Profit\ Margin = \frac{Net\ Income}{Operating\ Income}\ x\ 100\%$$

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

Hypotheses Development

Debt-to-Equity Ratio reflects a company's financing structure and dependence on debt. Excessive leverage increases financial obligations and may reduce the availability of current assets needed to satisfy short-term liabilities, thereby decreasing liquidity. Previous empirical studies have reported inconsistent findings. Gita Cahyani and Kosadi (2024) found that Debt-to-Equity Ratio negatively affects corporate liquidity, whereas Andika Pratama et al. (2022) reported no significant relationship. Therefore, the following hypothesis is proposed:

H1: Debt-to-Equity Ratio has a significant effect on the Current Ratio.

Return on Equity represents management efficiency in generating profits from shareholders' equity. Higher profitability strengthens internally generated funds and improves a company's ability to maintain liquidity. Nugraheni and Indrati (2024) suggested that profitable firms rely more heavily on retained earnings than external financing, thereby supporting stronger liquidity. Likewise, Ashari et al. (2026) and Safitri and Santoso (2025) found that Return on Equity significantly influences corporate financial performance. Accordingly, the following hypothesis is proposed:

H2: Return on Equity has a significant effect on the Current Ratio.

Net Profit Margin reflects the efficiency of converting sales into net income. Companies with higher profit margins generally possess stronger financial capacity to maintain sufficient current assets for meeting short-term obligations. Pardede and Munthe (2023) found that Net Profit Margin positively affects corporate liquidity, while Yantri and Merliana (2024) reported that higher profit margins strengthen short-term financial performance. Therefore, the following hypothesis is proposed:

H3: Net Profit Margin has a significant effect on the Current Ratio.

RESEARCH METHOD

Research Approach

This study employed a quantitative research approach with an explanatory research design to examine the effects of Debt-to-Equity Ratio (DER), Return on Equity (ROE), and Net Profit Margin (NPM) on the Current Ratio (CR) of food and beverage companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. A quantitative approach was selected because the study aims to test causal

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

relationships among financial variables using statistical analysis based on secondary numerical data.

Types of Research Data

This study utilized secondary quantitative data obtained from audited annual financial statements of food and beverage companies listed on the Indonesia Stock Exchange. The data consisted of financial information required to calculate Debt-to-Equity Ratio, Return on Equity, Net Profit Margin, and Current Ratio for each company during the observation period from 2021 to 2024.

Research Data Sources

Research data were collected from publicly available sources, including:

1. Audited annual financial statements published by the Indonesia Stock Exchange (IDX);
2. Annual reports available on each company's official website; and
3. Supporting scientific literature, including books and peer-reviewed journal articles related to capital structure, profitability, liquidity, and corporate finance.

Technique for Determining Respondents (Sampling Technique)

The population consisted of 83 food and beverage companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The study employed purposive sampling to obtain companies satisfying predetermined research criteria. The sampling criteria were:

1. Food and beverage companies consistently listed on the Indonesia Stock Exchange during 2021–2024.
2. Companies publishing complete audited annual financial statements throughout the observation period.
3. Companies reporting positive net income during 2021–2024.
4. Companies presenting financial statements in Indonesian Rupiah (IDR).

Based on these criteria, 52 companies satisfied the sampling requirements, resulting in 208 firm-year observations over the four-year observation period.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

Variable Measurement

Variable	Measurement	Formula
Current Ratio (CR)	Measures a company's ability to meet short-term obligations using current assets.	CR = Current Assets / Current Liabilities
Debt-to-Equity Ratio (DER)	Measures the proportion of debt financing relative to shareholders' equity.	DER = Total Liabilities / Total Equity
Return on Equity (ROE)	Measures management efficiency in generating net income from shareholders' equity.	ROE = Net Income / Total Equity × 100%
Net Profit Margin (NPM)	Measures the percentage of net profit generated from sales revenue.	NPM = Net Income / Operating Income × 100%

Research Instruments

The primary research instrument was a documentation sheet (data extraction form) developed to record financial statement data and calculate each research variable. Variable measurements were based on standardized financial ratio formulas for Debt-to-Equity Ratio, Return on Equity, Net Profit Margin, and Current Ratio derived from audited annual financial statements.

Data Collection Techniques

Data were collected using two techniques. First, library research was conducted by reviewing books, scientific journals, and previous empirical studies related to capital structure, profitability, liquidity, and corporate finance. Second, the documentation method was employed by collecting audited annual financial statements from the Indonesia Stock Exchange website and each company's official website. These financial statements were subsequently used to calculate all research variables.

Theoretical Framework

This study adopted Pecking Order Theory as its primary theoretical framework. The theory explains that firms prioritize internal financing before relying on debt and issuing new equity because of information asymmetry between managers and investors. Within this framework, profitable firms tend to finance their operations using retained

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

earnings, thereby maintaining healthier liquidity. Conversely, companies experiencing financing shortages are more likely to increase leverage, which may affect their Current Ratio. Accordingly, Debt-to-Equity Ratio, Return on Equity, and Net Profit Margin are expected to explain variations in corporate liquidity.

Data Analysis Techniques

Data analysis was performed using IBM SPSS Statistics version 26. The analytical procedures included:

1. Descriptive statistical analysis to summarize the characteristics of each research variable.
2. Classical assumption tests consisting of:
    a. Normality test
    b. Multicollinearity test
    c. Heteroscedasticity test
    d. Autocorrelation test
3. Multiple linear regression analysis to examine the effects of Debt-to-Equity Ratio, Return on Equity, and Net Profit Margin on the Current Ratio.
4. Hypothesis testing using:
    a. Partial significance test (*t-test*)
    b. Simultaneous significance test (*F-test*)
    c. Coefficient of determination (*Adjusted* R^2) to evaluate the explanatory power of the regression model.

Data Credibility

Data credibility was ensured by utilizing audited annual financial statements obtained from official sources, namely the Indonesia Stock Exchange and each company's official website. To improve reliability, all financial data were cross-checked across multiple official publications before ratio calculations were performed. Furthermore, standardized financial ratio formulas and consistent measurement procedures were applied throughout the analysis to minimize measurement errors and improve the validity and reliability of the research findings

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

RESULTS AND DISCUSSION

Overview of the Research Object and Sample

The object of this study is companies in the food and beverage subsector listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. This subsector was selected because it plays an important role in the Indonesian economy and has relatively stable business activities. In addition, the 2021–2024 observation period represents the post-pandemic recovery period, allowing the study to capture changes in corporate conditions and performance during the economic recovery process.

The data used in this study were obtained from the annual financial statements and annual reports published by the companies through the official IDX website and the respective company websites. The observation period covers four years, from 2021 to 2024. The use of a four-year observation period provides sufficient observations to examine the development of the variables studied and to obtain a more comprehensive representation of the conditions of food and beverage companies listed on the IDX.

The population of this study consists of 83 food and beverage subsector companies listed on the IDX during 2021–2024. The sample was determined using purposive sampling, in which companies were selected based on predetermined criteria relevant to the research objectives. The sample selection process is presented in Table 1.

Table 1. Sample Selection Criteria

No.	Sample Criteria	Number
1	Food and beverage subsector companies listed on the IDX during 2021–2024	83
2	Companies that did not publish annual reports or financial statements consistently during 2021–2024	(4)
3	Companies that recorded losses during 2021–2024	(25)
4	Companies whose financial statements were not presented in Indonesian Rupiah (IDR)	(2)
	Number of companies meeting the sample criteria	**52**
	Observation period	**4 years**
	Total observations (52 companies × 4 years)	**208**

Source: Secondary data processed by the researchers, 2026.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

Based on the sample selection process presented in Table 1, 52 companies met all the predetermined criteria and were included in the research sample. Of the initial 83 companies, four were excluded because they did not publish annual reports or financial statements consistently during the observation period. A further 25 companies were excluded because they recorded losses during 2021–2024, while two companies were excluded because their financial statements were not presented in Indonesian Rupiah (IDR).

Accordingly, the final sample consisted of 52 companies. With four years of observation, the study generated 208 firm-year observations (52 companies × 4 years). The resulting observations were subsequently used for the statistical analysis to examine the relationships among the variables included in the research model.

The selected companies represent various types of businesses within the food and beverage subsector, including food processing, beverages, animal feed, agricultural products, and other related activities. The sample therefore provides a relatively broad representation of companies within the subsector during the 2021–2024 observation period.

Descriptive Statistics

Descriptive statistical analysis was conducted to provide an overview of the characteristics and distribution of the research data. The analysis includes the minimum value, maximum value, mean, and standard deviation of each variable. The independent variables consist of Debt to Equity Ratio (DER), Return on Equity (ROE), and Net Profit Margin (NPM), while Current Ratio (CR) is the dependent variable. The results of the descriptive statistical analysis are presented in Table 2.

Table 2. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
DER	208	0.02	21.84	0.9246	1.63863
ROE	208	0.17	322.53	16.1767	25.44037
NPM	208	0.17	33.75	10.4738	8.52212
CR	208	0.56	25.17	3.0633	3.14043
Valid N (listwise)	208				

Source: Secondary data processed using SPSS 26, 2026.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

Table 2 shows that DER has a minimum value of 0.02 and a maximum value of 21.84, with a mean of 0.9246 and a standard deviation of 1.63863. The relatively high standard deviation indicates considerable variation in the leverage levels among the sampled companies.

ROE ranges from 0.17 to 322.53, with a mean of 16.1767 and a standard deviation of 25.44037. The relatively high standard deviation indicates substantial variation in the companies' ability to generate returns from shareholders' equity.

NPM has a minimum value of 0.17 and a maximum value of 33.75, with a mean of 10.4738 and a standard deviation of 8.52212. This indicates that the sampled companies generated an average net profit of approximately 10.47% relative to sales, although profitability varied across companies.

CR ranges from 0.56 to 25.17, with a mean of 3.0633 and a standard deviation of 3.14043. This indicates that the sampled companies had, on average, current assets approximately 3.06 times their current liabilities. The standard deviation also indicates considerable variation in liquidity conditions among the sampled companies.

Classical Assumption Tests

Before conducting multiple linear regression analysis, classical assumption tests were performed to assess whether the regression model satisfied the required assumptions. The tests included normality, multicollinearity, heteroscedasticity, and autocorrelation. The results are summarized in Table 3.

Table 3. Classical Assumption Test Results

Test	Indicator	Result	Conclusion
Normality	Asymp. Sig. (2-tailed)	0.200	Normally distributed
Multicollinearity – DER	Tolerance = 0.518; VIF = 1.930	Tolerance > 0.10; VIF < 10	No multicollinearity
Multicollinearity – ROE	Tolerance = 0.291; VIF = 3.436	Tolerance > 0.10; VIF < 10	No multicollinearity
Multicollinearity – NPM	Tolerance = 0.303; VIF = 3.297	Tolerance > 0.10; VIF < 10	No multicollinearity

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

Heteroscedasticity	Scatterplot	Random distribution of residuals	No heteroscedasticity
Autocorrelation	Durbin-Watson	1.935	No autocorrelation

Source: Secondary data processed using SPSS 26, 2026.

Table 3 indicates that the regression model satisfies the classical assumptions. The normality test produces an Asymp. Sig. (2-tailed) value of 0.200, which is greater than 0.05, indicating that the residuals are normally distributed. The multicollinearity test shows that all independent variables have Tolerance values above 0.10 and VIF values below 10, indicating the absence of multicollinearity among DER, ROE, and NPM.

The scatterplot indicates that the residuals are randomly distributed above and below the zero line without forming a systematic pattern. Therefore, the model does not indicate heteroscedasticity. Furthermore, the Durbin-Watson value of 1.935 falls within the acceptance range of dU < DW < 4 − dL, namely 1.7990 < 1.935 < 2.2618. Therefore, the regression model does not indicate autocorrelation. Overall, the results indicate that the regression model satisfies the classical assumptions and is suitable for further analysis.

Multiple Linear Regression Analysis

Multiple linear regression analysis was conducted to examine the direction and magnitude of the effects of Debt to Equity Ratio (DER), Return on Equity (ROE), and Net Profit Margin (NPM) on Current Ratio (CR). The regression results are presented in Table 4.

Table 4. Multiple Linear Regression Results

Variable	B	Std. Error	Beta	t	Sig.
Constant	0.376	0.080		4.684	0.000
DER	-0.636	0.039	-0.934	-16.501	0.000
ROE	0.158	0.050	0.240	3.175	0.002
NPM	-0.155	0.047	-0.241	-3.263	0.001

Dependent variable: Current Ratio (CR).

Source: Secondary data processed using SPSS 26, 2026.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

Based on the results in Table 4, the multiple linear regression equation can be expressed as follows:

$$CR = 0.376 - 0.636DER + 0.158ROE - 0.155NPM + \varepsilon$$

The regression equation can be interpreted as follows. The constant of 0.376 indicates that when DER, ROE, and NPM are assumed to be zero, the predicted value of CR is 0.376. The DER coefficient of -0.636 indicates a negative relationship between leverage and liquidity. Holding the other variables constant, a one-unit increase in DER is associated with a 0.636-unit decrease in CR. The ROE coefficient of 0.158 indicates a positive relationship between profitability and liquidity, meaning that a one-unit increase in ROE is associated with a 0.158-unit increase in CR, ceteris paribus. Meanwhile, the NPM coefficient of -0.155 indicates a negative relationship between net profit margin and liquidity. Holding the other variables constant, a one-unit increase in NPM is associated with a 0.155-unit decrease in CR.

Hypothesis Testing

Partial Significance Test (t-Test)

The partial significance test was conducted to determine whether each independent variable individually affects Current Ratio. A variable is considered to have a statistically significant effect when its significance value is below 0.05.

Based on Table 4, DER has a t-value of -16.501 with a significance value of 0.000. Since the significance value is below 0.05, DER has a significant negative effect on CR. Therefore, **H1 is accepted**.

ROE has a t-value of 3.175 with a significance value of 0.002. Since the significance value is below 0.05, ROE has a significant positive effect on CR. Therefore, **H2 is accepted**.

NPM has a t-value of -3.263 with a significance value of 0.001. Since the significance value is below 0.05, NPM has a significant negative effect on CR. Therefore, **H3 is accepted**.

Simultaneous Significance Test (F-Test)

The F-test was conducted to determine whether DER, ROE, and NPM simultaneously have a significant effect on CR. The results of the F-test are presented in Table 5.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

Table 5. F-Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	68.205	3	22.735	132.927	0.000
Residual	34.891	204	0.171		
Total	103.096	207			

Dependent variable: Current Ratio (CR).
Source: Secondary data processed using SPSS 26, 2026.

The results in Table 5 show an F-value of 132.927 with a significance value of 0.000. Since the significance value is below 0.05, DER, ROE, and NPM simultaneously have a significant effect on CR. Thus, the regression model is statistically significant and the independent variables jointly contribute to explaining variations in the dependent variable.

Coefficient of Determination (R^2)

The coefficient of determination was used to assess the proportion of variation in Current Ratio that can be explained by DER, ROE, and NPM. The results are presented in Table 6.

Table 6. Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.757	0.574	0.568	0.33277

Dependent variable: Current Ratio (CR).
Source: Secondary data processed using SPSS 26, 2026.

Table 6 shows an Adjusted R Square value of 0.568, indicating that DER, ROE, and NPM jointly explain 56.8% of the variation in Current Ratio. The remaining 43.2% is explained by other factors outside the research model. These may include variables related to working capital management, such as inventory turnover and operating cash flow, as well as firm-specific characteristics such as company size.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

DISCUSSION

The Effect of Debt to Equity Ratio (DER) on Current Ratio

The partial test results indicate that Debt to Equity Ratio (DER) has a statistically significant negative effect on Current Ratio (CR). This finding is consistent with the pecking order theory, which explains that companies follow a financing hierarchy by prioritizing internal funds, followed by debt financing, and finally external equity financing. The significant negative relationship suggests that an increase in the proportion of debt relative to equity is associated with a decline in the company's liquidity position.

From the perspective of the pecking order theory, when internal financing is insufficient to support business activities, companies tend to rely on external debt as the next financing alternative. An increase in debt financing increases the company's financial obligations and may place greater pressure on its short-term financial position. Consequently, although debt can provide additional funds for business activities, excessive reliance on debt may reduce the company's ability to maintain a strong level of current assets relative to current liabilities.

The negative coefficient of DER in this study indicates that companies with higher leverage tend to have lower Current Ratios. This condition may occur because increasing debt obligations can reduce the financial flexibility available to companies for maintaining liquid assets. In the food and beverage subsector, where operating activities require continuous working capital to finance inventories, production, and distribution, a higher debt burden may further constrain the company's liquidity position.

This finding is consistent with Cicmil (2023), who also found a significant relationship between Debt to Equity Ratio and Current Ratio. The consistency of these findings provides empirical support that changes in a company's capital structure, particularly the proportion of debt relative to equity, are associated with changes in its liquidity position. Therefore, maintaining a balanced capital structure is important for companies seeking to manage their short-term financial obligations while sustaining operational activities.

The Effect of Return on Equity (ROE) on Current Ratio

The results of the hypothesis testing indicate that Return on Equity (ROE) has a statistically significant positive effect on Current Ratio. This finding is consistent with the pecking order theory, which emphasizes the importance of internal financing generated

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

from company profitability. Companies with higher profitability generally have greater capacity to generate internal funds, reducing their dependence on external financing.

The positive relationship between ROE and CR indicates that companies capable of generating higher returns from shareholders' equity tend to have stronger liquidity positions. Higher profitability can increase retained earnings and internally generated funds, which can subsequently support working capital requirements and the maintenance of current assets. As a result, companies with better equity profitability may have greater flexibility in meeting their short-term obligations.

This relationship is particularly relevant to food and beverage companies because their operating activities require continuous funding for inventories, production, distribution, and other short-term operating expenses. Higher profitability provides companies with additional internal financial resources that can be allocated to support these operational requirements without creating excessive short-term liabilities.

The finding is consistent with Yofi (2021), who found that Return on Equity has a significant effect on Current Ratio. The consistency between the present findings and previous research strengthens the empirical evidence that profitability generated from shareholders' equity is an important factor associated with a company's liquidity position. Thus, improving the efficiency of equity utilization may contribute to strengthening the company's ability to maintain adequate short-term financial resources.

The Effect of Net Profit Margin (NPM) on Current Ratio

The hypothesis testing results show that Net Profit Margin (NPM) has a statistically significant negative effect on Current Ratio. This finding indicates that an increase in the proportion of net profit generated from sales is associated with a decrease in the company's Current Ratio. Although higher profitability generally indicates better operating performance, the negative relationship suggests that the allocation and utilization of the profits generated may influence the company's liquidity position.

From the perspective of the pecking order theory, companies tend to prioritize internally generated funds as their primary source of financing. Higher NPM indicates that a larger proportion of sales is converted into net income, thereby increasing the availability of internal funds. However, these funds are not necessarily retained entirely in the form of current assets. Companies may allocate internally generated funds toward investment, debt repayment, business expansion, fixed assets, or other strategic

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

activities. Such allocation decisions can reduce the proportion of current assets relative to current liabilities and consequently result in a lower Current Ratio.

The negative effect of NPM on CR therefore suggests that profitability alone does not necessarily translate into higher liquidity. The manner in which companies manage and allocate the profits generated from their operations is also important in determining their short-term financial position. In the food and beverage subsector, companies may use internally generated funds to support production capacity, expand distribution networks, acquire inventories, or finance other operational and investment activities. These decisions can affect the composition of current and non-current assets and ultimately influence the Current Ratio.

This finding is consistent with Pardede and Munthe (2023), who found that Net Profit Margin has a significant effect on Current Ratio. The consistency with previous research supports the argument that operating profitability is an important factor associated with corporate liquidity, although the direction of the relationship may depend on how companies utilize the profits generated. Therefore, an increase in NPM should not automatically be interpreted as an improvement in liquidity, as the effect also depends on the company's financial allocation and working capital management policies.

CONCLUSION

Study aims to examine the effects of Debt-to-Equity Ratio (DER), Return on Equity (ROE), and Net Profit Margin (NPM) on the Current Ratio (CR) of food and beverage companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. The study is grounded in Pecking Order Theory, which explains that firms prioritize internal financing before relying on external debt, and that financing decisions together with profitability influence corporate liquidity.

The literature review indicates that previous empirical findings regarding the relationships between capital structure, profitability, and liquidity remain inconclusive. Several studies reported that Debt-to-Equity Ratio negatively affects liquidity because higher leverage increases financial obligations, whereas other studies found no significant relationship. Likewise, previous findings concerning the effects of Return on Equity and Net Profit Margin on the Current Ratio have been inconsistent, suggesting that the influence of profitability on liquidity varies across industries and research settings. These contradictory findings demonstrate the existence of an empirical

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

research gap, particularly within Indonesia's food and beverage sector during the post-pandemic period.

This study contributes to the corporate finance literature by simultaneously examining the effects of Debt-to-Equity Ratio, Return on Equity, and Net Profit Margin on corporate liquidity using recent financial data from food and beverage companies listed on the Indonesia Stock Exchange. The empirical findings indicate that Debt-to-Equity Ratio, Return on Equity, and Net Profit Margin each have a significant effect on the Current Ratio, providing additional evidence supporting Pecking Order Theory in explaining how financing structure and profitability influence corporate liquidity management. The results also offer practical implications for corporate managers in maintaining an optimal balance between leverage, profitability, and liquidity, while assisting investors, creditors, and other stakeholders in evaluating firms' short-term financial performance.

Future studies are encouraged to incorporate additional financial and non-financial determinants of liquidity, such as cash conversion cycle, firm size, sales growth, asset turnover, operating cash flow, and corporate governance variables. Future research may also extend the observation period, investigate different industrial sectors, and employ alternative analytical techniques, such as panel data regression or structural equation modeling, to provide a more comprehensive understanding of the determinants of corporate liquidity.

REFERENCES

Wardana, W. (2021). Pengaruh Profitabilitas, Kepemilikan Manajerial, Dan Kebijakan Dividen Terhadap kebijakan Hutang. *RISTANSI: Riset Akuntansi, 2(2), 173–186*.

Andika Pratama, H., Afriyeni, A., et al. (2022). *Pengaruh DER, ROA, ROE Terhadap Harga Saham Perusahaan Perbankan yang Terdaftar di Bursa Efek Indonesia*.

Cicmil, D. (2023). The influence of financial indicators on liquidity: An empirical analysis of profitability, leverage, and fund age. *Ekonomika, 69*(3), 15–32. https://doi.org/10.5937/Ekonomika2303015c

Donaldson, G. (1961). *Corporate Debt Capacity: A Study of Corporate Debt Policy and the Determination of Corporate Debt Capacity*. Harvard University.

Fadli, M., & Purwantina, R. (2025). *Pengaruh Debt to Equity Ratio terhadap Likuiditas Perusahaan*. *(sesuai referensi pada skripsi Anda)*.

Ghozali, I. (2021). *Aplikasi analisis multivariate dengan program IBM SPSS 26 IBM SPSS Statistics*.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

Kutaningtyas, A., et al. (2024). *Pengaruh Return on Equity terhadap Kinerja Keuangan Perusahaan*. *(sesuai referensi pada skripsi Anda).*

Myers, S. C. (1984). *The Capital Structure Puzzle*. The Journal of Finance, 39(3), 575–592.

Myers, S. C., & Majluf, N. S. (1984). *Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not Have*. Journal of Financial Economics, 13(2), 187–221.

Pardede, P., & Munthe, H. (2023). The effect of net profit margin on current ratio in PT. Siantar Top, PT. Kimia Farma and PT. Gudang Garam companies period 2020–2022. *Bisnis & Entrepreneurship, 17*(2), 253–265.

Sa'adah, S., & Nur'ainui. (2020). *Analisis Current Ratio sebagai Rasio Likuiditas*. *(sesuai referensi pada skripsi Anda).*

Sugiyono. (2023). *Metode Penelitian Kuantitatif, Kualitatif, dan R&D*. Bandung: Alfabeta.

Yofi. (2021). Pengaruh Debt to Equity Ratio (DER), Return on Equity (ROE) terhadap Current Ratio pada perusahaan Real Estate Investment yang terdaftar di Bursa Efek Singapura periode 2015–2019.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.