International Journal of Research and Review
Vol. 9; Issue: 12; December 2022
Website: www.ijrrjournal.com
E-ISSN: 2349-9788; P-ISSN: 2454-2237

Research Paper

Analysis of the Effect of Current Ratio, Company Size, Capital Structure and Operating Cash Flow on Financial Growth with Profitability as An Intervening Variable in the Company Registered Mining Sector on the Indonesian Stock Exchange

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DOI: https://doi.org/10.52403/ijrr.20221247

ABSTRACT

This study aims to analyze the effect of current ratio, company size, capital structure and operating cash flow on financial growth with profitability as an intervening variable in mining sector companies listed on the Indonesia Stock Exchange. Data were obtained from secondary data in the form of financial statements of 39 companies for the 2016-2020 period through the website www.idx.co.id. The data analysis method used is panel data regression analysis. Current Ratio has a negative but not significant effect on Financial Growth. Company size has a negative effect on Financial Growth, Capital Structure has a negative but not significant effect on Financial Growth, Operating Cash Flow has a negative but not significant effect on Financial Growth. Current Ratio has a negative but not significant effect on Profitability. Firm size has a positive and significant effect on profitability. Capital structure has a positive and significant effect on profitability. Operating Cash Flow has a positive but not significant effect on Profitability. Profitability has a positive and significant effect on financial growth. The effect of Current Ratio on Financial Growth, through Profitability is not significant. The influence of Company Size on Financial Growth, through Profitability is significant. The effect of Capital Structure on Financial Growth, through Profitability is significant. Effect of Operating Cash Flow on Financial Growth, through Profitability is not significant.

Keywords: Current Ratio, Company Size, Capital Structure, Operating Cash Flow, Profitability, Financial Growth

INTRODUCTION

Financial growth is a general measure of a company's financial health over a given period. Financial growth is a ratio that measures how much a company's ability to maintain its position in the industry and in general economic development (Fahmi, 2012). Financial growth can be calculated through several ratios, namely the sales growth ratio, the net profit growth ratio, the earnings per share (EPS) growth ratio and the dividend growth ratio per share (Kasmir, 2012). Financial growth in this study is proxied by earnings per share (EPS) growth. Smart and Graham (2012) suggest that the level of financial growth is determined by performance indicators such as earnings per share disclosed in the company's financial statements in accordance with the specifications of specific accounting standards applied in each country. Furthermore, Shikumo (2021) argues that earnings per share have become a useful investment decision tool for investors, because it indicates future prospects and growth (Mlonzi, Kruger & Ntoesane, 2011). According to Robbetze, de Villiers and

Harmse (2017), earnings per share correlate best with changes in stock price behavior.

During the Covid-19 pandemic, the economy in Eastern Indonesia was considered to have resilience. Eastern Indonesia has the potential of natural resources which are rich in mining goods. In recent years, this region has been able to increase the added value of its mining commodities into value-added manufactured goods. The resilience of the mining sector even in the midst of a pandemic that is currently sweeping the world as well as Indonesia's natural potential which is rich in resources shows that there are open opportunities for growth for companies engaged in the mining sector. It is interesting to study how the financial growth in the mining sector and the factors that influence this growth.

The value of the company's financial growth is thought to be influenced by several factors including the current ratio, company size, capital structure, operating cash flow and profitability. The first factor that is thought to be able to influence the company's financial growth is the Current Ratio. The Current Ratio is a comparison between current assets and current liabilities and is the most commonly used measure to determine a company's ability to meet its short-term obligations. A low Current Ratio is usually considered to indicate a problem in liquidity, on the other hand a Current Ratio that is too high is also not good, because it indicates a large number of idle funds which in turn can reduce the company's profitability (Sawir, 2014).

The second factor that is thought to be able to influence the company's financial growth is company size. Basically, the size of the company is divided into categories, namely large companies (large firms), medium companies (medium size) and small companies (small firms). Company size is suspected as one of the variables considered in determining the company's financial growth because company size reflects how much sales value the company has. Companies that have a larger company size have an influence on company profitability. This is because larger companies have several competitive advantages, including market power where large companies can set high prices for their products, the existence of economies of scale which have an impact on increasing the profitability of the company.

The third factor that is thought to be able to influence the company's financial growth is the capital structure. Capital consists of two components, namely debt capital and equity capital. Debt capital consists of all long-term debt, while equity capital consists of preferred and common shares as well as a component of retained earnings. Modigliani & Miller's (1963) theory with taxes states that by including corporate income tax, the use of debt will increase firm value. This indicates that the optimal capital structure can be achieved by balancing the benefits of tax protection with the burden of costs resulting from the use of large debt. The use of leverage in companies can also be used to develop and run a business with that the company can optimally run its business so that the profits to be obtained by the company will increase Sutama & Lisa (2018).

The fourth factor that is thought to be able to influence the company's financial growth is Operating Cash Flow. Operating cash flow includes cash that is affected by operating activities involving transactions included in the determination of net income such as income and expenses (Kieso et al., 2011). So, high operating cash flow can indicate a high profit earned by the company, due to the company's good ability to manage its operational activities so that the profits available to shareholders are getting bigger (Indonesian Association of Accountants, 2013). Another factor that is thought to be able to influence the company's financial growth is profitability. Profitability is the ratio used to assess a company's ability to gain profit or profit in a certain period (Kasmir, 2015). From an investor's point of view, one of the important indicators to see the company's prospects in the future is to see how far the company's profitability has grown, because this indicator is very important to note to find out how much return investors can receive on their investments. Based on the signaling theory, high profitability is a good and positive signal for investors and potential investors related to good company prospects, thus triggering investors to increase demand for shares.

This research is also motivated by differences in research results (research gaps) from several previous researchers, namely Rachmawati and Sherlita (2021), Rehan et al. (2020), Widiyanti et al. (2019), Hadi (2019), Erni and Rodhiyah (2018), Nasution (2017), Aprillia et al. (2017), Sedeaq (2016) and Taani and Banykhaled (2011) examined the effect of the above financial ratio variables on earnings per share. The problem in this study is that there are fluctuations in the value of financial growth in several mining companies which causes the company to not have a positive impact on investors and there is a research gap regarding the variables studied, namely current ratio, company size, capital structure, operating cash flow on financial growth and profitability as an intervening variable.

LITERATURE REVIEW

Financial Growth

Penrose (1959) defines the company as a collection of physical and human resources. These resources are themselves a collection of potential services that are used for productive purposes. Companies are always interested in profits to pay dividends to their owners. This means that the company's financial and investment decisions are driven by the desire to increase total long-term profits.

The productive activities of companies are governed by productive opportunities as seen by investors. Companies will stop growing if they don't see opportunities for expansion, don't want to follow up on them, or can't respond to them. For a company, the decision to seek an opportunity is an enterprising one that requires entrepreneurial intuition and imagination, and must precede the economic decision to continue examining expansion opportunities. Therefore, the managerial competence of a company is largely a function of the quality of entrepreneurial services available for growth.

Current Ratio

The liquidity ratio is an indicator of a company's ability to meet short-term liabilities. The Current Ratio is one of the commonly used measurements of company liquidity and is the focus of this research. The current ratio is the margin of safety for short-term creditors, or the company's ability to pay off these debts. According to Syahyunan (2015), the current ratio is useful for calculating a company's ability to pay short-term obligations with available current assets. The greater the ratio of current assets and current liabilities, the higher the company's ability to cover its short-term liabilities. The condition of a company that has a good current ratio is considered a good and good company, but if the current ratio is too high it is also considered bad (Fahmi, 2012). This means that the higher the current ratio, the lower the profit available to shareholders. Research conducted by Nasution (2017) states that the current ratio has a negative effect on financial growth.

Company Size

According to Brigham and Houston (2013), stated that company size is the average value of total net sales for the year in question for several years. So it can be concluded that company size is the total sales of a company in a given year. Sales is a very important marketing function for the company to achieve the company's goal of making a profit. Sales that continue to increase can cover the costs that come out during the production process. This has an impact on increasing company profits which will then affect profitability.

The larger the size of the company, the more information available to investors in making decisions regarding stock investment. Large companies tend to have greater scale and economic flexibility compared to small companies, so it will be easier to get loans which will ultimately increase profitability. Research conducted by Rachmawati and Sherlita (2021) supports the statement above, that company size has a positive effect on financial growth. In this study, company size is assessed by company assets for a certain year. Considering that the total asset value is quite large, the measurement is converted into natural logarithms (Ln).

Capital Structure

Capital structure theory is a theory that explains the company's financing policy in determining the mix between debt and equity to maximize the value of the firm. The capital structure is the percentage of each type of capital used by the company (Campsey, 1995). The type of capital used by the company consists of debt (debt) and share capital (equity). Capital structure is the result of funding decisions, which essentially choose whether to use debt or equity to fund a company's operations.

The funding obligation is a very important resource for the company, the supplier of funds can exercise control over the company. Debt and equity are the two main groups of company liabilities, where creditors and shareholders are the two types of investors in the company. Each relates to a different level of risk, return and control of the company. Creditors have less control, therefore creditors have a fixed rate of return and are protected by contractual obligations to secure their investments. Shareholders are the ultimate claim party, have a greater risk burden, therefore shareholders have greater control over the company's decisions.

Operating Cash Flow

The statement of cash flows is a summary of the inflows and outflows of cash or cash equivalents. According to Munawir (2013), information about a company's cash flow is useful for users of financial statements as a basis for assessing a company's ability to generate cash and cash equivalents. Cash flow information is important for investors because performance analysis through ratios alone is not enough. According to Sartono (2013), sometimes there are situations where companies that have big profits but experience liquidity difficulties or cash shortages.

Operating cash flow is the basis for determining: a company's operations can generate sufficient cash flow to repay loans, maintain the company's operating capabilities, pay dividends and make new investments without relying on external funding sources (Weygandt et al. 2013). High operating cash flow can indicate a high company profit, due to the company's good ability to maintain operations so that the profit available to shareholders is greater (Indonesian Association of Accountants, 2013). The statement of cash flows is intended to provide an overview of the cash inflows and cash outflows for a period. This ratio is used to show the level of a company's ability to generate cash from operating activities that can be used for financing and investing activities.

Profitability

Profitability ratio (profitability ratio) is a ratio that assesses the company's ability to seek profit or profit in a certain period. The profitability ratios include return on assets (ROA), return on equity (ROE), basic earning power, profit margin on sales. The profitability ratio used in this study is the ratio of return on assets (ROA).

Return on assets as a proxy for profitability is useful for measuring a company's ability to earn net profit from the amount of funds invested by the company or the company's total assets. The greater the profitability reflects the more optimal the company uses its own capital in generating and increasing profits. A good profitability ratio will result in high stock prices and allow companies to easily attract new funds to develop, provide greater profits, create high value and sustainable growth in the wealth of their owners (Fahmi, 2012).

According to Taani and Banykhaled (2011) investors are very concerned about profitability because it shows efficiency in spending money invested by shareholders to get profit growth. Good profitability can make a company easily attract new funds to develop, so that it can provide greater profits. With so high profitability can increase the amount of financial growth.

MATERIALS & METHODS

This research is a causality research. Causality research is a research conducted to investigate causal relationships by observing the consequences that occur and the possible causal factors that give rise to these effects. The total population in this study were 46 companies that had entered the list of mining stocks during the observation period. Companies fulfilling the sampling criteria are 39 companies. So that a sample of 39 companies was taken, with the period taken from 2016 to 2020, which is 5 years. Determination of the sample in this study by purposive sampling method, namely the sample used to estimate the characteristics of the population based on certain criteria. Thus, the number of samples in this study amounted to 39 x 5 = 195... Data analysis techniques in this study used descriptive statistics and path analysis.

RESULT

Descriptive Statistical Analysis

Table 1 Descriptive Statistics

Variable	Minimum	Maximum	Mean	Standard Deviation
Current Ratio (X_1)	0.02	10.1	1.7289	1.564
Company Size (X_2)	0.00	31.59	27.6439	5.2015
Capital Structure (X_3)	0.01	1.9	0.4691	0.4263
Operating Cash Flow (X_4)	-22.3	1.51	-0.1798	2.2028
Profitability (Z)	-5.98	4.34	0.1049	1.0976
Financial Growth (Y)	-50.5	15.79	-0.3743	5.6959

In Table 1, it is known that the minimum value of X1 is 0.02, while the maximum value of X1 is 10.1. The X1 mean is 1.7289, with a standard deviation of 1.564. It is known that the minimum value of X2 is 0.00, while the maximum value of X2 is 31.59. The X2 mean is 27.6439, with a standard deviation of 5.2015. It is known that the minimum value of X3 is 0.01, while the maximum value of X3 is 1.9. The mean of X3 is 0.4691, with a standard deviation of 0.4263. It is known that the minimum value of X4 is -22.3 while the maximum value of X4 is 1.51. X4's mean is -0.1798, with a standard deviation of 2.2028. It is known that the minimum value of Z is -5.98, while the maximum value of Z is 4.34. The Z mean is 0.1049, with a standard deviation of 1.0976. It is known that the minimum value of Y is -50.5, while the maximum value of Y is 15.79. The Y mean is -0.3743, with a standard deviation of 5.6959.

Data Analysis Results

Direct Effect Test

Table 2 Direct Effect Result

Pengaruh	Coefficient	Std. Error	t-Statistic	Prob. (t)	F-Statistic	Prob. (F)	R-Square
X1 -> Z	-0.033393	0.049446	-0.675339	0.5003	6.803571	0.000039	0.125288
X2 -> Z	0.049354	0.014535	3.395572	0.0008			
X3 -> Z	0.684042	0.179632	3.808024	0.0002			
X4 -> Z	0.013469	0.034394	0.391605	0.6958			
C	-1.520107	0.447171	-3.399388	0.0008			

Table 2 To Be Continued…

X1 -> Y	-0.306828	0.215105	-1.426409	0.1554	5.865719	0.000046	0.134332
X2 -> Y	-0.034363	0.065042	-0.528318	0.5979			
X3 -> Y	-2.187296	0.809751	-2.701196	0.0075			
X4 -> Y	-0.019895	0.149503	-0.133076	0.8943			
Z -> Y	1.555782	0.315225	4.935461	0.0000			
C	2.315296	2.001207	1.15695	0.2488			

Indirect Effect Test

Table 2 Direct Effect Result

Hypothesis	Direct Effect	Indirect Effect	P-Value (Sobel Test)
X1 -> Z	-0.033	-0.052	0.508
X2 -> Z	0.049	0.0768	0.0051
X3 -> Z	0.684	1.0644	0.0025
X4 -> Z	0.013	0.021	0.6962
Z -> Y	1.556		

DISCUSSION

The Effect of Current Ratio on Financial Growth

From the statistical test results, it is known that the current ratio has a negative effect (coefficient value -0.306) but not significant (Prob. value (t) = 0.1554 > 0.05) on the financial growth of mining companies on the Indonesia Stock Exchange in 2016-2020. A negative value indicates that the higher the current ratio, the lower the financial growth rate. Insignificant influence means that the current ratio variable has no significant effect on financial growth. This is due to the fact that the majority of mining companies sampled have current ratios below the average of 1.7289 and 58 samples have current ratios below 1. The results of this study are supported by previous research by Nasution (2017) using samples listed mining companies on the Indonesia Stock Exchange in 2011-2015.

Effect of Company Size on Financial Growth

From the results of statistical tests it is known that company size proxied by Ln Total Sales has a negative effect (coefficient value -0.034) but not significant (Prob. value (t) = 0.5979 > 0.05) on the financial growth of mining companies on the Indonesia Stock Exchange 2016-2020. A negative value indicates that the higher the company size, the lower the financial growth rate. The insignificant effect means that the firm size variable has no significant effect on financial growth.

The results of this study are not in line with several previous studies, namely research conducted by Rahmawati and Sherlita (2021) and Nasution (2017) which provide empirical evidence that company size has a positive and significant effect on financial growth. Research conducted by Hadi (2019) and Aprillia et al. (2017) stated that company size has a positive but not significant effect on financial growth.

Effect of Capital Structure on Financial Growth

From the results of statistical tests it is known that the capital structure proxied by the Debt to Asset Ratio (DAR) has a negative effect (coefficient value -2.187) and significant (Prob. value (t) = 0.0075 <0.05) on the financial growth of mining companies in Indonesia Stock Exchange 2016-2020. A negative value indicates that the higher the capital structure, the lower the financial growth rate. Significant influence means that the capital structure variable has a significant effect on financial growth. The results of this study are supported by previous research by Hadi (2019) using a sample of open-pit mining companies on the Indonesia Stock Exchange in 2013-2017.

The results of this study are not in line with several previous studies, namely research conducted by Widiyanti et al. (2019) and Taani and Banykhaled (2011) which provide empirical evidence that Capital

Structure has a positive and significant effect on financial growth. Research conducted by Rehan et al. (2020), Damayanti and Rodhiyah (2018), Nasution (2017), Aprillia et al. (2017), and Sedeaq (2016) state that company size has a positive but not significant effect on financial growth.

Effect of Operating Cash Flow on Financial Growth

From the statistical test results it is known that operating cash flow has a negative effect (coefficient value -0.019) but not significant (Prob. value (t) = 0.8943 > 0.05) on the financial growth of mining companies on the Indonesia Stock Exchange in 2016-2020. A negative value indicates that the higher the operating cash flow, the lower the financial growth rate. The insignificant effect means that the operating cash flow variable has no significant effect on financial growth. The results of this study are supported by previous research by Hadi (2019) using a sample of open-pit mining companies on the Indonesia Stock Exchange in 2013-2017 and Nasution (2017) using a sample of open-pit mining companies on the Indonesia Stock Exchange in 2011-2015. The results of this study are not in line with previous research conducted by Taani and Banykhaled (2011) which provides empirical evidence that operating cash flow has a positive and significant effect on financial growth using a sample of 40 companies in the Amman Capital Market.

Effect of Current Ratio on Profitability

From the statistical test results it is known that the current ratio has a negative effect (coefficient value -0.033) but not significant (Prob. value (t) = 0.5003 > 0.05) on the profitability of mining companies on the Indonesia Stock Exchange in 2016-2020. Negative values indicate that the higher the current ratio, the lower the level of profitability. Insignificant influence means that the current ratio variable has no significant effect on profitability. This is due to the fact that the majority of mining companies sampled have current ratios below the average of 1.7289 and 58 companies have current ratios below 1. The results of this study are not in line with previous research conducted by Hutagalung (2018).) which provides empirical evidence that the current ratio has a negative and significant effect on profitability using a sample of open retail companies for the 2012-2016 period.

Effect of Company Size on Profitability

From the statistical test results it is known that company size has a positive (coefficient value of 0.049) and significant (Prob. value (t) = 0.0008 <0.05) on the profitability of mining companies on the Indonesia Stock Exchange in 2016-2020. A positive value indicates that the higher the size of the company, the level of profitability will also be higher. Significant influence means that the firm size variable has a significant effect on profitability. The results of this study are supported by previous research by Rachmawati and Sherlita (2021) using a sample of publicly listed manufacturing companies on the Indonesia Stock Exchange in 2015-2019 and Liman and Mohammed (2018) using a sample of publicly listed conglomerate companies in Nigeria in 2005-2014. The results of this study are not in line with previous research conducted by Birru (2016) which provides empirical evidence that company size has a negative effect on profitability using a sample of Commercial Banks in Ethiopia for the 2011-2015 period.

Effect of Capital Structure on Profitability

From the results of statistical tests it is known that capital structure has a positive (coefficient value -0.684) and significant (Prob. value (t) = 0.0002 <0.05) on the profitability of mining companies on the Indonesia Stock Exchange in 2016-2020. A positive value indicates that the higher the capital structure, the higher the level of profitability. Significant influence means that the capital structure variable has a significant effect on profitability. The results of this study are not in line with research conducted by Sedeaq (2016) which provides empirical evidence that capital structure has a negative and significant effect on profitability using a sample of publicly listed industrial companies on the Istanbul Stock Exchange in 2005-2012.

Effect of Operating Cash Flow on Profitability

From the statistical test results it is known that operating cash flow has a positive (coefficient value of 0.013) but not significant (Prob. value (t) = 0.6959 > 0.05) on the profitability of mining companies on the Indonesia Stock Exchange in 2016-2020. A positive value indicates that the higher the operating cash flow, the higher the level of profitability. The insignificant effect means that the capital structure variable has no significant effect on profitability. The results of this study are supported by research conducted by Liman and Mohammed (2018) which provides empirical evidence that operating cash flow has a positive and insignificant effect on profitability using a sample of open conglomerate companies in Nigeria in 2005-2014.

Effect of Profitability on Financial Growth

From the results of statistical tests it is known that profitability has a positive (coefficient value of 1.555) and significant (Prob. value (t) = 0.0000 <0.05) on the financial growth of mining companies on the Indonesia Stock Exchange in 2016-2020. A positive value indicates that the higher the profitability, the higher the level of financial growth. Significant influence means that the profitability variable has a significant effect on financial growth. The results of this study are supported by previous research by Widiyanti et al. (2019) using a sample of LQ 45 companies on the Indonesia Stock Exchange in 2013-2017. This study uses company performance as one of the dependent variables, namely profitability as described by Return On Equity (ROE).

The results of this study are not in line with several previous studies, namely research conducted by Hadi (2019) which provides empirical evidence that profitability has a positive but not significant effect on financial growth using a sample of open-pit mining companies on the Indonesia Stock Exchange in 2013-2017.

Effect of Current Ratio on Financial Growth through Profitability

From the results of statistical tests it is known that the indirect effect of the current ratio on financial growth through profitability is -0.033. It is known that profitability does not significantly mediate the effect of the current ratio on financial growth, with a Sobel p-value = 0.508 > 0.05. The results of this study did not succeed in proving the researchers' allegations regarding the influence of profitability mediating the current ratio relationship and financial growth in mining companies that went public on the Indonesia Stock Exchange in 2016-2020.

Effect of Company Size on Financial Growth through Profitability

From the results of statistical tests it is known that the indirect effect of company size on financial growth through profitability is 0.049. It is known that significant profitability mediates the effect of company size on financial growth, with a Sobel p-value = 0.0051 <0.05. The results of this study succeeded in proving the researchers' conjecture regarding the influence of profitability mediating the relationship between firm size and financial growth, this value is greater than the coefficient of the direct relationship between firm size and financial growth, which is -0.034.

Because the value of the direct effect (X2 to Y) is smaller, in this case it is better to use the indirect effect of company size on financial growth through profitability. The findings of this study indicate that increasing or decreasing company size can affect financial growth through the profitability of mining companies that go public on the Indonesia Stock Exchange for the 2016-2020 period.

Effect of Capital Structure on Financial Growth through Profitability

From the results of statistical tests it is known that the indirect effect of capital structure on financial growth through profitability is 0.684. It is known that significant profitability mediates the effect of capital structure on financial growth, with a Sobel p-value = 0.0025 <0.05. The results of this study succeeded in proving the researchers' conjecture regarding the influence of profitability mediating the relationship between capital structure and financial growth, this value is greater than the coefficient of the direct relationship between firm size and financial growth, which is -2.187.

Because the value of the direct effect (X3 to Y) is smaller, in this case it is better to use the indirect effect of company size on financial growth through profitability. The findings of this study indicate that increases or decreases in capital structure can affect financial growth through the profitability of mining companies that go public on the Indonesia Stock Exchange for the 2016-2020 period.

Effect of Operating Cash Flow on Financial Growth through Profitability

From the results of statistical tests it is known that the indirect effect of operating cash flow on financial growth, through profitability is 0.013. It is known that profitability does not significantly mediate the effect of operating cash flow on financial growth, with a Sobel p-value = 0.6962 > 0.05. The results of this study did not succeed in proving the researchers' allegations regarding the influence of profitability mediating the relationship between operating cash flow and financial growth in mining companies that went public on the Indonesia Stock Exchange in 2016-2020.

CONCLUSION

Based on the results of the research that has been done and the discussion that has been described, several conclusions can be drawn as follows:

1. Current Ratio has a negative but not significant effect on Profitability.
2. Company size has a positive and significant effect on profitability.
3. Capital structure has a positive and significant effect on profitability.
4. Operating Cash Flow has a positive but not significant effect on Profitability.
5. Profitability has a positive and significant effect on financial growth.
6. The effect of Current Ratio on Financial Growth, through Profitability is not significant.
7. The effect of company size on financial growth, through profitability is significant.
8. Effect of Capital Structure on Financial Growth, through Profitability is significant.
9. Effect of Operating Cash Flow on Financial Growth, through Profitability is not significant.

Declaration by Authors

Acknowledgement: None

Source of Funding: None

Conflict of Interest: The authors declare no conflict of interest.

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How to cite this article: Poncho Gardy Simanjuntak, Khaira Amalia Fachrudin, Syahyunan. Analysis of the effect of current ratio, company size, capital structure and operating cash flow on financial growth with profitability as an intervening variable in the company registered mining sector on the Indonesian Stock Exchange. *International Journal of Research and Review*. 2022; 9(12):413-423.
DOI: *https://doi.org/10.52403/ijrr.20221247*

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