



THE EFFECT OF CURRENT RATIO, RETURN ON ASSETS, AND DEBT TO EQUITY RATIO ON FINANCIAL DISTRESS

(Empirical study of retail trade sub-sector companies listed on the Indonesia Stock Exchange in 2017-2021)

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ABSTRACT

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This study was conducted with the aim of knowing the effect of the current ratio, return on assets and debt to equity on financial distress. The object of this research is the retail trading sub-sector companies listed on the Indonesia Stock Exchange for the 2017-2021 period. The total sample used is 120 samples with 24 companies. Determination of the sample using the Purposive Sampling method. The research was conducted with a quantitative descriptive approach and the analytical technique used was logistic regression. The results of this study indicate that simultaneously all variables used current ratio, return on assets, and debt to equity ratio have an effect on financial distress. Partially, the current ratio and return on assets have a positive effect on financial distress,

KEYWORDS: *Current Ratio, Return On Assets, Debt To Equity Ratio, Financial Distress*

ABSTRAK

Penelitian ini dilakukan dengan tujuan untuk mengetahui pengaruh dari *current ratio*, *return on asset* dan *debt to equity* terhadap *financial distress*. Objek penelitian ini adalah perusahaan sub sektor perdagangan eceran yang terdaftar di Bursa Efek Indonesia periode Tahun 2017-2021. Total sampel yang digunakan adalah 120 sampel dengan 24 Perusahaan. Penentuan sampel menggunakan metode *Purposive Sampling*. Penelitian dilakukan dengan pendekatan deskriptif kuantitatif dan teknik analisis yang digunakan adalah regresi logistik. Hasil penelitian ini menunjukkan bahwa secara simultan semua variabel yang digunakan *current ratio*, *return on asset*, dan *debt to equity ratio* berpengaruh terhadap *financial distress*. Secara Parsial *current ratio* dan *return on asset* berpengaruh positif terhadap *financial distress*, namun *debt to equity ratio* berpengaruh negatif terhadap *financial distress*.

Kata Kunci: *Current Ratio, Return On Asset, Debt To Equity Ratio, Financial Distress*

INTRODUCTION

Every company that is established hopes to make a profit, but the current uncertain economic conditions are forcing companies in the retail trade sub-sector to work harder to maintain business continuity with various strategies. Unlimited creativity and innovation must be the foundation for companies in the retail trade sub-sector to run their business. This must be done to avoid financial difficulties or even financial distress for the company.

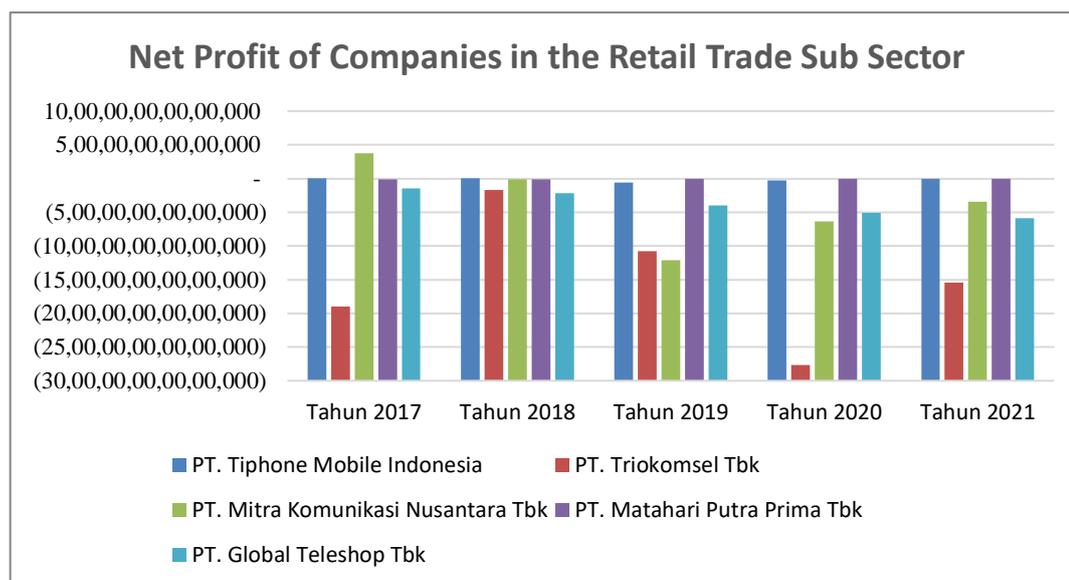
The retail trade sub-sector company is a category of service industry companies listed on the Indonesia Stock Exchange. Companies in the retail trade sub-sector are interesting to be the object of research because the retail trade sub-sector is still quite productive in running its business. Therefore, companies in the retail trade sector need to pay attention to the efficiency of their companies so that they remain in good condition and do not lead to the possibility of financial distress.

Cases of financial distress can occur in all companies, including companies in the retail trade sub-sector such as PT. Tiphone Mobile Indonesia Tbk, PT. Triokomsel Tbk, PT. Nusantara Communication Partners Tbk, PT. Matahari Putra Prima Tbk, and PT. Global Teleshop Tbk. The five companies declared financial distress can be seen from the net profit which continues to decline. The following is a table and graph of the decline in net profit experienced by these companies.

Table 1.1 Net Profit of Companies in the Retail Trade Sub-Sector 2017-2021 (Expressed in Millions of Rupiah).

Company name	2017 year	2018 year	2019 year	2020 year	Year 2021
PT. Tiphone Mobile Indonesia Tbk	418,162	444,339	- 5,571,740	- 2,566,951	- 114,922
PT. Triokomsel Tbk	-189,940,195	-17,088,974	-107,726,887	-276,596,537	-154,647,642
PT. Nusantara Communication Partners Tbk	37,374,914	-1,426,324	-121,152,314	-63,440,559	-34,676,018
PT. Matahari Putra Prima Tbk	-1,243,414	-898,272	-186,882	-405,307	-337,548
PT. Global Teleshop Tbk	-14,669,996	-21,385,174	-39,725,601	-50,608,122	-58,735,842

Source: Data processed from, Indonesia Stock Exchange (www.idx.co.id).



Source: Data processed from, Indonesia Stock Exchange (www.idx.co.id).

Figure 1.1 Graph of Net Profit of Companies in the Retail Trade Sub Sector 2017-2021.

Based on graph 1.1 above, the first PT. Tiphone Mobile Indonesia Tbk in 2017-2018 experienced an increase in net profit in 2017 of Rp. 418,162,000,000 and in 2018 Rp. 444,339,000,000 However, in 2019-2021 PT. Tiphone Mobile Indonesia Tbk suffered a loss in 2019 of Rp. - 5,571,740,000,000 in 2020 Rp. - 2,566,951,000,000 and in 2021 Rp. - 114,922,000,000.

Both PT. Triokomsel Tbk from 2017-2021 experienced a loss which in 2017 amounted to Rp. - 189,940,195,572,000 in 2018 Rp. -17,088,974,878,000 in 2019 Rp. -107,726,887,576,000 in 2020 Rp. -276,596,537,437,000 and in 2021 it is Rp. -154,647,642,961,000.

Third PT. Mitra Communications Nusantara Tbk in 2017 earned a profit of Rp. 37,374,914,360,000. However, in 2018-2021 there was a loss in 2018 of Rp. -1,426,324,779,000 in 2019 Rp. -121,152,314,807,000 in 2020 Rp. -63,440,559,860,000 and in 2021 it is Rp. -34,676,018,586,000.

FourthPT. Matahari Putra Prima Tbk from 2017-2021 experienced a loss where in 2017 it was Rp.-1,243.414,000,000 in 2018 Rp.-898,272,000.000 in 2019 Rp.-186,882,000.000 in 2020 Rp.-405,307,000.000 and in 2021 it is Rp.-337,548,000.000.

FifthPT. Global Teleshop Tbk from 2017-2021 experienced a loss where in 2017 it was Rp.-14,669,996,785,000 in 2018 Rp.-21,385,174,417,000 in 2019 Rp.-39,725,601,460,000 in 2020 Rp.-50,608.122,770.000 and in 2021 it is Rp.-58,735,842,609.000. If allowed to continue to experience losses, the five companies will be on the verge of bankruptcy.

The formulation of the problem

1. Does the current ratio affect financial distress?
2. Does return on assets affect financial distress?
3. What is the debt to equity ratio effect on financial distress?

LITERATURE REVIEW

Agency Theory (Agency Theory).

Agency theory has been developed by Jensen and Meckling in 1976. According to Jensen and Meckling agency theory describes a contract between the owner of the company (principal) and the management of the company (agent), in which the contract or agreement contains the agent to provide services to the principal by delegating some authority to make decisions to the agent. Companies that have large debt ratios are likely to be the result of agent errors in managing the company, or even worse, agents deliberately take actions that are only selfish and ignore the principal. With a high ratio of debt owned by a company, it can cause the company to experience financial difficulties or financial distress.

Financial Distress.

According to Hery (2017) financial distress is a situation where the company's income cannot cover the total costs so that the company has difficulty fulfilling its obligations and suffers losses. And according to Hery (2017) financial distress can arise due to influences from within the company (internal) and outside the company (external). Internal factors are factors that arise from within the company and are usually micro. The internal factors that cause. The company experienced financial distress, including: too much credit given to customers, weak human resource qualifications, lack of working capital, abuse of authority and fraud. While external factors are factors that arise from outside the company which are usually macro in nature which include: Intense business competition, reduced demand for the products and services produced, continuous decline in selling prices, accidents or natural disasters that befall the company so that it affects and harms the course of company activities. For the financial distress formula in this study, the 1995 Altman Z-Score formula was used because it has been used in various industries to predict bankruptcy. The following is the modified Z-Score equation Altman (1995):

$$Z'' = 6,56X1 + 3,26X2 + 6,72X3 + 1,05X4$$

Source: Hery (2017)

Information :

X1 : Working Capital/Total Assets

X2 : Retained Earning/Total Assets

X3 : Earnings Before Taxes/Total Assets

X4 : MVE/Total Liabilities

Tilapia Keteria:

Z < 1.1 : The company is experiencing financial distress.

Z < 2.6 : Including gray area.

Z > 2.6 : Not experiencing financial distress.

Current Ratio

According to Kasmir (2019) the current ratio is the current ratio to measure a company's ability to pay short-term obligations or debts that are due soon when billed as a whole. Furthermore, the elements that affect the value of the current ratio are the current ratio and short-term debt. In this case the current ratio consists of cash as well as securities, including promissory notes, notes, stocks, bonds, credit securities, or any derivative of securities or other interests or obligations of the issuer, forms commonly traded in money market and capital market. On the other hand, short-term debt can be in the form of debt to third parties (banks or other creditors). The formula for calculating the current ratio obtained from the annual report of each company is as follows:

$$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Source: Kasmir (2019).

Return On Assets

According to Kasmir (2019) return on assets is a ratio that shows the return on the total assets used in the company. The results of calculating return on assets describe the profitability of a company where the greater the ROA value, the better the company's performance and minimizes the occurrence of financial distress. For this reason, in this study the formula for calculating the return on assets obtained from the annual report of each company is as follows:

$$ROA = \frac{\text{Earning After Tax}}{\text{Total Assets}}$$

Source: Kasmir (2019).

Debt To Equity Ratio.

According to Kasmir (2019) the debt to equity ratio is the ratio used to assess debt to equity. The higher the debt to equity ratio, the greater the composition of long-term liabilities owned by the company, which increases the risk of default. For this reason, in this study the formula for calculating the debt to equity ratio obtained from the annual report of each company is as follows:

$$DER = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Source: Kasmir (2019).

Hypothesis.

1. The effect of the current ratio on financial distress.

Current ratio measurement is done by comparing current assets with current liabilities, the worse or lower the liquidity, the lower the Z-Score so that there is a possibility that the company will experience financial distress. And the opinion above is in line with previous research conducted by Ginting (2017) showing that the current ratio has a positive effect on financial distress.

2. Effect of return on assets on financial distress

Calculation of return on assets describes the profitability of a company, the smaller the value of return on assets, the smaller the altman Z-Score. And the opinion above is in line with previous research conducted by Muis (2018) and Suprihatin (2016) that return on assets has a positive effect on financial distress.

3. Effect of debt to equity ratio on financial distress

The higher the debt to equity ratio shows the larger composition of long-term liabilities owned by a company which increases the risk of default, due to the fact that the resulting total liabilities have a small ratio. Which means whatever the obligation to borrow has been guaranteed by the equity owned by the company. In obtaining funds, the company will choose a source of funds with a small risk and will improve the management of the company so as to obtain large profits. And the opinion above is in line with previous research conducted by Gunawan and Putra (2018) that the debt to equity ratio has a negative effect on financial distress.

RESEARCH METHODS

This research is included in the type of quantitative research using causal methods. According to Sugiyono (2018) a causal relationship is a relationship that is causal in nature so that there will be variables that influence (independent variables) and variables that are affected (dependent variables). The method of data analysis in this study is logistic regression analysis using the SPSS 25 application. The reason for using the logistic regression analysis tool is because the dependent variable used is a dummy variable where companies experiencing financial distress are coded 0 that is while companies that do not experience financial distress are given code 1. And for the independent variables are the current ratio, return on assets and debt to equity ratio. The population used in this study were manufacturing companies in the retail trade sub-sector, totaling 27 companies listed on the Indonesia Stock Exchange in the period 2017 - 2021. And the total sample used was 120 samples with 24 companies. Determination of the sample using Purposive Sampling method.

RESULTS AND DISCUSSION

1. Descriptive test analysis.

Descriptive Statistical Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Means	std. Deviation
CURRENT RATIO	120	.01	13.84	2.3812	2.53462
RETURN ON ASSETS	120	-7.89	.35	-.2340	1.06779
DEBT TO EQUITY RATIO	120	-2.80	23.42	1.8761	3.49183
Valid N (listwise)	120				

Source: Process data with SPSS Version 25

1. The current ratio variable has the lowest (minimum) value of 0.01 owned by PT. Triokonsel Tbk (TRIO) in 2021. This is due to the increase in current liabilities of Rp. 1,298,284,823,744. The highest value (maximum)

of 13.84 was obtained by PT. Kioson Komersial Indonesia Tbk (KIOS) in 2020. This is because in that year current assets increased by Rp. 166,504,261,852. Then the average value (mean) is 2.3812, which means that the average current ratio of companies in the retail trade sub-sector in 2017-2021 has a total of 238 current assets, 12% of the total current liabilities they have. Standard deviation value 2.53462 which is greater than the average value indicating that the data sampled in this study varies.

2. The return on asset variable has the lowest (minimum) value on the return on asset variable of -7.89 obtained from PT. Thiphone Mobile Indonesia Tbk (TELE) in 2020. This is because in that year it experienced a loss. The highest value (maximum) is 0.35 which is held by PT. Matahari Department Store Tbk (LPPF) in 2017. This was due to increased profits and company assets, based on the 2017 financial reports, it recorded a company profit of Rp. 1,907,077,000,000 and company assets of Rp. 5,427,426,000,000. Then the average value (mean) is -0.2340 which means that the average return on assets of companies in the retail trade sub-sector in 2017-2021 has a net loss of 23.40% of assets owned. The standard deviation value of return on assets is 1.06779 which is greater than the average value indicating that the data sampled in this study varies.
3. The debt to equity ratio variable has the lowest (minimum) value of -2.80 obtained from PT. Thiphone Mobile Indonesia Tbk (TELE) in 2019. This is because the total equity is minus or low by Rp. -1,645,426,000,000 compared to total liabilities which amounted to Rp. 4,602,040,000,000. The highest value of the debt to equity ratio is 23.42 which is held by PT. Matahari Putra Prima Tbk in 2020. This is because the total equity is higher than total liabilities. Then the average value (mean) is 1.8761 which means that the average debt to equity ratio of companies in the retail trade sub-sector in 2017-2021 has total liabilities of 187.61% of their capital. The standard deviation value is 3.49183 which is greater than the average value indicating that the data sampled in this study varies.

Results of Descriptive Analysis of Dummy Financial Distress

FINANCIAL DISTRESS					
		Freque ncy	Percent	Valid Percent	Cumulative Percent
Valid	EXPERIENCE FINANCIAL DISTRESS	40	33.3	33.3	33.3
	NOT EXPERIENCE FINANCIAL DISTRESS	80	66.7	66.7	100.0
	Total	120	100.0	100.0	

Source: Process data with SPSS Version 25

In the descriptive statistical measurements for the dummy variable it shows that the financial distress variable has 40 samples experiencing financial distress or 33.3% of the total sample studied.

2. Classification Matrix Analysis.

Classification Table Results.

Classification Tablea						
		Observed		predicted		
				FINANCIAL DISTRESS		Percent Correct
				EXPERIENCE FINANCIAL DISTRESS	NOT EXPERIENCE FINANCIAL DISTRESS	
Ste p 1	FINANCIAL DISTRESS	EXPERIENCE FINANCIAL DISTRESS		32	8	80.0
		NOT EXPERIENCE FINANCIAL DISTRESS		2	78	97.5
		Overall Percentage				91.7

a. The cut value is .500

Source: Process data with SPSS Version 25

The results of the classification test show that the prediction of companies experiencing financial distress is 40 observations based on observations, companies that are truly experiencing financial distress are 32

observations so that the classification accuracy is 80.0% (32/40). The prediction of companies that do not experience financial distress is 80 and based on observations of companies that do not experience financial distress is 78, so the accuracy of the prediction is 97.5% (78/80). Overall the accuracy of the classification is 91.7% so that it can be said that this model has a fairly high accuracy in predicting financial distress.

3. Feasibility Analysis of Regression Models.

The Test Results Assess the Feasibility of the Regression Model

Hosmer and Lemeshow Test			
Step	Chi-square	Df	Sig.
1	1671	8	.989

Source: Process data with SPSS Version 25

Based on the statistical test results above, the Hosmer and Lemeshow's statistical test value in the Chi-square column is 1.671 with a significant value of 0.989, which means the value is > 0.05. It can be concluded that the null hypothesis is accepted, thus the regression model above can be said to be good and there is no significant difference between the model and the observed value

4. Assessing the Overall Model.

Test Results Assess the overall model.

Iteration History ^{a,b,c}			
Iterations		-2 log likelihoods	Coefficients
			Constant
Step 0	1	152,782	.667
	2	152,763	.693
	3	152,763	.693
a. Constant is included in the model.			
b. Initial -2 Log Likelihood: 152,763			
c. Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.			

Source: Process data with SPSS Version 25

Iteration History ^{a,b,c,d}						
Iterations		-2 log likelihoods	Coefficients			
			Constant	CURRENT RATIO	RETURN ON ASSETS	DEBT TO EQUITY RATIO
Step 1	1	102027	.621	.233	.658	-.189
	2	80,893	.583	.522	1,407	-.336
	3	65,808	.525	.887	3,047	-.477
	4	55,874	.558	1.202	6.208	-.606
	5	50,319	.513	1,438	10,757	-.684
	6	47,501	.282	1,716	16,460	-.734
	7	46,902	.060	1966	20,399	-.778
	8	46,871	-.008	2044	21,552	-.792
	9	46,871	-.013	2049	21,624	-.793
	10	46,871	-.013	2049	21,624	-.793
a. Method: Enter						
b. Constant is included in the model.						
c. Initial -2 Log Likelihood: 152,763						
d. Estimation terminated at iteration number 10 because parameter estimates changed by less than .001.						

Source: Process data with SPSS Version 25

From the test results above it can be seen that the -2 Log likelihood value in the first line (block number 0) is 152.763 and the -2 Log likelihood value in the second line (block number 1) is 46.871. This shows a decrease in the value of -2 Log likelihood of 105,892 after including 3 independent variables. Decreasing the value of -2 Log likelihood shows a good regression model or a model that is hypothesized to be fit with the data.

5. Assessing the Coefficient of Determination.

Determination Coefficient Test Results.

Summary models			
step	-2 log likelihoods	Cox & Snell R Square	Nagelkerke R Square
1	46.871a	.586	.814
a. Estimation terminated at iteration number 10 because parameter estimates changed by less than .001.			

Source: Process data with SPSS Version 25

Based on the table above, it can be seen that the output of Cox and Snell R Square is 0.586 which is in the range of 0 to 1. Meanwhile, the output result from Nagelkerke's R Square is 0.814. This explains that the variability of the dependent variable that can be explained by the independent variables is 81.4% while the remaining 18.6% is influenced by other variables outside the research that are not included in the research.

6. Assess the Hypothesis Test.

Wald test (Partial t test)

Partial Test Results.

Variables in the Equation							
		B	SE	Wald	Df	Sig.	Exp(B)
Step 1a	CURRENT RATIO	2049	.702	8,507	1	.004	7,758
	RETURN ON ASSETS	21,624	7,265	8,859	1	.003	2461235676.142
	DEBT TO EQUITY RATIO	-. 793	.264	8,999	1	.003	.452
	Constant	-.013	.872	.000	1	.988	.987
a. Variable(s) entered on step 1: CURRENT RATIO, RETURN ON ASSET, DEBT TO EQUITY RATIO.							

Source: Process data with SPSS Version 25

1. The current ratio variable has a coefficient value of 2,049. The coefficient is positive. This means that there is a unidirectional relationship between the independent variables and the dependent variable, so that if the current ratio increases by 1 percent, the average financial distress will increase by 2,049 percent with a significant $0.004 < 0.05$, this shows that the current ratio has a positive effect on financial distress so that H1 accepted.
2. The return on assets variable has a coefficient value of 21.624. The coefficient is positive. This means that there is a unidirectional relationship between the independent variables and the dependent variable, so that if the return on assets increases by 1 percent, the average financial distress will increase by 21.624 percent with a significant $0.003 < 0.05$. This shows that the return on assets has a positive effect on financial distress. means H2 accepted.
3. The debt to equity ratio variable has a coefficient value of -0.793. The coefficient is negative. This means that there is a non-unidirectional relationship between the independent variable and the dependent variable so that if the debt to equity ratio increases by 1 percent, the average financial distress will decrease by 0.793 percent with a significance of $0.003 < 0.05$. So it can be concluded that the debt to equity ratio has a negative influence in predicting financial distress so that H3 accepted.

Test Omnibus Tests of Model Coefficients

Simultaneous Test Results F

Omnibus Tests of Model Coefficients				
		Chi-square	Df	Sig.
Step 1	Step	105,892	3	.000
	blocks	105,892	3	.000
	Model	105,892	3	.000

Source: Process data with SPSS Version 25

From the results of the simultaneous f/test test by looking at the year omnibus tests of model coefficients table, it is known that the sig value of 0.000 is smaller than the significance level of 0.05 ($0.000 < 0.05$), so it can

be stated that H1 accepted, which means that the independent variables used in this study, namely the current ratio, return on assets and debt to equity ratio simultaneously affect acceptance of financial distress.

DISCUSSION

1. The effect of the current ratio on financial distress.

The results show that the current ratio has a positive effect on financial distress. This means that the worse or lower the liquidity, the lower the Z-Score, so that there is a possibility that the company will experience financial distress. Companies that have a low current ratio will give a negative signal to creditors, where the company is unable to carry out activities properly such as producing goods and other company operational activities, so that the possibility of companies experiencing financial distress increases.

The results of this study are supported by previous research conducted by Ginting (2017) which states that the current ratio has a positive effect on financial distress. However, this result is contrary to research conducted by Muflihah (2017) that states that *current ratio* has no effect on financial distress because a high current ratio indicates the company's high ability to pay off its current debt using its current assets, thus indicating that the current ratio tends to fluctuate while financial distress has increased.

2. Effect of return on assets on financial distress.

The results show that return on assets has a positive effect on financial distress. This means that the smaller the return on assets, the smaller the Altman Z-Score. A low return on assets or even a minus indicates that the company does not gain profit but instead uses its own capital to fund the company's activities and pay its obligations. If the company continues to use its own capital in its financing, this capital will run out resulting in financial distress.

The results of this study are in line with previous research conducted by Muis (2018), Muflihah (2017), and Suprihatin (2016) that return on assets has a positive effect on financial distress. However, contrary to the results of research conducted by Maulana and Suhartati (2022) that states that return on assets does not affect financial distress because the higher the ratio of return on assets generated by the company, the lower the possibility of financial distress. A high return on assets indicates that the company is able to use the assets it owns to generate profit from the sales and investments made by the company, so that the management of company assets is more effective and efficient which can ultimately reduce the costs incurred by the company, so the company will obtain savings and gain sufficient funds to run the business.

3. Effect of debt to equity ratio on financial distress.

The results show that the debt to equity ratio has a negative effect on financial distress. It means the greater the debt to equity ratio, the smaller the Altman Z-Score. This indicates that more and more companies are financed by debt. If the company has debt, the company has an obligation to pay installments and interest expenses which, if not paid, the interest will be higher, this can cause financial distress. A high debt to equity ratio will also discourage new investment, due to a lack of investor confidence due to unpaid debts.

The results of this study are in line with previous research conducted by Dirman (2020), Solihati (2020), that states that *debt to equity ratio* has a negative effect on financial distress. However, contrary to the results of research conducted by Muis (2018) that states that *debt to equity ratio* has no effect on financial distress the size of the company using debt does not affect the condition of financial distress, this is because the company can manage funding from debt even though the company has a lot of debt to finance its operations, factors such as assets owned and profits generated are able to overcome this.

CONCLUSION

Based on the research results, the conclusion that can be drawn is that simultaneously all the variables used are current ratio, return on assets, and debt to equity ratio affect financial distress. Partially the current ratio and return on assets have a positive effect on financial distress, but the debt to equity ratio has a negative effect on financial distress.

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