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Effect of Cash Flow and Working Capital on Liquidity: The Mediation Role of Profitability

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Abstract

This study examines the effect of cash flow and working capital on liquidity with profitability as an intervening variable in the retail industry listed on the Indonesia Stock Exchange (IDX) in 2019-2021. The population in this study are retail companies listed on the Indonesia Stock Exchange (IDX) in the observation period from 2019 to 2021, with as many as 27 retail companies. The sample selection used the purposive sampling method and obtained a total sample of 21 companies that meet the criteria. The statistical method used to test the hypothesis is to use panel data regression with the help of Eviews software. The results of this study indicate that cash flow and working capital have a positive and significant effect on liquidity. Cash flow and working capital have a positive and significant impact on profitability. Profitability has a positive and significant effect on liquidity. Cash flow has a positive but insignificant impact on liquidity through profitability, and working capital has a positive and significant effect on liquidity through profitability.

Keywords: Cash Flow, Working Capital, Liquidity, Profitability.

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Introduction

A cash flow statement is one of the five financial statements that a company prepares for each accounting period. Operating cash flow is one of the three activities described in the cash flow statement. This activity shows the company's ability to repay loans, maintain the company's operating capabilities, pay dividends and make new investments with the company's funds (Mayasari et al., 2018). It can be said that this activity is the leading supporter of the cash flow statement. According to a survey published by DBS Bank, companies in Asia are trapped in an inefficient operating cycle, which causes more significant financing needs, so companies have to borrow funds from banks. On the other hand, if the company's operational cycle runs efficiently, the company's reserve funds will increase, which can then be diverted for business expansion (Sitepu et al., 2017). In the same survey, 52 percent of the Indonesian companies surveyed had problems related to increasing corporate profits due to inefficient cash flow. The efficiency of cash flow certainly impacts the investment invested by shareholders in the company—the more efficient, the more funds are obtained from investors (Lestari, 2016).

Working capital is a significant problem that companies often face because most of the attention of financial managers is aimed at managing working capital and current assets, which are a sizeable part of the company's total assets. Working capital management includes making decisions about the amount and composition of current assets and how to finance these assets. Companies that cannot correctly calculate the level of working capital may experience insolvency (unable to meet maturing obligations) and may be forced to be liquidated. Working capital management is the responsibility of every manager or company leader. In addition to managers, short-term creditors also need to know the company's working capital turnover rate to know when the company's debt will be paid immediately (Haryanto, 2019).

This relates to a company's liquidity, where liquidity is the ability of a company to meet short-term financial obligations which must be paid immediately. The liquidity problem is one of the critical problems in a company that is relatively difficult to solve. From the creditor's point of view, companies with high liquidity are good companies; because relatively more significant current assets can guarantee short-term funds borrowed by the company's creditors (Manyo & Ogakwu, 2013). However, if viewed from the management side, companies with high liquidity show poor management performance because high liquidity indicates an idle cash balance, relatively excessive inventory, or the company's bad credit policy, resulting in high accounts receivable. Managers must be able to plan and control current assets and current liabilities in such a way as to minimize the risk of the company's inability to meet its short-term debts, in addition to avoiding excessive investment in current assets (Wartono, 2018).

The three components, namely cash flow, working capital, and liquidity, affect the level of profitability. Where researchers use profitability which is the intervening variable in this study. Profitability is used because it relates to the company's ability to earn profits related to sales, total assets acquired, and capital. Profitability can be used as a benchmark in assessing the prospect of return from the investors' capital investment (Wijaya & Isnani, 2019). Achieving the level of profitability emphasizes using elements of cash flow, working capital, and liquidity as efficiently as possible. The better the efficiency of the three elements, the higher the profitability that will be received and vice versa. Researchers use Return on Assets (ROA) as a proxy for profitability ratios. The retail industry Return on Assets (ROA) is used because the retail industry is the object of this research.

Research by (Sugiono, 2013) states that working capital turnover affects liquidity. Meanwhile, company size and growth opportunities do not affect liquidity. At the same time, the research conducted (by Mayasari et al., 2018) states that three variables have a partially significant effect on liquidity: receivables turnover, cash flow, turnover, and profitability. While the profitability variable, one result has a significant effect, namely cash flow. In this study, the object to be tested is the retail industry listed on the BEI for three years, namely 2019 to 2021. The retail industry was chosen as the object of this research because the retail industry is currently experiencing poor development. The retail industry in Indonesia is currently being highlighted. Starting from Hero Supermarket, which officially closed 26 retail stores, Giant and even Neo Central Soho are rumored to follow the same steps shortly to close outlets.

To carry out the company's operational activities effectively and efficiently, it takes the expertise and skills of the company's human resources, including managing the company's finances. We can see this expertise and skills in the company's performance through how the company's cash flow and working capital are managed (Indarti & Oetomo, 2019). Objectively, this study aims to analyze and examine cash flow and working capital and their effect on company liquidity. If profitability is used as an intervening variable, the effect of the cash flow and working capital variables on the company's liquidity will also be analyzed.

In signal theory, it is assumed that the information received by each party is not the same (information asymmetry) between the company's management and the parties interested in the information. For this reason, managers need to provide information for interested parties by issuing financial statements. Signal theory suggests how a company should signal users of financial statements. This signal is in the form of information about what management has done to realize the owner's wishes. Signals can be in the form of promotions or other information stating that the company is better than other companies (Indriani et al., 2017).

The company's liquidity problems are related to its ability to meet its financial obligations that must be met immediately. The company's liquidity indicates the ability to pay short-term financial obligations on time. The company's liquidity is indicated by the size of current assets, namely assets that are easy to convert into cash, including cash, marketable securities, and inventories. According to Hayati (2016), liquidity shows a company's ability to meet its financial obligations that must be fulfilled immediately or the company's ability to meet obligations when billed. In general, liquidity (liquidity) refers to the company's ability to meet its short-term obligations.

Jumhana, (2017) states that profitability is the company's ability to earn profits from sales, total assets, and own capital. Ambarwati (2015) states that profitability is the company's ability to generate profits for a certain period; companies with good profit-generating abilities show good company performance because profitability is often used to measure company performance. Sari, (2020) explains that profitability is a description of the company's ability to earn profits through all existing capabilities and resources such as sales activities, cash, capital, number of employees, number of company branches, and so on. Based on the understanding of profitability conveyed, it can be concluded that profitability is the company's ability to generate profits within a certain period obtained from sales or assets that can generate profits.

Statement of Financial Accounting Standards Number 2 of 2009, cash flows are cash inflows and outflows of cash and equivalents (Indonesian Accounting Association, 2013).

Understanding cash inflows and outflows are the flow of cash inflows (cash flow) is the need for cash flows for payments (Sulastri, 2014). Erwin Widi (2021) states that the definition of a cash flow statement is a report that provides relevant information about the cash receipts and disbursements of a company in a certain period. From several opinions regarding the cash flow statement, it can be concluded that it is a report that provides information about cash receipts and disbursements and how a company uses the cash obtained during a specific period.

Two methods can be used to calculate and report the total net cash flows from operating activities, investing activities, and financing activities (Sunaryo, 2019): a. direct method. It is a reexamination of each item (or account) on the income statement to report how much cash was received or disbursed in connection with that item. The best way to use the direct method is to systematically sort the list of items on the income statement and calculate the amount of cash associated with each item. b. Indirect method. Under the indirect method, the statement of cash flows begins with net income, which includes the net effect of the entire income statement. It then reports the adjustments necessary to convert all income statement accounts into cash flow figures. Only adjustments are reported. As with the direct method, the best way to display the indirect method is to look at the income statement account by account.

Working capital. Sucipto (2019) defines working capital as used to finance the company's daily operations, especially those within a short period. Working capital is also defined as all current assets owned by a company or after current liabilities reduce current assets. According to Uremadu (2012), working capital is the excess of current assets over short-term debt. This excess is called net working capital. This excess is the number of current assets derived from long-term debt and own capital. This definition is qualitative because it shows the possibility of greater availability of current assets than short-term debt, shows the security level for short-term creditors and ensures business continuity in the future. According to Mansoori (2012), the benefits of working capital include protecting the company against a decrease in the value of current assets. Enables the company to be able to pay all its obligations on time. Ensuring the company has more excellent Credits Standing so that the company is always ready to face any dangers that may occur. Allows the company to have sufficient inventory to serve consumers. Enables companies to provide more favorable credit terms to customers. It enables companies to operate more efficiently because there is no difficulty in obtaining the goods and services needed.

Sulastri, (2014) describes cash flow as a report that provides relevant information about cash receipts and disbursements of a company in a certain period by classifying transactions in operating, investing, and financing activities. Research (Sitepu et al., 2017) states that cash flow significantly and positively affects profitability. These results illustrate that positive cash flow can strengthen the company's liquidity, whereas the profitability variable, whose indicators can be measured by ROA, directly shows the company's performance.

H1: Cash flow has a positive and significant effect on Return on Assets (ROA)

Working capital is all current assets that can be used as cash owned by the company or funds that must be available to finance the company's daily operational activities. The availability of sufficient working capital will support the achievement of company profitability; the higher the effectiveness of working capital, the better the company's operational performance, but errors in managing working capital can cause business activities to be hampered or stopped altogether. The factor causing the inconsistency regarding the effect of capital policy on profitability is that managers are not yet optimal in managing working capital policies to increase company profitability. It is essential to manage working capital to avoid the company from the risk of bankruptcy. Company management that can manage working capital policies will show a stable level of profitability, so it is expected that more companies will be able to enter the capital market (Haryanto, 2019).

H2: Working capital has a positive and significant effect on return on assets (ROA)

A company's cash flow is helpful in providing information for users of financial statements as a basis for assessing the company's ability and the company's need to use these cash flows. This cash flow statement describes the cash inflows and outflows in a certain period to answer questions from interested parties from the information presented in the form of cash flow statements. Cash flows consist of operating activities, investing, and financing cash flows. Cash flows from operating activities mainly come from receipts and payments of loans and dividends for bank activities. The main activity of banks is generally receiving funds from the public in the form of savings and time deposits so that cash flows from these activities can generate sufficient cash flow to repay loans, maintain the company's operating capability, pay dividends, and make new investments without relying on external funding sources. Investing activities may involve acquiring and disposing of long-term assets and other investments that do not include cash equivalents. In addition to providing investors with a view of the investment guarantees they invest in both stocks and bonds; liquidity also contains an essence that helps external parties predict how long the company's existence in the market will be. Meanwhile, financing activities result in changes in the amount and composition of the entity's capital and loan contributions. Liquidity with a current ratio compares current assets with current liabilities. At the same time, funding activities aim to obtain sources of funds from investors, one of which is by making long-term loans, which can be in the form of loans from third parties, bonds or stocks. Research conducted by (Rais, 2017) states that cash flow has a positive and significant effect on liquidity.

H3: Cash flow has a positive and significant effect on liquidity (CR)

Atseye, (2015) states that working capital is the excess of current assets over short-term debt. This excess is called net working capital. This excess is the number of current assets derived from long-term debt and own capital. According to Kasmir, (2015), working capital turnover is one of the ratios to measure or assess the effectiveness of working capital. Low working capital turnover means that the company has excess working capital. On the other hand, high working capital turnover is caused by high inventory turnover, accounts receivable turnover, or cash balances that are too small. The company's provisions in appropriately managing the amount of capital will result in a company being able to meet its short-term needs. In contrast, the consequences of improper working capital investment will result in the company being unable to meet its short-term needs (Lestari, 2016).

H4: Working capital has a positive and significant effect on liquidity (CR)

High liquidity without its value to generate profits for the company will be a burden because it can be said that the cash is idle (idle funds), the number of uncollectible receivables, and the low number of short-term loans. Different results will arise if the company plans high liquidity as working capital in anticipation of a short-term or long-term debt that must be paid immediately. Research by (Manyo & Ogakwu, 2013) on 43 companies listed on the Nigerian Stock Exchange for the period 2000-2009 states that the CR variable has a positive and significant effect on ROA. At the same time, Wartono (2018) conducted research on PT. Astra International Tbk stated that CR positively and significantly impacts ROA when the company's management appropriately manages it as working capital.

H5: Profitability (ROA) has a positive and significant effect on liquidity (CR)

Signals usually arise because of an action taken by the company's management that provides clues to investors about how management views the company's prospects. This theory assumes that managers and shareholders do not have access to the same company information. There is certain information that the manager only knows. In contrast, the shareholders do not know the information, so there is information asymmetry between the manager and the shareholders. Profitability is one the critical information for investors where they can analyze the development of company profit. The more profitable the company, it will give a positive signal to investors that they also benefit from their investment. Cash flow is a financial statement that contains information on cash inflows and outflows from a company during a specific period. Positive cash flow can strengthen the company's liquidity, where the profitability variable, whose indicators can be measured by ROA, directly shows the company's performance. The study's results (Mayasari et al., 2018) show that cash flow affects liquidity through profitability.

H6: Cash flow has a positive and significant effect on liquidity (CR) through profitability (ROA)

Profitability is one the critical information for investors where they can analyze the development of company profit. The more profitable the company, the more positive signal for investors that they will also benefit from their investment. Working capital is all current assets that can be used as cash owned by the company or funds that must be available to finance the company's daily operational activities. The availability of sufficient working capital will support the achievement of company profitability; the higher the effectiveness of working capital, the better the company's operational performance, but errors in managing working capital can cause business activities to be hampered or stopped altogether. The study's results (Wijaya & Isnani, 2019) found that working capital positively affected the current ratio.

H7: Working capital has a positive and significant effect on liquidity (CR) through profitability (ROA)

Research Design and Method

This type of research is quantitative research. The population in this study are retail companies listed on the Indonesia Stock Exchange (IDX) in the observation period from 2019 to 2021, with as many as 27 retail companies. The sample selection used the purposive sampling method, namely the sample selection method based on specific criteria to obtain a representative sample period by the specified performance (Sugiyono, 2015). The criteria for selecting the research sample are 1. Retail companies were listed on the Indonesia Stock Exchange for at least three consecutive years during the observation period between 2019 and 2021. 2. The sample companies must provide complete data or information for research analysis needs. 3. Companies that earn a profit after tax. From a total of 23 retail companies listed on the Indonesia Stock Exchange (IDX), researchers took 21 companies that met these criteria.

Table 1. Operationalization of Variables and Measurements

Variable	Indicator	Reference
Cash flow	Total cash flow = Operating cash flow + Investment cash flow + financing cash flow	(Sulastri, 2014)
Working capital	Working Capital = Current Assets – Current Liabilities	(Indarti & Oetomo, 2019)
Return on Assets	Return on Asset = $\frac{\text{Net profit}}{\text{Total assets}}$	(Sitepu et al., 2017; Wartono, 2018)
Current Asset	Current Asset = $\frac{\text{Current asset}}{\text{Current Liability}}$	(Hayati & Riani, 2016; Jumhana, 2017)

The type of data used in this study is secondary data. Researchers get ready-made data from other parties, in this case, the Indonesia Stock Exchange; these data include 1. Data on the listing date of the sample companies. 2. The sample company's financial statements. 3. The annual closing stock price of the sample company. The data source used in this study was obtained from the Indonesia Stock Exchange (IDX) website. The data collection method used is the documentation method. The statistical method used to test the hypothesis is to use panel data analysis with the help of Eviews software after all the data in this study are collected.

Results and Discussion

Statistical Result

Descriptive statistical results were obtained from 63 observational data derived from the results of the multiplication between the research period, namely for 3 years from 2019 to 2021 and the number of sample companies as many as 21 companies. In table 2, the results of the descriptive statistical test show that the minimum value for Cash Flow is IDR -700,000,000,000, and the maximum value is 400,000,000,000. The average value is 21,774,473,194.92; These results indicate that cash flow has a fairly strong influence. The standard deviation of cash flows is 198,504,011,911,664. The minimum value of working capital is -2390361, and the maximum is 2880066. The average value of 824216.7778 indicates that working capital has a high enough effect. The standard deviation of working capital is 0.1137749.10599. The minimum value for profitability is -22.91, and the maximum is 18.93. The average value of 2.4104 indicates that profitability has a high enough effect. The profitability standard deviation is 7.95996. The minimum Liquidity value is 12.80, and the maximum Liquidity value is 726.12. The average value of 182.2281 indicates that liquidity has a high enough effect. The liquidity standard deviation is 158.88730.

Table 2. Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Cash flow	63	-700,000,000,000	400,000,000,000	21,774,473,194.92	198,504,011,911.664
Working Capital	63	-2390361.00	2880066.00	824216.7778	1137749.10599
Profitability	63	-22.91	18.93	2.4103	7.95996
Liquidity	63	12.80	726.12	182.2281	158.88730
Valid N (list wise)	63				

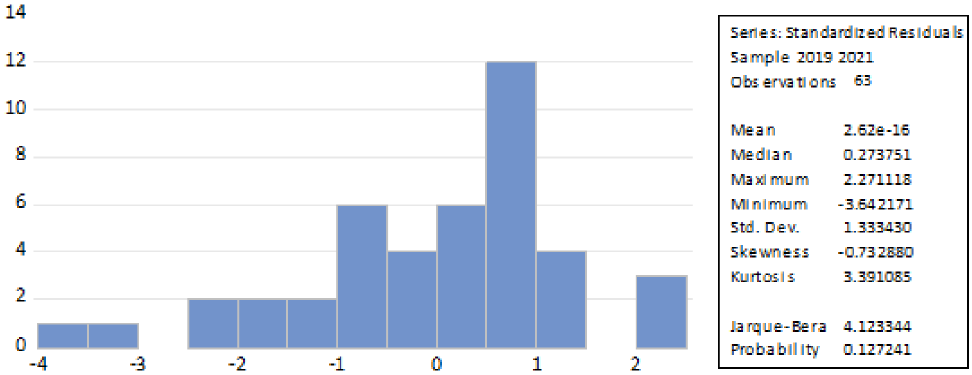

Figure 1. Normality Test

Source: Data processed by Eviews, 2022

Furthermore, the results in Figure 1 show a probability value of 0.127241 > 0.05 and a jarque fallow value of 4.123344 > 0.05. So, it can be concluded that the data used in this study is normally distributed. In the F-Restricted test, H0 is rejected if the probability value of the Chi-Square Cross Section <0.05, and H0 is accepted if the probability value of the Chi-Square Cross Section is> 0.05. F Restricted Test Results as shown in table 3.

Table 3. F Restricted Sub Structure Test Results I and II

Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.917.932	(20.39)	0.0005
Cross-section Chi-square	24.302.993	20	0.0000
Effects Test	**Statistic**	**d.f.**	**Prob.**
Cross-section F	6.072.106	(20.39)	0.0000
Cross-section Chi- square	29.181.680	20	0.0000

Redundant Fixed Effects Tests

Eqution: PLS vs FEM

Source: Data processed by Eviews, 2022

Based on table 3, the probability value of the Chi-Square Cross Section is 0.0005 < 0.05. Then H0 is rejected, and H1 is accepted, so the best model used is the Fixed Effect Model. The probability value of the Chi-Square Cross Section is 0.0000 < 0.05. Then H0 is rejected, and H1 is accepted, so the best model used is the Fixed Effect Model.

Table 4. Hausman Test Results for Sub Structures I and II

Test cross-section random effects

Effects Test	Statistic	d.f.	Prob.
Cross-section random	0.303903	2	0.9593
Effects Test	**Statistic**	**d.f.**	**Prob.**
Cross-section random	0.106205	3	0.7445

Correlated Random Effects - Hausman Test
Equation: REM vs FEM
Source: Data processed by eviews, 2022

Table 5. Random Effect Model Sub Structure I and II

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.0189	0.012	7.074	0.000
Cash flow	0.1523	0.064	2.375	0.018
Working Capital	0.6010	0.139	4.314	0.000
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0,1896	0,1575	3,342	0,040
Cash flow	0.2001	0,1953	2.108	0.036
Working Capital	0.2620	0,1121	2.362	0.019
Profitability	0.5312	0,1030	5.158	0.000

Source: Data Processed by the author (2022)

The probability value of Cross Section Random is 0.9593 > 0.05. Then H0 is accepted, and H1 is rejected, so the best model used in this study is the Random Effect Model. These results show different results from the results of the Restricted F Test; it is necessary to carry out the Langrange Multiplier Test. The probability value of Cross Section Random is 0.0006 < 0.05. Then H0 is rejected, and H1 is accepted, so the best model used in this study is the Fixed Effect Model. These results show the same results as the F Restricted Test results, so there is no need to do the Langrange Multiplier Test. Based on the Restricted F test and the Haussman Test that have been carried out, the model that is feasible to use on the intervening variable is the Random Effect Model. The estimation results of the analysis of the influence of the independent variables on the intervening variables can be seen in table 6.

In table 5, the constant value obtained is 0.0189, so the value of the independent variables of cash flow and working capital is considered 0 (zero), then the average profitability is 0.0189. The cash flow regression coefficient of 0.1523 means that every one unit change in cash flow will increase profitability by 0.1523, assuming other variables are fixed. The working capital regression coefficient of 0.6010 means that every one unit change in working capital will increase profitability by 0.6010 with the assumption that other variables are fixed.

Testing on the panel data regression model, the constant value is 0.1896, the value of the independent variables of cash flow, working capital, and profitability is considered 0 (zero), then the average liquidity is 0.1896. The cash flow regression coefficient of 0.2001 means that every one unit change in cash flow will increase the liquidity by 0.2001, assuming that other variables are fixed. The working capital regression coefficient of 0.2620 means that every unit change in working capital will increase the liquidity by 0.2620, assuming other variables are fixed. The working capital regression coefficient of 0.5312 means that every unit change in working capital will increase the liquidity by 0.5312, assuming that other variables are fixed. Coefficient of Determination Test (Adjusted R2) Sub Structure I Dependent variable profitability of 0.313686 or 31.36% or profitability can be explained by cash flow and working capital variables of 68.64% (100%-31.36%) explained by variables others that are not used in this research model. Coefficient of Determination Test (Adjusted R2IIDependent Variable liquidity is 0.581280 or 58.12%, or liquidity can be explained by cash flow, working capital, and profitability variables of 41.88% (100%-41.88%) explained by other variables that are not used in this research model.

Table 6. Coefficient of Determination Test for Sub Structures I and II

Info	**Coefficient of Determination**
R Squared Adj. R-Squared	0,517862 0,313686
Info	**Coefficient of Determination**
R Squared Adj. R-Squared	0,736611 0,581280

Sumber: Output Eviews V.12 (2022)

Table 7. Summary of Test Results

Variable	**X - Y**	**X - Z (a)**	**Z - Y (b)**	**Sa**	**Sb**
Cash flow	0.2001	0.1523	0.5312	0.064	0,1953
Working Capital	0.2620	0.6010	0.5312	0.139	0,1121

Source: data processed by the author (2022)

Discussion

The results of hypothesis testing show that cash flow has a positive and significant effect on profitability. The higher the cash flow, the company's profitability will increase. Cash flow statements are information used to determine changes in financial activities related to cash transactions. This cash flow statement is beneficial for decision-making, especially in assessing how the company manages funds and finances and is also helpful in analyzing financial statements. The primary purpose of a cash flow statement is to provide relevant information about a company's cash receipts and payments during a period. So when the cash flow is large, investors judge that the company is managing its cash. This study is in line with research (Indriani et al., 2017) which states that cash flow has a significant and positive effect on profitability. Positive cash flow can strengthen the company's liquidity, where the profitability variable, whose indicators can be measured by ROA, directly shows the company's performance.

The results of hypothesis testing indicate that working capital has a positive and significant effect on profitability. The greater the working capital owned by the company, the more profitability will increase. This is because the high working capital indicates the higher the company's ability to earn profits and the better the company's performance. The company uses working capital for its operational activities. The funds issued by the company are expected to be returned for further operational activities. These results prove that the higher the sales volume generated, the faster the working capital rotates so that the capital returns quickly to the company, accompanied by high profits; high profits cause the company's ROA to increase. The research results (Satriya & Lestari, 2014) prove that working capital turnover positively affects profitability, meaning that the higher the working capital turnover, the better because, the higher the efficiency of the use of working capital and the greater the profits.

The results of hypothesis testing indicate that cash flow has a positive and significant effect on liquidity. The higher the cash flow, the company's liquidity will increase. Cash flow statements are information used to determine changes in financial activities related to cash transactions. This cash flow statement is beneficial for decision-making, especially in assessing how the company manages funds and finances and is also helpful in analyzing financial statements. The primary purpose of a cash flow statement is to provide relevant information about a company's cash receipts and payments during a period. So when the cash flow is large, investors judge that the company is managing its cash. This study is in line with research (Hayati & Riani, 2016) which states that cash flow has a positive and significant effect on liquidity.

The results of hypothesis testing indicate that working capital has a positive and significant effect on liquidity. The greater the working capital owned by the company, the more liquidity will increase. This is because the high working capital indicates the higher the company's ability to earn profits, so it will increase current assets that can be used to cover the current debt. The company uses working capital for its operational activities. The funds issued by the company are expected to be returned for further operational activities. These results prove that the higher the sales volume produced, the faster the working capital rotates so that the capital returns to the company accompanied by high profits; high profits cause the company's current assets to increase. The results of research conducted by (Indarti & Oetomo, 2019) state that working capital positively affects liquidity.

The results of hypothesis testing indicate that profitability has a positive and significant effect on liquidity. The greater the profitability of the company, the more liquidity will increase. This is because the company's high profitability shows that it is managing its assets very well, resulting in significant profits. These profits add to current assets that can be used to cover current liabilities. The results of research conducted (Barus, 2013) on manufacturing companies listed on the Indonesia Stock Exchange stated that CR had a positive and significant effect on company profitability. Research by (Manyo & Ogakwu, 2013) on 43 companies listed on the Nigerian Stock Exchange for the period 2000-2009 states that the CR variable has a positive and significant effect on ROA. As well as supporting the results of research (Wartono, 2018) stating that CR has a positive and significant influence on ROA when the company's management appropriately manages it as working capital.

The results of hypothesis testing indicate that cash flow has a positive but significant effect on liquidity through profitability. The higher the cash flow, the higher the company's liquidity and no impact on profitability. Cash flow statements are information used to determine changes in financial activities related to cash transactions. This cash flow statement is beneficial for decision-making, especially in assessing how the company manages funds and finances and is also helpful in analyzing financial statements. The primary purpose of a cash flow statement is to provide relevant information about a company's cash receipts and payments during a period. So when the cash flow is large, investors judge that the company is managing its cash. The results of this study support research (Hayati & Riani, 2016), which finds that cash flow has a positive effect on liquidity. As well as research conducted by (Jumhana, 2017) found that liquidity has a positive effect on profitability.

The results of hypothesis testing indicate that working capital positively and significantly affects liquidity through profitability. The greater the working capital owned by the company; the more liquidity will increase through profitability. This is because the high working capital indicates the higher the company's ability to earn profits, so it will add current assets that can be used to cover the current debt. The company uses working capital for its operational activities. The funds issued by the company are expected to be returned for further operational activities. These results prove that the higher the volume of sales produced, the faster the working capital rotates so that the capital returns quickly to the company, accompanied by high profits; high profits cause the company's current assets to increase. The results of this study support research (Indarti & Oetomo, 2019) which found that working capital had a positive effect on liquidity, and the research conducted (Ambarwati et al., 2015) found that working capital had a significant positive effect on profitability while liquidity had no significant effect on profitability.

Conclusions

In this study, seven hypotheses were tested. The results of testing the first hypothesis show that cash flow positively and significantly affects profitability. Working capital has a positive and significant effect on profitability. Cash flow has a positive and significant effect on liquidity. Working capital has a positive and significant effect on liquidity. Profitability has a positive and significant effect on liquidity. Cash flow has a positive but not significant effect on liquidity through profitability. Working capital has a positive and significant effect on liquidity through profitability. The greater the working capital owned by the company; the more liquidity will increase through profitability. For investors, if you want to invest, try to get information as early as possible so that there is no asymmetric information in making investment decisions. For companies, it is better to disclose information about their financial statements so that investors can easily access the information needed and not cause losses for investors and the company itself. Future researchers are expected to be able to use companies with different sectors.

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