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## EFFECT OF CURRENT RATIO AND DEBT TO EQUITY RATIO ON DIVIDEND PAYOUT RATIO

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**Abstract:** This study aims to determine and analyze effect of current ratio and debt to equity ratio on dividend payout ratio. The approach used in this research is descriptive quantitative. Population in this study are companies belonging to the mining sector which are listed on the Indonesia Stock Exchange for the period 2018 to 2022, with a total population of 25 companies. Selection of sampling using purposive sampling technique. So sample taken in this study are 10 companies. To answer the problem formulation and strengthen the hypothesis, use the parameters of the multiple linear regression equation with the partial (*t*) test. The results show that current ratio has a significant effect on dividend payout ratio. Debt to equity ratio has a significant effect on dividend payout ratio.

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## INTRODUCTION

Indonesia has great prospects in the development of mineral resources, because apart from having diverse and large potential resources, recent increases in mineral commodity prices should be optimized to provide benefits for Indonesia's economic development. The mining industry in Indonesia is expected to grow rapidly in the next five years and become an increasingly strategic sector for Indonesia. Starting in 2010, the value of the mining industry reached more than 73 billion US dollars, which contributed around 11% of Indonesia's gross domestic product. This good growth reflects the good health of the mining sector, which is supported by high commodity prices.

The government also issued regulations on export duties on 14 mineral mining commodities such as nickel, copper, iron ore and bauxite in the form of raw materials in May, 2012. The issuance of this regulation by the Minister of Energy and Mineral Resources

aims to control the export of minerals in the form of raw materials ahead of the implementation of the ban. export of mining commodities in 2014.

After the obligation to process all mining products into metal domestically, there are now several new investors who are interested in building smelters in the development of mineral mining projects.

The development of these mining projects seems to have had an impact on the distribution or payment of dividends, even though profits have increased, but many companies have become unstable in distributing dividends to their shareholders. This can be seen from the value of the dividend payout ratio which shows that many companies do not always include the amount of the dividend payout ratio, and do not even pay dividends for 3 consecutive years.

A company's decision regarding dividends is sometimes integrated with its financing and investment decisions. When the company makes a profit, the distribution of low dividends may be because management is very concerned about the survival of the company, withholding profits to expand or needing cash for the company's operations (Gitosudarmo, 2000).

In general, the goal of investors investing in stocks is to gain profits in the form of dividend income or income from the difference between the selling price of the shares and the purchase price. However, investors prefer dividends to capital gains, the reason being that dividends are a more certain receipt than capital gains. So, the size of the dividend payout ratio will affect the investment decisions of shareholders and on the other hand also affect the company's financial condition.

These investment activities are also exposed to various kinds of risks and uncertainties which are often difficult for investors to predict. Investors expect maximum results with certain risks or certain results with minimal risk of the investments made. The information contained in the financial statements can be used by investors to obtain estimates about future profits and dividends, and about the risk of the estimated value.

The company's ability to earn profits is the main indicator of the company's ability to pay dividends and is an important variable as a basis for consideration by company managers in determining dividend policy. The increase in profitability achieved by the company will increase investors' expectations of obtaining higher dividend income as well.

The researcher chose the current ratio to represent liquidity which can be used to determine a company's ability to pay current debts from cash available within the company, from securities that can be cashed out immediately, and from receivables and inventory accounts that can be turned into cash. Unlike the other two ratios, namely the cash ratio, which does not contain accounts receivable and inventories, the quick ratio does not take into account inventories in measuring a company's ability to meet its short-term obligations (Gitosudarmo, 2000).

Debt to equity ratio representing solvency is used to measure the level of leverage which indicates the ability of the company's own capital to fulfill all of its obligations. The greater the amount of debt used for the company's capital structure, the greater the amount of liabilities. An increase in the amount of debt will affect the size of the net profit available to shareholders including dividends to be received, because debt payments take precedence over dividend payments (Hery, 2012).

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This study aims to determine and analyze effect of current ratio and debt to equity ratio on dividend payout ratio.

## RESEARCH METHODS

The approach used in this research is descriptive quantitative, based on the level of explanation this research is descriptive and when viewed from the type of data it is classified as quantitative research. Quantitative research is carried out by emphasizing theory testing through measuring research variables with numbers and carrying out data analysis using statistical procedures (Octiva et al., 2018; Pandiangan, 2018; Pandiangan, 2022; Pandiangan et al., 2023).

The type of data used in this study is secondary data obtained from the Indonesia Stock Exchange through its official website at [www.idx.co.id](http://www.idx.co.id) which contains the financial reports of Mining Companies for the period 2018 to 2022.

Population is the research subject as a whole, namely the entire unit of analysis that is the research target. Population is also the entire object of research or the total group of subjects; both humans, values, symptoms, to phenomena which are the source of research (Asyraini et al., 2022; Octiva, 2018; Pandiangan, 2015; Sutagana et al., 2022).

Population in this study are companies belonging to the mining sector which are listed on the Indonesia Stock Exchange for the period 2018 to 2022, with a total population of 25 companies. Sample is part of the population taken in certain ways which also has certain characteristics, clearly and completely representing the population (Jibril et al., 2022; Pandiangan et al., 2018; Pandiangan, 2022; Kurdhi et al., 2023). The research sample is taken after fulfilling several criteria that apply to the application of the operational definition of variables. Selection of sampling using purposive sampling technique, which is the selection of sampling based on certain criteria (Octiva et al., 2021; Pandiangan et al., 2021; Pandia et al., 2018; Ratnawita et al., 2023). So sample taken in this study are 10 companies.

To answer the problem formulation and strengthen the hypothesis, use the parameters of the multiple linear regression equation with the partial (t) test. The parameters of the multiple linear regression equation can be estimated using the ordinary least squares method because in this study there is only one dependent variable with more than one independent variable (Pandiangan et al., 2022; Tobing et al., 2018; Sudirman et al., 2023; Pandiangan, 2023).

## RESULT AND DISCUSSION

### General Description

Mining is the extraction of valuable minerals or other geological materials from the earth from an orebody, lode, vein, seam, or reef, which forms the mineralized package of economic interest to the miner.

Mining of stone and metal has been done since pre-historic times. Modern mining processes involve prospecting for ore bodies, analysis of the profit potential of a proposed mine, extraction of the desired materials, and final reclamation of the land after the mine is closed.

When mining, companies operate processes to extract or take away from the surrounding rock the minerals that they want to commercialize. A rock that contains a commercially profitable quantity of one or more minerals (or metals in particular) is called an ore.

### Partial (t) Test

**Table 1. Partial (t) Test Results**

Variable	Sig.
Current Ratio	0.000
Debt to Equity Ratio	0.000

#### **Dependent: Dividend Payout Ratio**

The results show that current ratio has a significant effect on dividend payout ratio. The current ratio is the comparison between the current assets and current liabilities of a company. The current ratio is used to express the company's security guarantees for short-term creditors. If the ratio of current liabilities exceeds its current assets shows a number below 1, the company is said to have difficulty paying off its short-term debt. If the current ratio is too high, then a company is said to be less efficient in managing its current assets. Before making a decision in determining the amount of dividends to be paid to shareholders, companies need to consider their current asset position, because dividends are cash outflows. The stronger the current asset position, the higher the company's ability to pay dividends (Gitosudarmo, 2000).

Debt to equity ratio has a significant effect on dividend payout ratio. This ratio measures the financial leverage being used by a company, and how far the company is financed by debt. An increase in debt will affect the size of the net profit available to shareholders, including dividends received because the obligation to pay debts takes precedence over dividend distribution (Hery, 2012). If the company uses capital that comes from the owner of the company or its own capital, it is obligatory to reward it in the form of dividends. The greater the company's spending using capital from its shareholders, the greater the dividends that must be distributed.

### CONCLUSION

The results show that current ratio has a significant effect on dividend payout ratio. Debt to equity ratio has a significant effect on dividend payout ratio.

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