

## The Effect of Current Ratio and Debt to Equity Ratio on Return On Assets in Real Estate Companies Listed on the IDX in 2020-2024

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### ***Abstract***

#### **Keywords:**

*Current Ratio, Debt to Equity Ratio, Return to Assets, Real Estate Companies.*

*The Indonesian real estate sector experienced considerable fluctuations in financial performance during the period of economic disruption caused by the COVID-19 pandemic and the subsequent recovery phase. These conditions increased the importance of evaluating factors that influence corporate profitability, particularly Return on Assets (ROA), which reflects a company's effectiveness in utilizing its assets to generate earnings. Previous studies examining the relationship between liquidity, leverage, and profitability have produced inconsistent results, indicating the need for further investigation. Therefore, this study aims to analyze the effect of Current Ratio (CR) and Debt to Equity Ratio (DER) on Return on Assets (ROA) in real estate companies listed on the Indonesia Stock Exchange (IDX) during 2020–2024. This research employed a quantitative approach with a causal-descriptive design. Secondary data were obtained from audited annual reports published by the IDX. The sample was selected using purposive sampling, resulting in 135 firm-year observations. Data were analyzed using multiple linear regression supported by IBM SPSS version 23 after fulfilling the classical assumption tests. The results indicate that Current Ratio does not significantly affect Return on Assets, suggesting that liquidity is not a primary determinant of profitability in the real estate industry. In contrast, Debt to Equity Ratio has a significant negative effect on Return on Assets, indicating that higher leverage increases financial burdens and reduces profitability. Simultaneously, Current Ratio and Debt to Equity Ratio significantly explain variations in ROA. In conclusion, effective debt management plays a more important role than liquidity management in improving the profitability of real estate companies. Managers should therefore maintain an optimal capital structure to support sustainable financial performance.*

**Keywords:** *Current Ratio, Debt to Equity Ratio, Return to Assets, Real Estate Companies.*

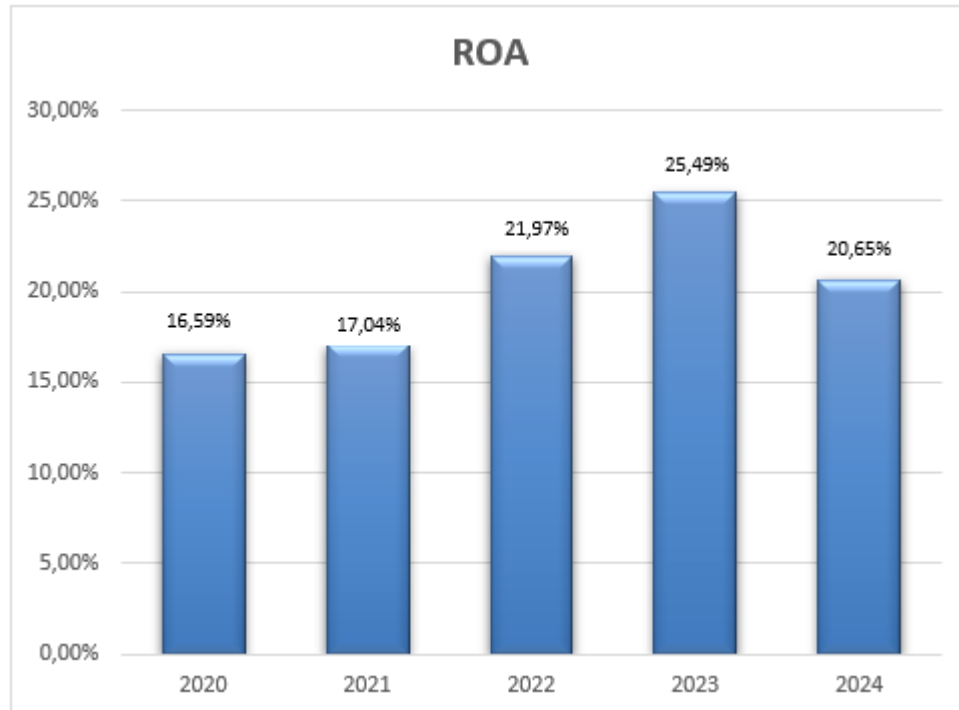
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## INTRODUCTION

The inconsistency of the findings of previous researchers regarding factors that affect Return on Assets is the background of this research. In the Current Ratio indicator, Ramadhani et al., (2024) and Karmiyati (2024) proved a positive influence, but Jessica & Triyani (2022) actually found that the ratio did not have any impact. The same phenomenon occurs in the Debt to Equity Ratio, where Clorinda (2021) states that there is an effect on profitability, while Ramadhani et al., (2024) and Jessica & Triyani (2022) obtained the opposite result. The existence of this research gap triggers a strong motivation to re-test the effectiveness of financial ratios in determining the company's profitability.

This research focuses on the real estate industry in Indonesia in 2020-2024 which is growing again after the pandemic due to stimulus from the government. Referring to the views of

Syahrani et al., (2024), the large portion of the use of debt funds by developers makes testing the Current Ratio and Debt to Equity Ratio very important in order to design the ideal Return on Assets strategy as suggested by Karmiyati (2024). Another supporting factor for the selection of this sector is empirical data related to the development of the average value of Return on Assets of real estate companies for the period 2020-2024 which is recorded as follows:



**Figure 1. Average Return on Assets Value of Real Estate Companies Listed on the IDX in 2020-2024**

Source: [IDX.com](https://www.idx.co.id/), 2026

The data in Figure 1 shows that the average Return on Assets of property companies during 2020-2024 moves unconstantly. The sharpest contraction occurred at the end of the research period, where the asset's yield declined from 25.49 in 2023 to just 20.65 in 2024.

This symptom of declining financial performance requires in-depth research on the triggers for shrinking the efficiency of business entities' assets. The research gap from the previous study plus volatile market conditions is a signal that the management of the Current Ratio and Debt to Equity Ratio is the main key in controlling the movement of Return on Assets. This strategic role of the current ratio acts as a measuring tool to predict profit margins. When management is able to move assets smoothly productively, short-term debt repayment will be guaranteed so that the good name and business performance will also increase. Strong finances thanks to safe liquidity will be a shield to maintain business sustainability.

Optimization of the entire business cycle, including trade partnerships and stock management, can be created through the alignment of working capital adequacy, which ultimately increases profitability margins and strengthens asset investment returns as research by Syahrani et al., (2024). Management efficiency in managing the company's long-term debt can be measured using an essential instrument in the form of an analysis of the consequences of the Debt to Equity Ratio on Return on Assets. External funding that carries the consequences of interest expense remains relied upon by this basic theory of financial leverage, with the aim that the cost of capital can be exceeded by the rate of return obtained. A massive surge in net profit is projected to be

triggered by the successful execution of this financing policy, which in the future will provide optimal added value for the prosperity of shareholders according to Karmiyati (2024).

The balance of funds that combines debt and capital aspects in the financial structure is calculated through the Debt to Equity Ratio. Loan withdrawal is emphasized by Idrus & Alfansyah (2025) as a rational option to increase net profit when the availability of independent capital is at a minimum, although the risk of interest expense must still be faced by the company. The achievement of maximum value for shareholders through the efficiency of tax savings on funding costs is the expectation of the implementation of this strategy. As long as the fluctuations in the ratio are managed properly and supported by healthy fundamental performance, market confidence in the issuer's shares will not decrease. A higher rate of return than the credit costs that must be paid is basically the goal of increasing the volume of assets through this injection of external funds.

The novelty of this study lies in re-testing the dynamics of the relationship between liquidity (Current Ratio) and capital structure (Debt to Equity Ratio) to profitability (Return on Assets) in real estate companies on the Indonesia Stock Exchange (IDX) by taking a special time (temporal) location in the period 2020–2024. This observation period is very crucial because it includes two contrasting and uncertain economic phases, namely the peak period of the Covid-19 pandemic (2020–2022) where the property sector experienced heavy liquidity impacts due to activity restrictions, as well as the period of economic recovery and post-pandemic debt restructuring (2023–2024) which was marked by the trend of increasing Bank Indonesia's benchmark interest rate (BI-Rate). The characteristics of real estate companies' assets, which are dominated by illiquid inventories such as land reserves (landbanks) and stalled projects during the pandemic, provide a new meaning as to why the Current Ratio has lost its relevance to ROA in this period. On the other hand, the high dependence on leverage (DER) in the midst of post-pandemic interest rate fluctuations proves the risk of real financial expenses that directly erode the company's net profit, so this study provides the latest empirical contribution in the form of a portrait of financial resilience and the effectiveness of the property sector's working capital management strategy in the face of extreme macroeconomic cycle shifts.

The existence of a research gap and the dynamics of the rise and fall of Return on Assets in actual market conditions are used as the basis for the implementation of this research, so that the urgency to re-examine the influence of the Current Ratio and Debt to Equity Ratio on the level of profitability is triggered. The title of the research was finally determined by the author in connection with the entire series of backgrounds, namely: "The Effect of Current Ratio and Debt to Equity Ratio on Return On Assets in Real Estate Companies Listed on the Indonesia Stock Exchange for the 2020-2024 Period".

## **LITERATURE REVIEW**

### **Agency Theory**

The contractual relationship between the fund owner and the company's manager is analyzed through the agency theory approach. Full responsibility for directing operations and increasing the value of corporate assets is delegated by investors to the management. The problem is then caused by the misalignment of vision, especially when individual interests are prioritized by the manager over the main goals of the investor. The information imbalance that triggers deviant behavior ultimately occurs due to this orientation gap, as has been researched by Putri & Ramadhan (2023). The importance of the external supervision function in the context of this theory is required by Muanifa (2023) in order to realize transparent working relationships. The

alignment of the operational direction with the target shareholders is matched by an independent auditor who acts as a neutral party. Irregularities can be detected early and conflicts can be suppressed through the implementation of this effective integrated monitoring system. In the end, the contribution to improving the performance of the institution and maintaining the integrity of the relationship between the board of directors and investors will be generated by these efforts.

### **Return on Assets**

The measurement of Return on Assets is assessed by Supriyatna (2025) as the main indicator that is more appropriate to be applied in Indonesia than Return on Equity due to the large proportion of debt in company financing. The efficiency of management in moving all assets to produce net profit can be mapped in more detail through the use of this indicator. In line with this, this profitability ratio was stated by Satriya & Monika (2023) as an evaluation medium to measure the reliability of managers in transforming business operations into real cash liquidity. In principle, the credibility of the company's performance is not only seen from the amount of profit and legal compliance, but from the stability of dividend payments to investors which is used as a reflection of healthy independent capital governance.

### **Current Ratio**

The capacity of corporations to pay off short-term debts that are due can be tested using the Current Ratio which acts as a benchmark according to Harianto & Maisyarah (2023). The adequacy of current assets to finance short-term liabilities as well as security guarantees for the institution's operations is shown through this instrument. On the other hand, this ratio is assessed by Damayanti & Erdkhadifa (2023) as a fundamental tool in monitoring the condition of the organization's short-term solvency. The level of liquidity obtained through the comparison of current wealth posts to current liabilities is also associated with the current ratio by Putri & Ramadan (2023). However, ideal financial performance is not always reflected by a very high ratio value. The slow turnaround of some current assets, such as inventories and receivables, to become net cash triggers this condition, so the risk of default on urgent debt can occur. It can be summarized that liquidity proxies to measure the effectiveness of current assets in covering the company's short-term liabilities are appropriately represented by the Current Ratio.

### **Debt to Equity Ratio**

The organization's capacity to cover all its financial obligations, both urgent and periodic, is reflected through the Debt to Equity Ratio according to the study by Susilawati et al., (2022). The measurement of the extent to which asset investments are funded by creditors is carried out using this comparison according to Hertina et al., (2021). However, financial threats are certainly stored in this leverage-based funding strategy; As written by Brigham & Weston (2015), extra financial risk in addition to the company's operational risk will be delegated to shareholders due to the surge in the debt ratio. Based on this situation, the importance of controlling the portion of wealth from debt is assessed by Shabrina & Adian (2021) by positioning this ratio as the main proxy for leverage. The accumulation of liabilities to total internal equity is mapped by the Debt to Equity Ratio as a capital evaluation instrument based on the views of Kurniasih & Merliana (2024). The reading of the potential for bankruptcy is very vital supported by the application of this ratio, because the wheels of business run by foreign funds are indicated by a high ratio that is prone to triggering default and stopping business operations. It can be concluded that the level of

alignment of the proportion of external debt and own capital in the financial governance of the institution is fully realized by the Debt to Equity Ratio.

## **HYPOTHESIS**

### **The Effect of Current Ratio on Return On Assets in Real Estate Companies Listed on the IDX for the 2020-2024 Period**

The influence of the conflict of interest between management and investors on the strategic decisions of the institution is described through an agency theory approach. Current capital must be organized efficiently by executives to avoid friction of interest with capital providers. Managerial expertise in convincing investors that their funds are being produced into long-term profits for both parties is clearly represented by the security of the liquidity position, according to the views of Putri & Ramadhan (2023). The short-term financial strength of an entity through its current asset ownership can be tested using the Current Ratio which is applied as a liquidity parameter.

The relationship between Current Ratio and Return on Assets is bridged primarily by working capital effectiveness, where operational obstacles due to liability repayment constraints can be mitigated through the adequacy of well-managed current assets. Manufacturing operations and supply chains will be secured by an optimal current ratio value, so that all asset capacities can be empowered by corporations to secure Return on Assets growth in accordance with Sari and Hidayat's research (2024). Ramadhani et al., (2024) support a positive correlation between current ratio and Return on Assets by emphasizing that liquidity management is a vital profit leverage instrument. Facts in the field show that corporate discipline in paying off maturing debts is directly proportional to the increase in net profit. In the property industry, the availability of adequate current funds acts as the main foundation for widening a company's profit margins.

The integration of this theory proves that the health of the Current Ratio is proof of accountable management governance, where strong liquidity provides capital allowance for corporations to expand their business. Based on this series of arguments, it is assumed that the Current Ratio has a strategic role in triggering an increase in Return On Assets through working capital efficiency that strengthens profitability. On the basis of this thought, the hypothesis proposed is:

H1: Current Ratio has a positive effect on Return On Assets

### **The Effect of Debt to Equity Ratio on Return On Assets in Real Estate Companies Listed on the IDX for the 2020-2024 Period**

The risk of conflicts of interest that often arise between shareholders and executives can be mapped through the framework of agency theory. Management's deviant actions in funding non-potential projects can be mitigated by optimizing the withdrawal of large amounts of debt as a control medium, due to the obligation to pay interest and principal on a scheduled basis. In order to be able to score optimal profitability as has been researched by Putri & Ramadhan (2023), management is forced to tighten the effectiveness of asset management due to the monetary burden.

The measurement of the funding structure that combines liabilities and equity is carried out using the Debt to Equity Ratio as added by Sari & Hidayat (2024). The opportunity to improve the financial report card is opened by the third-party capital withdrawal strategy that acts as financial leverage. Through aggressive market penetration, significant growth in Return on Assets

has the potential to be booked by corporations as long as the cost of capital can be exceeded by the investment gains from such external loans. Various previous empirical foundations also help strengthen the validity of the argument.

The unidirectional relationship between these two aspects was successfully confirmed by the study of Clorinda (2021). That the productivity of financial performance can be spurred and the utilization of total assets can be maximized through wisely allocated debt as a corporate operational stimulus is explained by this indication. Theoretically, the business agenda executed by management can be ensured by placing the involvement of external funds as an instrument of discipline enforcement. Work efficiency catalysts in a broad scope are preferred in view of the healthy proportion of the Debt to Equity Ratio rather than categorizing it as a liquidity threat. As a result, the company's asset investment profits are projected to be strengthened by the integration between financing policies and executive skills. The hypotheses proposed based on this framework of thought are:

H2: Debt to Equity Ratio has a Positive Effect on Return On Assets

## METHODS

This study employed a quantitative approach with a causal research design to examine the effects of Current Ratio (CR) and Debt to Equity Ratio (DER) on Return on Assets (ROA) in real estate companies listed on the Indonesia Stock Exchange (IDX). Quantitative research is appropriate for testing hypotheses and analyzing relationships among variables using numerical data and statistical procedures. According to Sugiyono (2022), quantitative research is conducted to investigate specific populations or samples through systematic data collection and statistical analysis.

The study utilized secondary data obtained from audited annual financial statements published on the official IDX website for the period 2020–2024. The population consisted of 92 real estate companies listed on the Indonesia Stock Exchange during the observation period. The sample was selected using a purposive sampling technique based on several criteria, namely companies that consistently published complete audited annual reports, remained listed on the stock exchange throughout the study period, and reported positive earnings during 2020–2024. Based on these criteria, 135 firm-year observations were included in the analysis.

Return on Assets (ROA) was used as the dependent variable to measure the company's ability to generate profits from its total assets. The independent variables consisted of Current Ratio (CR), which represents liquidity, and Debt to Equity Ratio (DER), which reflects the firm's capital structure and leverage level. Data analysis was performed using IBM SPSS version 23. The analysis began with descriptive statistics to summarize the characteristics of the data through minimum, maximum, mean, and standard deviation values. Furthermore, classical assumption tests, including normality, multicollinearity, and heteroscedasticity tests, were conducted to ensure that the regression model satisfied the Best Linear Unbiased Estimator (BLUE) criteria (Ghozali, 2021). Multiple linear regression analysis was then employed to test the proposed hypotheses. The significance of the individual effects of CR and DER on ROA was assessed using the t-test, while the F-test was used to evaluate the simultaneous effect of the independent variables. In addition, the coefficient of determination (Adjusted  $R^2$ ) was utilized to measure the explanatory power of the regression model in explaining variations in Return on Assets.

## RESULTS AND DISCUSSION

## RESULT

### Classical Assumption Test

#### Normality Test

**Table 1 Normality Test**

| One-Sample Kolmogorov-Smirnov Test |                |                         |
|------------------------------------|----------------|-------------------------|
|                                    |                | Unstandardized Residual |
| N                                  |                | 135                     |
| Normal Parameters <sup>a,b</sup>   | Mean           | .0000000                |
|                                    | Std. Deviation | .27347855               |
| Most Extreme Differences           | Absolute       | .057                    |
|                                    | Positive       | .057                    |
|                                    | Negative       | -.039                   |
| Test Statistic                     |                | .057                    |
| Asymp. Sig. (2-tailed)             |                | .200 <sup>c,d</sup>     |

**Source: Data Processed, 2026**

The output data above presents a significance figure at the level of 0.200, which is mathematically superior to the basic criterion of 0.05. The impact of this empirical position confirms that the assumption of normally distributed residual truth has been successfully accommodated without anomalies.

#### Multicollinearity Test

**Table 2 Multicollinearity Test**

| Model |            | Collinearity Statistics |       |
|-------|------------|-------------------------|-------|
|       |            | Tolerance               | VIF   |
| 1     | (Constant) |                         |       |
|       | CR         | .829                    | 1.206 |
|       | DER        | .829                    | 1.206 |

**Source: Data Processed, 2026**

The estimated Variance Inflation Factor (VIF) value for each explanatory variable shows that the achievement of a consistent number is below the standard threshold of 10. The consequence of these empirical findings confirms that the proposed regression model is free from the disruption of the double linearity relationship between independent variables.

#### Heteroscedasticity Test

**Table 3 Heteroscedasticity Test**

| Model |           | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. |
|-------|-----------|-----------------------------|------------|---------------------------|-------|------|
|       |           | B                           | Std. Error | Beta                      |       |      |
| 1     | (Constan) | .676                        | .117       |                           | 5.798 | .000 |
|       | CR        | -.005                       | .013       | -.032                     | -.395 | .693 |
|       | DER       | -.011                       | .017       | -.026                     | -.410 | .340 |

**Source: Data Processed, 2026**

The absence of indications of disturbances of various disruptive variances (heteroscedasticity) in this study was confirmed through the magnitude of the significance parameters obtained. Given that the probability scores of all predictor variables are consistently above the critical threshold of 0.05, the data homogeneity condition is ensured to have been well met.

### Multiple Linear Regression Analysis

**Table 4 Multiple Linear Regression Analysis**

| Model |            | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
|       |            | B                           | Std. Error | Beta                      |        |      |
| 1     | (Constant) | 1.722                       | .230       |                           | 7.488  | .000 |
|       | CR         | .004                        | .026       | .014                      | .156   | .876 |
|       | DER        | -.139                       | .034       | -.362                     | -4.069 | .000 |

**Source: Data Processed, 2026**

$$Y = 1,722 + 0,004X_1 - 0,139X_2$$

1. The value of the constant parameter of 1.722 represents the starting point of the estimated Return on Assets. This number format gives an idea that if the stimulation of two predictive factors, namely the Current Ratio and the Debt to Equity Ratio, is completely eliminated from the modeling, then the conceptual value of the entity's financial performance is 1.722.
2. The regression coefficient for the Current Ratio variable yields a positive signal value  $\beta_1$  0.004. This quantitative output proves that the simultaneous addition of the portion of liquidity per score will raise the return rate of the entity's assets to 0.004 deep.
3. The value of the Debt to Equity Ratio variable coefficient produces a  $\beta_2$  value of 0.139 with a negative signal. The quantitative output provides a theoretical guarantee that the inverse addition of the portion of debt per one score will reduce the corporate profit earning rate by 0.139.

### Hypothesis Testing

Based on the table above, it can be concluded:

1. Hypothesis testing 1 (H1): The effect of current ratio on return on asset The documentation in table 4 presents the fact that the achievement of t-count is well below the threshold of t-table, namely with a score ratio of 0.156 to 1.978. This phenomenon is strengthened by the acquisition of a significance probability value of 0.876 which is positioned beyond the alpha standardization of 0.05, so it is included in the non-significant category. On the basis of these empirical findings, the initial assumption in the first hypothesis (H1) which states the impact of the current ratio on return on assets is absolutely rejected.
2. Hypothesis test 2 (H2): The effect of debt equity ratio on return on asset An in-depth examination of table 4 confirms that the t-statistical parameters managed to exceed the critical limit of the t-table, with a value comparison of -4.069 to 1.978. The empirical



record is strengthened by the acquisition of a probability coefficient of 0.000 which is positioned far below the alpha threshold of 0.05. On the basis of this quantitative calculation, the initial conjecture in the second hypothesis (H2) which states the real influence of the debt to equity ratio on return on assets is officially proven in the opposite direction.

### Coefficient of Determination Test

**Table 5 Coefficient of Determination Test**

| Model Summary <sup>b</sup> |                   |          |                   |                            |
|----------------------------|-------------------|----------|-------------------|----------------------------|
| Model                      | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1                          | .368 <sup>a</sup> | .135     | .122              | .27554                     |

**Source: Data Processed, 2026**

Based on the data output, the adjusted R-square parameter has a coefficient of 0.122. This quantitative figure indicates that the variation in the fluctuation in the value of return on assets can be justified by the joint contribution of the current ratio instrument and debt to equity ratio with a portion of 12.2 percent. Meanwhile, the dominant portion that touched the figure of 87.7 percent was fully driven by the existence of other external factors that were beyond the scope of observation in this study model.

### F-Test

**Table 6 F-Test**

| ANOVA <sup>a</sup> |            |                |     |             |        |                   |
|--------------------|------------|----------------|-----|-------------|--------|-------------------|
| Model              |            | Sum of Squares | df  | Mean Square | F      | Sig.              |
| 1                  | Regression | 1.566          | 2   | .783        | 10.316 | .000 <sup>b</sup> |
|                    | Residual   | 10.022         | 132 | .076        |        |                   |
|                    | Total      | 11.588         | 134 |             |        |                   |

**Source: Data Processed, 2026**

Through a summary of Anova matrix data, it was found that the F-statistical value managed to break through the F-table threshold with a score comparison of 10.316 above 3.06. This finding is strengthened by the acquisition of a probability coefficient of 0.000 which is well below the alpha standardization of 0.05. Based on these quantitative calculations, it can be concluded that the current ratio instrument and debt to equity ratio collectively provide a significant stimulus to the shift in the value of return on assets.

## DISCUSSION

### The Effect of Current Ratio on Return On Assets in Real Estate Companies Listed on the IDX for the 2020-2024 Period

The above empirical evidence confirms that the current ratio is in a position of no effect on the level of return on assets. These findings substantively support and replicate the results of the experiment from Karmiyati (2024) who stated that the movement of the liquidity ratio is isolated from the dynamics of the company's asset return.

The results show that the current ratio (CR) does not have a significant influence on

return on asset (ROA) in real estate sector companies. This phenomenon occurs due to the unique characteristics of the structure of the financial statements of property companies, where most of its current assets are stored in the form of illiquid inventories, such as land reserves (landbanks) and buildings in the construction process. These asset components take a long time to convert into cash because they are highly dependent on the property sales cycle and macroeconomic conditions. As a result, the high current ratio value in this sector often does not reflect operational efficiency or the availability of fresh funds, but rather is an indication of obstacles in the form of unfinished projects or the inventory of unsold housing units in the market.

This condition confirms that the high or low level of liquidity measured through CR is not the main determinant in boosting profitability or the company's ability to generate profit from its total assets. Financial managers in the real estate sector cannot only focus on accumulating current assets to secure short-term liquidity positions, but must prioritize the effectiveness of inventory turnover itself. Fast sales and timely project execution are much more crucial in generating real cash flow. When inventory turnover is slow, large current assets will actually become unproductive deposited assets, so they are unable to make a positive contribution to increasing the company's ROA value.

Based on the agency theory framework, the stagnant influence of liquidity ratio on return on asset confirms the existence of information asymmetry anomalies and governance conflicts between business implementers and fund owners. This essence emphasizes the scientific conclusion of Karmiyati (2024) which states that the level of liquidity does not correlate with profit performance. Risk-protective management behavior encourages non-strategic short-term wealth hoarding actions to secure the existence of their positions from the threat of default. Unfortunately, this excessive conditioning of working capital creates financial consequences in the form of agency costs due to the missed prospective future investment instruments. As a result, the utilization of funds becomes dysfunctional because the expansion of current assets is unable to trigger commercial productivity, which in turn makes the movement of the ratio have no contribution to the strengthening of net income on assets.

### **The Effect of Debt to Equity Ratio on Return On Assets in Real Estate Companies Listed on the IDX for the 2020-2024 Period**

The above empirical evidence confirms that the debt to equity ratio is in a position of opposite effect on the achievement of return on assets. These findings substantively support the results of the experiment from Putri and Ramadhan (2023) which stated that upward movements in the debt-based capital structure will suppress the dynamics of the company's asset returns.

The results of the study show that the debt to equity ratio (DER) is proven to have a significant negative influence on return on asset (ROA) in real estate sector companies. The characteristics of the property industry as a capital-intensive sector require companies to rely heavily on external funding, such as long-term bank debt, construction loans, and bond issuances to finance land acquisitions and large-scale project development. When the proportion of debt to capital itself increases, the company's capital structure becomes unbalanced and triggers a massive increase in financial risk. This imbalance creates a huge pressure on the company's cash flow due to the inevitable fixed liabilities, regardless of whether the funded project has generated revenue or not.

This condition has a direct impact on profitability, because the surge in the value of DER is automatically accompanied by an increase in interest expenses and other financial costs that

must be borne by the company. These high financial costs act as a direct deductible expense that significantly erodes the company's net profit before tax. The decline in net profit due to high leverage expense ultimately distorts the numerator in the calculation of ROA, so that the value of asset returns also declines sharply. This phenomenon proves that in the real estate sector, excessive use of debt no longer functions as a positive financial leverage, but turns into a chronic financial burden that weakens management's ability to optimize all its total assets to generate profits.

Based on the agency theory framework, the decline in return on assets triggered by high debt levels confirms the existence of governance conflicts and mismanagement of capital structures by management. The executive's policy in accumulating long-term liabilities has resulted in financial consequences in the form of agency costs in the form of fixed interest expenses that drain operational cash flow. This condition causes the portion of net profit that is ready to be distributed to be very minimalist. In addition, additional funds from these creditors tend to be allocated inefficiently to non-profit projects, which instead of increasing the value of assets but increasing the chances of entity bankruptcy. As a result, any growth in the debt to equity ratio will inversely suppress financial performance and erode the effectiveness of total assets in producing net profit.

## CONCLUSION

Based on the results of the study, it was concluded that the current ratio has no effect on return on assets. The debt equity ratio has a negative effect on the return on assets. With no effect on the current ratio on return on assets, the next suggestion that can be given to researchers is to add a variable of corporate governance (Good Corporate Governance) or activity ratios such as working capital turnover to clarify the efficiency of smooth asset turnover in generating profits. For company management, it is recommended to optimize the use of idle cash and inventory so that it is not held back to non-productive components just to maintain high liquidity. Meanwhile, regarding the finding that the debt to equity ratio has a negative effect on return on assets, the next researcher is expected to expand the observation sample to various industry sectors to test the consistency of the impact of leverage expenses. For the company's financial management, it is very important to restructure debt and strictly limit the addition of new loans so that interest expense does not erode operational profitability. Finally, for investors, in conducting fundamental analysis, it is recommended to be more careful with issuers that have a high debt ratio (large DER) because they are proven to be at real risk of cutting the company's net profit margin.

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