Acman: Accounting and Management Journal
Vol 6, No. 1, June, 24 – 34
ISSN Online: 2775-6866. DOI: https://doi.org/10.55208/aj

The Impact of Return on Assets and Current Ratio on Shoe Company Valuation From 2018 To 2022

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ABSTRACT

This study aims to determine and analyze Return on Assets at a certain shoe company, Current Ratio at the same entity, the valuation (PER) of the shoe company, and how Return on Assets and Current Ratio impact this valuation. The research introduces a novel perspective by focusing specifically on this company's financial metrics, an area that has not been widely explored in existing literature. The research adopts a quantitative approach through multiple linear regression analysis. Data collection comes from the Financial Statements and Income Statements of the shoe company. The investigation emphasizes the relationship between Return on Assets, Current Ratio, and valuation. To assess this influence, the study utilizes the coefficient of determination, while employing Ms. Excel and SPSS version 25 for Windows for data analysis. Findings indicate that, according to t-test results, Return on Assets and Current Ratio positively and significantly affect valuation. Furthermore, the f-test confirms that these two metrics collectively have a positive and significant impact on valuation. The coefficient of determination shows that these indicators significantly influence the dependent variable, while the remaining factors relate to other aspects not covered in this research. This study provides practical insights for stakeholders in the footwear industry, shedding light on essential factors that can drive company performance and investment decisions.

Keywords: Return on Assets, Current Ratio, Valuation, Quantitative Analysis, Footwear Industry.

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INTRODUCTION

In today's competitive business landscape, the value of a company plays a crucial role in maximizing shareholder wealth, which is a primary objective for management. High company valuation not only reflects an entity's performance but also enhances future investment opportunities. Prior research underscores this importance, illustrating that effective policies adopted by management can significantly boost company worth. However, gaps remain in the literature regarding specific financial metrics influencing this value, particularly in the context of the footwear industry. The correlation between financial ratios and company valuation has not been extensively examined, creating a need for further investigation. Consequently, this study seeks to explore the relationship between key financial metrics, such as Return on Assets and Current Ratio, and their impact on company valuation in the footwear sector, addressing this significant gap in existing research.

The Price Earning Ratio (PER) serves as a significant market ratio, predominantly viewed through the lens of investors, and acts as a measure for assessing market valuation of a company's stock. This ratio is pivotal for predicting a company's future earning potential, that PER reveals how much investors are willing to pay for every dollar of reported earnings. Despite the extensive insights provided by earlier studies, a noticeable gap exists in understanding the broader implications of PER within varying market contexts. PER acts as an earning multiplier for estimating intrinsic value. Although traditional interpretations emphasize high PER values attracting investors and leading to stock price increases as suggested by Husnan, the nuances of how this ratio interacts with other financial metrics remain underexplored. Therefore, this research seeks to investigate the relationship between Price Earning Ratio and stock performance, aiming to clarify how investors can optimize their buy and sell decisions based on PER insights, thus highlighting a key area for further academic inquiry.

Return On Assets (ROA) is a vital profitability ratio utilized by companies to measure the effectiveness of their performance in generating profit from their assets. ROA as a metric that assesses a company's ability to produce net income from its assets, simultaneously indicating the return on investment. While existing literature emphasizes the importance of ROA in evaluating corporate performance, gaps persist in exploring its comprehensive impact on broader company valuation dynamics. That ROA specifically

measures the net income relative to a set level of assets, but the relationship between ROA and other financial metrics remains underexploited. Furthermore, Kovalchuk & Verhun (2019) characterizes ROA as a reflection of management effectiveness in asset utilization, yet the interconnectedness between ROA and overall company valuation has not been sufficiently investigated. Thus, this research aims to explore how Return on Assets influences company valuation alongside other key financial metrics, providing crucial insights for stakeholders to assess management effectiveness and investment potential more accurately.

Current ratio is a liquidity ratio that measures a company's ability to meet short-term obligations. The current ratio as the amount of current liabilities backed by current assets, indicating that a higher ratio suggests a better capability to cover short-term debts. (Seretidou et al., 2025) While previous studies have highlighted the importance of this ratio in assessing liquidity, there exists a gap in understanding how it interacts with overall company valuation. Hery (2018) states that the current ratio reflects a company’s capacity to fulfill imminent short-term liabilities using total available assets, yet the multidimensional implications of this ratio in relation to other financial metrics have not been fully explored. (Khan & Riccio, 2024) The current ratio is calculated by dividing current assets by current liabilities, showing cash and liquid assets relative to debts due within one year. Therefore, this research seeks to investigate how the current ratio affects company valuation alongside other crucial financial indicators, providing deeper insights for stakeholders in evaluating financial health and management effectiveness.

In this study, the researchers focus on the issue of how liquidity and profitability impact company value. They specifically examine company value through the lens of the Price Earning Ratio (PER). According to Irham Fahmi, the PER is the ratio of market price per share to earning per share. A high Price Earning Ratio indicates that the market appreciates the company's ability to generate income, reflecting a positive relationship between market price per share and earnings per share.

METHOD

In this study, the research employs a combination of descriptive and verificative methods with a quantitative approach. The object of the research focuses on a specific shoe company. Data is collected through documentation, which includes studying various scientific journals, literature, and relevant online resources to gather information on the influence of Return on Assets and Current Ratio on company value. The data primarily comes from financial reports published on the Indonesia Stock Exchange.

To ensure the reliability of the analysis, a classical assumption test is conducted. This includes assessing normality, multicollinearity, heteroscedasticity, and autocorrelation. The normality test is performed using the One Sample Kolmogorov-Smirnov method. A significance value above 0.05 indicates that the data is normally distributed, while a value below that suggests a non-normal distribution. Multicollinearity detection relies on tolerance values and the Variance Inflation Factor (VIF). If VIF exceeds 10 and tolerance is below 0.10, multicollinearity is present. Heteroscedasticity is evaluated through a scatterplot of residuals; the absence of a specific pattern suggests no heteroscedasticity. Autocorrelation is examined using the Durbin-Watson test. The criteria indicate that if the value lies between specified ranges, there is no autocorrelation present. The t-test indicates the individual impact of each independent variable on the dependent variable, using a significance level of 0.05. A significance value greater than 0.05 leads to rejection of the hypothesis, indicating no significant effect, while a value below that results in acceptance, showing a significant impact. The F-test assesses whether all independent variables have a joint effect on the dependent variable. A calculated F value greater than 4 allows rejection of the null hypothesis at a 5% confidence level. If the significance of the F test exceeds 0.05, it suggests no joint effect, while a value below this indicates a significant collective influence from the independent variables on the dependent variable. Finally, path analysis is utilized to understand the direct and indirect relationships among the variables, providing deeper insights into their interactions.

In this research, the methodology comprises several essential components, including the research method, object of study, data collection, data quality tests, and data analysis techniques.

The research employs a quantitative method, focusing on numerical data for analysis. The object of the study is the shoes company, specifically examining the impact of financial metrics such as Return on Asset and Current Ratio on the company's value. Data for this study is obtained from the company's financial statements, covering a five-year observation period from 2018 to 2022. The dataset comprises valid samples that provide insights into the company’s financial performance. To ensure the quality of the data, several tests are conducted, including tests for normality, multicollinearity, autocorrelation, and heteroscedasticity. These tests help confirm that the dataset meets the necessary assumptions for conducting regression analysis. For data analysis, path analysis is employed. This involves conducting partial tests (t-tests) to assess the individual impact of each independent variable on the dependent variables. By calculating the t-table using a significance level of 0.05 and degrees of freedom (df) of n-k-1, where n equals 20 and k equals 2, the df equals

17. This calculation facilitates the determination of the statistical significance of the relationships observed. The results from the partial tests are computed using SPSS, enabling a thorough understanding of how each independent variable influences the dependent variable. This comprehensive approach allows for a detailed interpretation of the data, providing valuable insights into the financial dynamics of the shoes company.

RESULTS and DISCUSSION

The results of the Kolmogorov-Smirnov test indicate a significance value of 0.200. This value exceeds the significance level of 0.05, which suggests that the data in this study is normally distributed. Consequently, the normal distribution of the data implies that the regression model used in the analysis is valid and reliable for drawing conclusions. Therefore, the findings support the overall quality of the data, confirming that it meets the assumptions necessary for conducting regression analysis effectively.

The results of the multicollinearity test indicate that the study is free from multicollinearity issues. Each variable shows a Tolerance value of 0.497 and a Variance Inflation Factor (VIF) of 2.012. These results meet the required criteria, with Tolerance being greater than 0.10 and VIF being less than 10. This suggests that the independent variables are not highly correlated with each other, which confirms the reliability of the regression model. As a result, these findings support the integrity of the analysis, ensuring valid interpretations of the relationships between the variables.

The results of the autocorrelation test reveal a Durbin-Watson value of 1.380. This value falls between -2 and +2, indicating that the study is free from autocorrelation issues. The absence of autocorrelation suggests that the residuals of the regression model are independent of each other, which is essential for ensuring the validity of the regression analysis. Therefore, these findings affirm that the model is robust and that the relationships examined in the study are reliable for interpretation.

The results of the heteroscedasticity test indicate that the points in the scatterplot are randomly distributed without forming any specific pattern. This distribution spreads uniformly around the value of zero on both the x and y axes. As a result, it can be concluded that the variables do not exhibit heteroscedasticity issues. This finding confirms that the variance of the residuals is consistent across different levels of the independent variables, ensuring the reliability of the regression model and supporting valid interpretations of the data relationships.

The statistical analysis of the shoe company over the five-year observation period from 2018 to 2022 reveals that the valid sample size, denoted as N, is 20. Among these samples, the variable

Return on Asset (ROA) shows a maximum value of 0.77 and a minimum value of -0.229. The average ROA stands at -0.03545, with a standard deviation of 0.079150. These findings suggest that the standard deviation of ROA is relatively high because it exceeds the average value. This indicates considerable variability in the ROA among the samples, highlighting differing financial performance levels within the observed period. As such, this variability may reflect the company's inconsistent ability to generate returns on its assets over the five years.

The statistical analysis of the shoe company over the five-year observation period from 2018 to 2022 reveals that the valid sample size, denoted as N, is 20. For the variable Current Ratio (CR), the maximum value is 3.310, while the minimum value is 1.030. The average Current Ratio is 1.91400, accompanied by a standard deviation of 0.652577. These results indicate that the average Current Ratio is relatively high, as it exceeds the standard deviation. This suggests that the company's liquidity position, as measured by the Current Ratio, is generally solid, reflecting its ability to meet short-term obligations. The high average value indicates that there is a strong liquidity condition, although the presence of a standard deviation illustrates some variation among the sample observations. This variability could indicate differences in the company's liquidity across the observed years.

The statistical analysis conducted on the shoe company over the five-year observation period from 2018 to 2022 indicates that the valid sample size, represented as N, is 20. For the Price Earning Ratio (PER), the maximum value is 280.788, while the minimum value is -90.177. The average PER stands at 0.6000, with a standard deviation of 0.82078. These results reveal that the standard deviation of the Price Earning Ratio is greater than the average value. This suggests a high level of variability in the PER across the sample. The wide range between the maximum and minimum values points to significant fluctuations in the company's profitability relative to its share price during the observed period. Such variability may indicate inconsistent earnings performance, which can raise concerns for investors about the stability of the company's earnings.

The linear regression equation presented is as follows:

$$Y = 6.690 + 0.605(RA) + 0.844(CR) + \varepsilon,$$

where Y represents the company's value (PER), RA is the Return on Asset, and CR is the Current Ratio. Firstly, the constant value of 6.690 indicates that when both the Return on Asset and Current Ratio are zero, the average company value (PER) stands at 6.690.

This provides a baseline value for the analysis. Secondly, the coefficient for Return on Asset is 0.605. This means that for every 1% increase in Return on Asset, the company value

(PER) is predicted to rise by 0.605. This suggests a positive relationship where improved asset return enhances the company's overall valuation. Lastly, the coefficient for Current Ratio is 0.844. This indicates that a 1% increase in the Current Ratio is expected to lead to a 0.844 increase in the company's value (PER). This further reinforces the importance of liquidity in influencing the perceived value of the company. Overall, these coefficients reflect significant relationships, highlighting how both financial metrics contribute positively to the company's value.

The coefficient of determination, indicated by the R Square value of 0.554 or 55.4%, shows that the company's value (PER) is influenced by the Return On Asset and Current Ratio to the extent of 55.4%. This means that these two financial metrics collectively explain more than half of the variation in the company's value. However, the remaining 44.6% of the variation is attributed to other factors that were not examined in this study. This suggests that while ROA and CR are significant contributors to determining the company's value, additional influences exist that could also impact it. These could include market conditions, industry trends, and other financial indicators not included in the analysis. Understanding this residual impact is essential for a comprehensive view of the factors affecting company valuation.

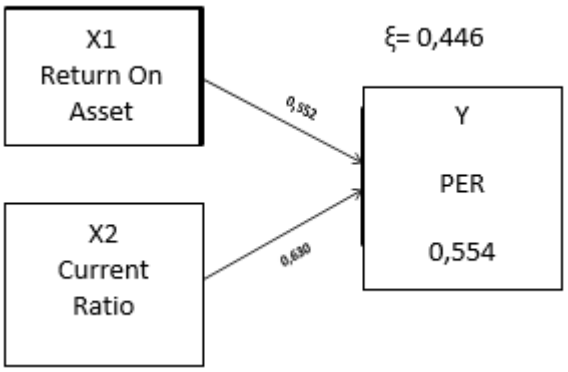


Figure 1. Determination Test Results

The results from the partial tests indicate that both Return on Asset and Current Ratio have a significant positive impact on the company's value (PER). For Return on Asset, the t-calculated value is 2.516, exceeding the t-table value of 1.740, with a significance level of 0.022, which is below 0.05. This suggests that variations in ROA meaningfully affect the company's valuation. Similarly, the Current Ratio shows a t-calculated value of 2.744, again surpassing the t-table value of 1.740, with a significance level of 0.014, also less than 0.05. Therefore, both financial metrics are crucial, as improving either Return on Asset or Current Ratio is linked to an increase in the company's value.

The results of the F test indicate a calculated F value of 10.565, compared to a critical F value of 3.592. Since the calculated F value significantly exceeds the critical F value (10.565 > 3.592) and the significance level (Sig.) is 0.001, which is less

than 0.005, we can conclude that both Return on Asset and Current Ratio collectively have a significant positive effect on the company's value (PER) at the shoes company for the period from

2018 to 2022. This finding emphasizes that, when analyzed together, these financial metrics are important indicators of the company's valuation.

The multiple regression analysis results yield the equation: Y = 6.690 + 0.605(RA) + 0.844(CR). The constant of 6.690 indicates that when both Return on Asset (ROA) and Current Ratio (CR) are zero, the average company value (PER) for the shoes company would be 6.690. The coefficient for ROA is 0.605, meaning that a 1% increase in ROA is expected to raise the company's value (PER) by 0.605. Furthermore, the hypothesis testing for ROA shows a t-calculated value of 2.516, which exceeds the t-table value of 1.740, with a significance level (sig) of 0.022, lower than 0.05. This leads to the conclusion that ROA has a significant positive impact on the company's value (PER). According to Irham Fahmi (2016), ROA measures how well invested capital generates the expected returns. A high ROA reflects the company’s ability to generate profits for shareholders. The findings align with research by Sari, Handajani, and Pituringsih (2020), which showed that ROA positively affects Price Earning Ratio in manufacturing companies listed on the stock exchange.

The multiple regression analysis provides the equation: Y = 6.690 + 0.605(RA) + 0.844(CR). The constant value of 6.690 indicates that if both the Return on Asset (ROA) and Current Ratio (CR) are zero, the average company value (PER) for the shoes company would stand at 6.690. The coefficient for CR is 0.844, suggesting that for each unit increase in the Current Ratio, the company's value (PER) is expected to increase by 0.844. Furthermore, the hypothesis testing for the Current Ratio yields a t-calculated value of 2.744, which surpasses the t-table value of 1.740. The significance level (sig) obtained is 0.014, which is less than 0.05. Consequently, it can be concluded that the Current Ratio has a significant positive impact on the company's value (PER). This underscores the importance of liquidity in enhancing the company's overall financial health and attractiveness to investors.

The data quality test reveals a determination coefficient of 0.554, or 55.4%. This indicates that the company's value (PER) is influenced by the return on asset and current ratio by 55.4%. The remaining 44.6% is affected by other factors not examined in this study. In the simultaneous test, the calculated F-value stands at 10.565, which exceeds the F-table value of 3.592. Additionally, the significance value (Sig.) is 0.001, which is less than 0.005. Therefore, we can conclude that the return on asset and current ratio positively and significantly impact the company's value (PER) together. This finding aligns with the research by Agusiady et al. (2024), which also indicates that the Current Ratio and Return on Asset positively influence the company's value over the studied period.

When a company efficiently generates profits from its resources, investors take notice. Several studies highlight how a strong Return on Assets directly boosts market perception, as Jonathan and Purwaningsih (2023) discover that ROA exerts a significant positive effect on firm value. Their findings suggest that stock markets reward companies that maximize asset utilization to generate earnings. Adding a layer of complexity, Suhendry, Toni, and Simorangkir (2021) reveal that ROA acts as a powerful intervening variable. They find that while capital structure and liquidity matter, they ultimately drive company value through the enhancement of ROA. In short, superior profitability acts as the ultimate bridge to higher market valuation. Agusiady et al. (2024) confirm that higher profitability ratios, alongside stable liquidity, consistently elevate a company's overall market standing.

Agusiady et al. (2024) demonstrate that the Current Ratio positively influences company value. A robust CR reassures investors that the firm maintains enough liquid cushion to fund daily operations and buffer against unexpected financial shocks. While Renaldo et al. (2023) focus on how market valuation metrics like the Price-Earnings Ratio interact with firm characteristics, their broader analysis aligns with the idea that stable financial ratios—including liquidity metrics—underpin overall market confidence and valuation dynamics. A high Current Ratio proves a company's short-term survival capabilities, while a high Return on Assets proves its long-term growth potential. Active evidence from recent research shows that when a firm balances both effectively, it maximizes its ultimate corporate value in the eyes of shareholders.

CONCLUSION

Based on the data analysis, this research aimed to examine the influence of Return on Asset (ROA) and Current Ratio (CR) on the company value (PER) of the shoes company listed on the Indonesia Stock Exchange. The findings indicate that ROA has shown fluctuating changes from Q1 to Q4 during 2018–2022, with a maximum value of 0.077 and a minimum of -0.229, resulting in an average of -0.03545. This low average, primarily due to the company's losses over the past three years, showed slight improvement in 2021 compared to 2020, although it declined again in 2022. A higher ROA usually suggests better profitability, which could enhance stock prices and ultimately elevate company value. Similarly, the Current Ratio experienced fluctuations within the same timeframe, recording a maximum of 3.31 and a minimum of 1.03, with an average of 1.91. Despite an annual decrease, the average remains above one, indicating the company's adequate capability to cover short-term obligations and maintain sound debt repayment practices.

The analysis of PER reveals fluctuations as well, with values ranging from a maximum of 280.79 to a minimum of -90.18, showing an average of 0.6000. This average reflects the company's poor performance, with losses in earnings per share over recent years, although a slight increase occurred in 2021 before another decline in 2022. Individually, ROA positively and significantly impacts PER, contributing 28.1%, while CR also has a positive effect, with a contribution percentage of 27.2%. Collectively, these variables significantly influence PER, explaining 55.4% of its variation, while the remaining 44.6% is impacted by other factors not examined in this research. Limitations include the focus on a single company, which may not represent the broader industry context. Future research could involve a larger sample size and additional variables, as well as explore other financial ratios for a more comprehensive understanding of factors affecting company value.

In conclusion, this research highlights several critical factors for enhancing the financial health of companies like the shoes company First, improving Return on Asset (ROA) is essential; companies should focus on optimizing net income after taxes on the income statement. This is crucial because a significant ROA positively influences the company value (PER), making it more attractive to investors. Second, enhancing the Current Ratio (CR) requires diligent management of current assets in relation to current liabilities. This focus ensures that companies can meet their short-term obligations promptly, which is vital for maintaining financial stability. Third, to boost PER, companies must pay attention to their earnings per share, ensuring that they do not fall into negative territory, as this can adversely affect overall financial assessments. Additionally, the study reveals that both ROA and CR play a significant role in determining a company's value, thereby necessitating continuous monitoring and improvement of these ratios. Strong performance in ROA and CR can attract investor interest and capital investment, further bolstering financial performance. Moreover, the research underscores the interconnectedness of these financial metrics; improvement in one area can lead to enhancements in others. Firms should prioritize strategies that elevate both ROA and CR to optimize profit generation. Lastly, the study suggests exploring additional financial ratios and broader industry comparisons in future research to gain a more nuanced understanding of factors influencing company value in the footwear sector. By taking these steps, companies can position themselves for sustained growth and investor confidence.

CONFLICTS OF INTEREST

The authors declare no conflict of interest. The funders had no role in the design of the study; in

the collection, analyses, or interpretation of data; in the writing of the manuscript, or in the decision to publish the results.

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