



The Effect of Financial Ratios on Financial Distress Conditions in Sub Industrial Sector Company

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ABSTRACT

This study aimed to analyze the influence of financial ratios proxied by the current ratio, the retained earnings to total assets, earnings before interest and tax to total assets, return on equity, debt to assets ratio, and total assets turnover against Financial distress. The population in this study is a sub company of various industry listed in Indonesia Stock Exchange (IDX) in the period from 2013 to 2015 with the number of 40 companies. The sampling technique used purposive sampling technique and acquired 35 companies with 105 units of analysis. Data were analyzed with descriptive statistics and logistic regression. These results indicate that earnings before interest tax to total assets and return on equity have an impact on financial distress. While the current ratio, the retained earnings to total assets, debt to assets ratio, and total assets turnover has no influence on the financial company's distress. The conclusion of this research is that the company's financial distress condition can be avoided by reducing the financing coming from debt. In addition, increasing sales and maximizing the use of assets and equities that companies have can also reduce and avoid the company from financial distress.

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INTRODUCTION

Indonesia's unstable economic condition has affected corporate activity and performance. The domestic economy has been hit by worries about the worsening of a number of economic indicators, including the weakening of the rupiah exchange rates still continues and inflation is still worrying. Similarly, the declining performance of exports and foreign exchange reserves continues to decline. The transaction deficit has become a serious threat to the economy and is driving the deceleration of economic growth.

Indonesia's inflation in 2012 based on BPS data (2013) was recorded at 4.3%. Inflation in Indonesia is due to high demand for goods and services is not balanced with production capability and increased production costs. This happens because of the increase in fuel that occurred in the previous year which causes the price of goods to rise. Throughout 2012, the highest inflationary spending groups were the ingredients of foodstuffs and processed foods at 5.68%, as well as tobacco and tobacco beverages at 6.11%. In recent years, Indonesia's economic growth has been slowing down.

In the last five years, it is noted that several companies are forced to be delisted from the Indonesia Stock Exchange. During the last 5 years, the Indonesia Stock Exchange (IDX) has been shelved 20 companies. Companies which shares are removed from the listing or delisting and IPOs by the Indonesia Stock Exchange (IDX) in the period 2011-2015. In 2011 - 2015 there are at least 20 issuer companies that have been delisted from the Indonesia Stock Exchange (IDX). With 9 manufacturing companies in it.

Many manufacturing companies which experience delisting certainly affect the sub sector contained in it, one of the sub-sector of various industries. Textile and garment companies as a group of companies that enter into various industry sub-sector have very fast growth in Indonesia (Hartoyo, Khafid, & Agustina, 2014). Financial ratios are widely used to be analyzed and subsequently become prediction model of bankruptcy. The financial ratios can describe the situation in the past, present, and future as a very useful indicator that can be calculated from the financial statements (Ahmad Khaliq et al, 2014).

There are several factors which may affect corporate financial distress. These factors include liquidity, profitability, leverage, and corporate activity. Liquidity is used to measure the ability of a company to meet its short-term obligations on time. Companies will be said

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to be better if the value of the ratio is higher, because it shows the company's ability to meet its short-term obligations (Fitriyah & Hariyati, 2013). This is in line with Widhiari & Merkusiwati (2015) who showed liquidity negatively affects on financial distress. While in research conducted by Martha (2013) and Mas'ud & Srengga (2012) showed that liquidity has no effect on financial distress.

Another factor that can affect the condition of financial distress is profitability. Profitability is a ratio that is used as a measuring device of the company's ability to earn profits from each rupiah sales generated. Profitability is the level of success or failure of a company over a period of time (Atmini, 2005). Companies that have high profitability mean having a large profit. This means the company is less likely to experience financial distress. In research conducted by Arini (2010) profitability has a negative effect on financial distress, but in research conducted by Rahmawati & Hadiprajitno (2016), profitability has no influence on financial distress condition.

The use of long-term and short-term financing sources done by the company can also affect health condition of the company. Leverage is the ability of companies to use assets or funds that have fixed costs (fixed cost asset or fund) which is used to increase the level of income (return) for the owner of the company. This is in line with Triwahyuningtias & Muharam (2012) who found that leverage affect the condition of financial distress. However, it is not in line with research conducted by Kusanti & Andayani (2015) which stated that leverage has no effect on the condition of financial distress.

Corporate activity is used to measure the effectiveness of the company in utilizing its funding source. In other words, the higher the company's activity ratio, the company is further away from the financial distress condition because the company can utilize the use of its funding source. It is not in line with the research undertaken by Kusanti & Andayani (2015) in their research argued that corporate activity has a significant positive effect on the condition of financial distress. While research conducted by Widhiari & Merkusiwati (2015), showed the opposite result, the activity ratio has a negative effect on the condition of financial distress. The purpose of this research is to analyze the influence of current ratio, retained earnings to total assets, earnings before interest and total assets, return on equity, debt to assets ratio, and total assets turnover to financial distress.

The theories underlying this research are agency theory and signal theory. Agency theory explains that agency relationship is a contract between principal and agent that do work on behalf of principal by giving some authority to agent to make best decision for principal (Jensen & Meckling, 1976). The agency theory can be used to describe the framework to relate decision-making done by management that will impact on the health condition of the company which will be reflected in the financial statements. Through the financial statements, external parties can see the company's financial ratios that describe how the condition of the company.

Agency theory has an interest in the decision-making done by the agency about the

sustainability of the company. A good decision making and corporate management will be reflected in the financial statements. From these financial statements, we can assess the condition of the company through the financial ratios owned by the company, whether the company is in good condition or in the condition of financial distress.

The signaling theory explains what an action the company takes to provide clues to investors about how management views the prospects of a company. Signal theory can help the company (agent), the owner (principal), and outsiders reduce the information asymmetry by producing qualified or integrated financial statement information. Healthy companies will tend to disclose rather than companies experiencing financial distress. Financial distress is defined as a company that experiences a decline in performance due to poor management or financial crisis.

Ross (1977) said when companies experience financial distress then the company has a bad news that shows a negative signal for investors that will affect the disclosure in disclosing. Meanwhile, the company that has a "good news" which means the company has a healthy finance so it will affect the management in giving corporate information, management intends to convey information that can improve the company's success even though the information is not required.

Liquidity is the ability of an entity to pay off its current liabilities by utilizing its current assets (Triwahyuningtias & Muharam, 2012). Current ratio can be used to measure the excess of current assets over current liabilities is a guarantee against the possible losses arising from the business by realizing the non-cash current assets into cash (Kusanti & Andayani, 2013). Agency theory explains that liquidity can reduce the existing agency costs within the company. High liquidity will reflect that the company's ability to pay off its debts is also high so it will signal that the company is in good health (Signalling theory). If the company's current debts can be repaid, the interest expense on the debt can also be paid by the company. This may indicate that the company's finances are in good condition or not. The level of liquidity has an influence on financial distress (Kazemian, Shauri, Sanusi, Kamaluddin, & Shuhidan, 2017; Ufo, 2015). In research conducted by Mentari and Diantini (2016) and Kusanti (2016) showed that liquidity which is proxied by current ratio has a significant negative effect on the condition of financial distress.

H₁: Current ratio has a negative effect on the condition of financial distress.

Retained earnings to total assets shows the ability of a company to generate retained earnings to total assets owned by the company. Retained earnings are the amount of earnings that are not distributed to shareholders. Retained earnings reflect the amount of unpaid corporate earnings in the form of dividends to shareholders (Irvan & Yuiarti, 2014). Signalling theory

explains why the company has an encouragement to provide financial statement information to external parties. Encouragement to provide information because there is information asymmetry between the company and outsiders because the company knows more about the company and the prospect that will come from outsiders (investors and creditors). High retained earnings to total assets ratio indicates that most investments are financed from retained earnings rather than equity and external debt. The higher the resulting ratio means that the company has a high profit to finance its assets and pay dividends, thus reducing the possibility of financial distress (Ufo, 2015; Yadiati, 2017; Rahmawati and Hadiprajitno, 2015).

H₂: Retained earnings to total assets have a negative effect on the condition of financial distress.

Profitability is an indicator of performance done by management in managing corporate wealth (Agustina, 2012). Earnings Before Interest and Tax to Total Assets (EBITTA) or Basic Earning Power Ratio shows the ability of corporate assets to generate operating profit (profit from corporate assets) (Baimwera, 2014). In agency theory, agency plays an important role in determining the policies within the company in order to give a sign and a good signal to investors to invest. Signalling theory explains why companies have an encouragement to provide financial statement information to external parties. Irfan & Yuniati (2014) added that the smaller value of the EBITTA ratio reflects that the company's ability to generate earnings before interest and tax to total assets used is smaller so that the probability of the company to the condition of financial distress is higher. In addition, research conducted by Fachrudin (2008) and Rahmawati & Hadiprajitno (2015) showed that earnings before interest and tax to total assets have a negative effect on the condition of financial distress.

H₃: Earnings before interest and total assets has a negative effect on the condition of financial distress.

Profitability can arise on the success of the company in marketing the product. The success of marketing is similar to the success of the company in selling its products. On the sale, the profits will be printed by the company. The printed profit can be used for the purpose of business expansion or dividend payout for shareholders (Widati & Pratama, 2015). Return on equity the ability of management in obtaining net profits related to the equity owned by the company (Wongsosudono & Chrissa, 2013). Good corporate growth will give a signal (Signalling theory) or information to stakeholders that the company has been able to maintain its viability and able to grow. High corporate growth will indicate that the company is in good health and not in a state of distress (financial distress). Mas'ud & Srengga (2012) also revealed a company that has high profitability means having a large profit. This means that the company is less likely to experience financial distress. Research con-

ducted by Arini (2010) and Widati & Pratama (2013) showed that return on equity affects on the condition of financial distress.

H₄: Return on equity has a negative effect on the condition of financial distress.

Leverage is the debt of fund source that the company uses to finance its assets beyond the source of capital or equity funds. The greater the leverage ratio, the higher the company's debt value (Rida & Khafid, 2014). Leverage policy owned by the company can influence the extent to which corporate assets can be financed with debt. Debt to assets ratio can be a signal which is sent by the company to investors. This is due to the greater the activities of companies financed by debt, the greater the possibility of financial distress conditions, due to the greater obligations of companies to pay the debt (Meilinda, 2012). Agency theory explains that the responsibility of management to stakeholders through the disclosure of financial performance on financial report issued by the company is a tool that can be used for decision-making. Each use of debt by the company will affect the risk and return. High debt usage will increase the risk, so the possibility of companies experiencing financial distress will be greater (Fitriyah & Hariyati, 2013). Research conducted by Alifiah (2014); Thim, Choong, & Nee (2011); Vätavu (2015); Andre (2013) and Marlin (2012) showed that debt to assets ratio has a positive effect on the condition of financial distress.

H₅: Debt to assets ratio has a positive effect on the condition of financial distress

Total assets turnover is useful to know the ability of companies in managing inventory, meaning how many times the existing inventory will be converted into sales (in the form of finished products). Total assets turnover within the company shows the company's performance in its operational activities. Brigham and Houston (2012) explained signalling theory is an action taken by company to give clues for investors about how management views the prospects of the company. Information issued by the company is important, because the effect on investment decisions outside the company. The higher total asset turnover then the greater the possibility of the company will gain a profit. The more effective a company uses its assets to generate sales is expected to provide greater profits for the company (Ardiyanto, 2014). Alifiah (2014); Rezende, Montezano, Oliveira, & Lameira(2017); Malin (2012) and Kusanti & Andayani (2013) showed that total assets turnover has an effect on the condition of financial distress.

H₆: Total Assets turnover negatively affects the condition of financial distress.

Here is the figure of empirical research model in this study:

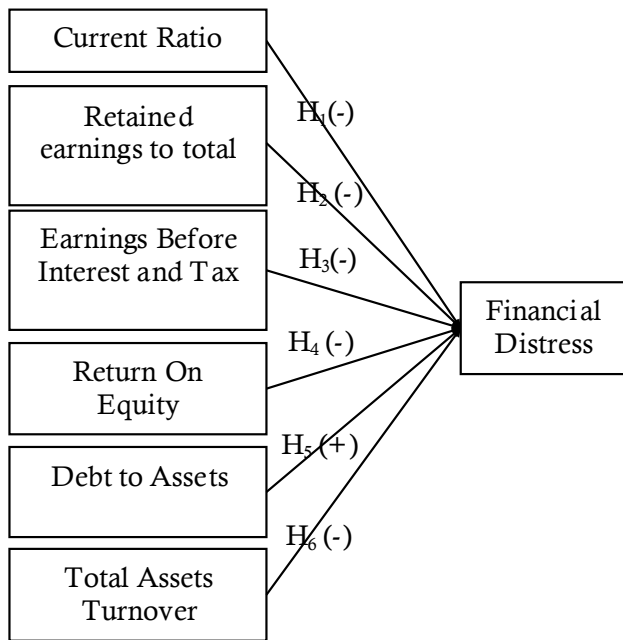


Fig. 1. Empirical research model

RESEARCH MODEL

This type of research was quantitative research, the data used was secondary data taken from the annual financial statements of various industry sub-sector companies listed on the Indonesia Stock Exchange in the period of 2013-2015. The population used in this study was multi industry sub-sector companies listed on the Indonesia Stock Exchange in 2013-2015 as many as 40 companies. The sampling technique used was purposive sampling technique and resulted 35 sample companies, so that obtained 105 units of analysis that could be seen in Table 1.

The dependent variables in this research were financial distress with current ratio, retained earnings to total assets, earnings before interest and tax to total assets, return on equity, debt to assets ratio, and total assets turnover as an independent variable. The operational definitions of each variable were described in Table 2.

Technique of data collection in this research used documentary technique, where the data obtained was secondary data which was collected, studied, and recorded, namely in the form of annual financial statement. Data analysis used in this research was descriptive statistical analysis and logistic regression using SPSS 21 tool. This research examined hypothesis at 5% significance

Table 1. Research Sample Selection

No	Criteria	Beyond Criteria	Included Criteria
1	Total sub sector companies of various industries listed in IDX for year 2013-2015.	-	40
2	Sub-sector companies of various industry which consistently published financial statements from 2013-2015.	(4)	36
3	Sub-sector companies of various industry that provided data on financial position statements, statements of comprehensive income, cash flow statements, and all data related to this research.	(1)	35
4	Sub-sector companies of various industry that had an Interest Coverage Ratio (ICR) of less than one and more than one.	-	35
Number of companies that became sample			35
The amount of research data during the year 2013-2015			105
Number units of analysis			105

Source: Secondary data processed (2017)

Table 2. Operational of Research Variables

No	Research Variables	Operational Definition	Measurement	Scale
1	Financial Distress	Financial distress is a condition that describes the state of a company that is experiencing financial difficulties or crisis (Mas'ud, et al, 2012).	EBIT/ Interest expense	Nominal
2	Current Ratio	The company's ability to meet short-term needs before due date (Cahyani, et al, 2016).	Current Assets / Current Liabilities	Ratio
3	Retained Earnings to Total Assets	The company's ability to generate retained earnings from total company's assets (Rahmadani, et al, 2014)	Retain Earning/ Total Assets	Ratio
4	Earnings Before Interest and Tax to Total Assets	The ability of corporate assets to generate operating profit (profit from the company's assets (Fitriyah, et al, 2013).	EBIT/Total Assets	Ratio

Continuation of Table 2. Operational of Research Variables

No	Research Variables	Operational Definition	Measurement	Scale
5	Return On Equity	Management's ability to earn net profits related to the equity owned by the company. (Wongsosudono, et al, 2013).	Net Earnings / Total Equity	Ratio
6	Debt to Assets Ratio	The ability of a company to cover part or all of its debts with funds from its own assets (Wongsosudono, et al, 2013)	Total Debt/ Total Assets	Ratio
7	Total Assets Turnover	The ability to see how effective the company's assets are used (Kusanti et al, 2015)	Sales/ Total Assets	Ratio

Source: Writer's summary, 2017

level (0,05). The research model was formed as follows:

$$\ln \frac{Fin_{DISTRESS}}{1 - Fin_{DISTRESS}} = \alpha + \beta_1 CR + \beta_2 RETTA + \beta_3 EBITTA + \beta_4 ROE + \beta_5 DAR + \beta_6 TATO + e$$

RESULTS AND DISCUSSIONS

Descriptive analysis is used to provide an overview or description of a data. Descriptive statistical analysis is used to explain the frequency and percentage of companies which are experiencing financial distress and non-financial distress. The results of descriptive statistical analysis in this study describe the minimum, maximum, average, and standard deviation values of independent variables and dependent variable. The results of descriptive statistical test of financial distress variable can be seen in Table 3 that the sub-sector companies

of various industries that enter the category of financial distress for 28 companies and for independent variables can be seen in Table 4.

Multicollinearity test is a test that aims to examine whether the regression model found the correlation between independent variables (Ghozali, 2013). If independent variables are correlated then these variables are not orthogonal. The orthogonal variable is an independent variable which correlation value among the independent variables equals zero. The results of multicollinearity testing can be seen in Table 5.

The result of multicollinearity test in Table 5

Table 3. Frequency Distribution of Financial Distress

	Frequency	Percent	Valid Percent	Cumulative Percent
Non Fin. Distress	77	73.3	73.3	73.3
Financial Distress	28	26.7	26.7	100.0
Total	105	100.0	100.0	

Source: Output SPSS 21, 2017

Table 4. Descriptive Analysis

Variables	N	Min	Max	Mean	Std. Deviation
Current Ratio	105	0.007	9.702	1.447	1.421
Retained Earnings to Total Assets	105	-9.400	0.678	-0.185	1.410
Earnings Before Interest and Tax to Total Assets	105	-0.682	0.326	0.046	0.110
Return On Equity	105	-0.735	0.785	0.027	0.178
Debt to Assets ratio	105	0.074	7.145	0.757	0.987
Total Assets Turnover	105	0.047	2.876	1.061	0.570

Source: Output SPSS 21, 2017

Table 5. Multicollinearity Test

	Constant	CR	RETTA	EBITTA	ROE	DAR	TATO
Constant	1.000	-0.157	-0.755	-0.023	0.107	-0.606	-0.405
CR	-0.157	1.000	-0.123	-0.112	-0.141	0.137	-0.410
RETTA	-0.755	-0.123	1.000	-0.082	0.001	0.813	0.217
EBITTA	-0.023	-0.112	-0.082	1.000	0.234	-0.285	0.226
ROE	0.107	-0.141	-0.001	0.234	1.000	-0.148	0.169
DAR	-0.606	0.137	0.813	-0.285	-0.148	1.000	-0.301
TATO	-0.405	0.410	0.217	0.226	0.169	-0.301	1.000

Source: Output SPSS 21, 2017

shows that there is no symptom of multicollinearity between independent variables, it is indicated by the absence of correlation value which exceeds 0.90. This research uses descriptive analysis and logistic regression tools. Hypothesis testing uses logistic regression does not require the tests of normality, heteroscedasticity, and autocorrelation because before hypothesis test done, the first step to do is to assess the feasibility of regression model and assess fit model. The function of assessing the feasibility of the regression model and the fit model is a substitute for the classical assumption test (Ghozali, 2013).

Testing of overall fit model has function to know whether the model used fit with data both before and after the independent variable is included in the analysis. The overall fit model can be seen by looking at the decrease in likelihood value (2LogL). For more details can be seen in Table 6.

Table 6. The Results of Logistic Regression Test

Testing Type	Testing Result	
	Explanation	Values
Model Overall	Iteration History	
Test	-2LogL	121.782
	-2LogL*	40.858
Model Feasibility Test	Hosmer and Lemeshow Test	
	Sig	0.536
Coefficient of	Nagelke R Square	0.783

Source: Output SPSS 21, data processed

The result of regression test presented in Table 6 -2LogL value has a value of 121.782 and -2LogL* value of 40.858 and decreased from the previous -2LogL value. Decreased -2LogL value indicates that the overall logistic regression model used is a good model, in other words the hypothesized model is stated fit with the data.

Based on the data presented in Table 6, it is known that the significance value obtained is 0.536 or greater than 0.05 so it can be said that the regression model is able to predict the value of observation because it matches the observation data, which means the model is declared feasible and may be interpreted. Table 6 shows that the value of Nagelkerke's R Square of 0.783 indicates that the ability of independent variables variability that can explain the dependent variable is 78.3%. Meanwhile, the rest of 21.7% (100-78.3) is explained by variables or other factors not used in the study.

Table 7. Classification Table

	Financial Distress		
	Non Financial Distress	Financial Distress	Percentage
Non Financial Distress	74	3	96.1%
.Financial Distress	5	23	82.1%
Total Percentage			92.4%

Source: Output SPSS 21, 2017

In Table 7, it can be known that the predictive power of the regression model to know the company which experiences financial distress is 92.4%. This means in the regression model, there are 28 companies with a percentage of 82.1% which experienced financial distress during the period of 2013-2015. While the predictive power of companies that do not experience financial distress is 77 companies with a percentage of 96.1%. From Table 7, it can be concluded that with the regression model, there are 28 companies predicted to experience financial distress from the total sample of 105 sub-companies of various industry during the period of 2013-2015. The results of hypothesis testing in this study can be seen briefly in Table 8.

Table 8. The Result of Hypothesis Testing

Model	B	Exp(B)	Sig
CR	0.198	1.219	0.480
RETTA	-0.971	0.379	0.590
EBITTA	-15.969	0.000	0.047
ROE	-36.272	0.000	0.002
DAR	1.264	3.540	0.481
TATO	-1.307	0.271	0.275

Source: Output SPSS 21, 2017

The tests performed in this study are presented in Table 9.

Table 9. Summary of Hypothesis Test Results

Hypothesis	Explanation	Result
H ₁	Current ratio has a significant negative effect on financial distress condition	Rejected
H ₂	Retained earnings to total assets has a significant negative effect on financial distress condition	Rejected
H ₃	Earnings before interest and tax to total assets has a significant negative effect on financial distress condition	Accepted
H ₄	Return on equity has a significant negative effect on financial distress condition	Accepted
H ₅	Debt to assets ratio has a significant positive effect on financial distress condition	Rejected
H ₆	Total assets turnover has a significant negative effect on financial distress condition	Rejected

Source: Output SPSS, 2017

The Influence of Current Ratio to Financial Distress Condition

The result of hypothesis test shows that current ratio does not have a negative and significant effect on the company's financial distress condition. The result of the research shows that liquidity has no effect on financial distress because it is suspected that liquidity value does not reflect the company is in good or bad condi-

tion. Liquidity measured by current ratio will compare the total current assets with total current liabilities, while on current assets there are inventories and accounts receivable which convert them into cash takes a considerable time. Though the inventories and trade receivables are also used to settle their short-term liabilities. So that, any liquidity value cannot be used as a measure to influence the possibility of companies experiencing financial distress.

The result of descriptive analysis in Table 4 shows that the average value of liquidity as big as 1.4 which means the condition of the company in liquid conditions. However, the result of the research shows that liquidity does not affect the financial distress due to the descriptive analysis of the average leverage is 0.7. This shows that the company's assets used to pay off short-term obligations turns out 50% of which comes from debt, so the value of liquidity can not affect financial distress. The research is in line with the research of Mas'ud & Srengga (2012) and Kusanti & Andayani (2015) which revealed that the possibility of current ratio has no effect on the condition of financial distress.

The Effect of Retained Earnings to Total Assets to Financial Distress

The result of hypothesis test shows that retained earnings to total assets have no negative and significant effect to financial distress condition. Retained earnings to total assets are the ability of company to generate retained earnings through company assets. Retained Earnings are not assets, but are an element of shareholders' equity. The amount of retained earnings partition is one of them caused by the policy of company's leaders (Agency theory) (Baridwan, 1980). For example, the retained earnings will be used for the expansion of the company's business, which means the assets are planted in the form of the plant and its equipment, not in the bank account. The retained earnings reported in the statement of financial position are not assets but are an element of shareholders' equity. So retained earnings are not cash and are not available to pay dividends or other purposes.

Sharing the use of retained earnings that is influenced by the management of the company causes companies with low retained earnings will not necessarily experience the possibility of financial difficulties for these reasons. This is what causes RETTA variable does not affect the occurrence of financial distress. The results of the study are in line with research conducted by Rahmawati & Hadiprajitno (2015) and Irvan and Yuniati (2013).

The Effect of Earnings Before Interest and Tax to Total Assets to the Condition of Financial Distress

The result of hypothesis test shows that earnings before interest and tax to total assets have a significant negative effect on the condition of financial distress. This result proves that the third hypothesis in this study is accepted. This can be interpreted that the higher earnings before interest and tax to total assets, the less

likely the company experiencing financial distress. The negative effect of earnings before interest and tax to total assets supports the assumption that the greater the value of earnings before interest and tax to total assets, the smaller the probability of experiencing financial distress.

If earnings before interest and tax to total assets increase then the value of ICR will increase so that the company is not included in the company that is in financial distress condition because it has a share in maintaining the company in carrying out its operations because retained earnings are used for the company's operating capital. The result of hypothesis testing are in line with research conducted by Irvan and Yuniati (2013) which stated that earnings before interest and tax to total have an influence on the condition of financial distress.

The Effect of Return On Equity to the Condition of Financial Distress

The result of hypothesis test shows that the return on equity has a significant negative effect on the condition of financial distress. This result proves that the fourth hypothesis in this study is accepted. This can be interpreted that the higher the return on equity of the company, the less likely the company is experiencing financial distress. Return on equity of management capability in obtaining net profits related to the equity owned by the company (Wongsosudono & Chrissa, 2013). Good corporate growth will give signal (Signalling theory) or information to stakeholders that the company has been able to maintain its viability and be able to grow. High corporate growth will indicate that the company is in good health and not in a state of distress (financial distress).

The result of this study can illustrate the existence of a negative influence of return on equity to the condition of financial distress which means high return on equity will reduce the probability of the company in the condition of financial distress. This result is in accordance with the research undertaken by (Haq, Arfan, & Siswar, 2013) and research conducted by Widati & Pratama (2013) which stated that the return on equity affects on the condition of financial distress.

The Effect of Debt to Assets Ratio to the Condition of Financial Distress

The result of hypothesis test shows that the debt to assets ratio does not have a positive effect on the condition of financial distress. High debt to assets ratio value means having a high risk also because the company's assets used can not cover the total debt so that the company has more responsibility to pay off or cover its debts. Companies that have the risk of failing to pay the debt or small debt ratio is not necessarily spared from the condition of financial distress, this can happen because the company cannot use its assets financed with debt optimally and rightly, which ultimately led to the company suffered losses (Aisha, Kristanti, and Zultilisna, 2017). The high rate of debt to assets ratio indicates that the company is in bad condition because the cost used for the company is increasing which resulting in potential

financial distress (Jiming & Weiwei, 2011).

Another thing that allows this hypothesis test is rejected is The result of this study indicates that companies that have high leverage value does not necessarily have a high load so that the resulting profits low and high leverage value that is not followed by the higher load can generate high profits so avoid from financial distress (Kusanti & Andayani, 2013). The research is in line with the research undertaken by Widhiari and Merkusiswati (2015) and Wongsosudono & Chrissa (2013).

The Effect of Total Assets Turnover to the condition of Financial Distress

The result of hypothesis test shows that total assets turnover does not have a positive effect on financial distress condition. Operating capacity is also called efficiency ratio. This ratio is calculated by total asset turnover by comparing total sales with total assets owned by the company. The more effective a company uses its assets to generate sales is expected to provide greater profits for the company. On the contrary, if the use of corporate assets is ineffective will result in the company experiencing potential financial difficulties, this indicates the performance in the company is not good because the company is not able to generate sufficient sales volume compared to investment in its assets.

To obtain a high inventory then the company needs a lot of capital. This causes the company to use additional funds from external parties that is from the creditor. Such high sales value can generate high profits for the company. However, such high profits are used to meet high corporate liabilities, so high sales turnover does not guarantee the company is spared from the possibility of financial distress. Another thing that allows the results of this hypothesis is rejected is the results of research on the sub-sector companies of various industries obtains the result that 82% of the sample company has a good total assets turnover value with a value above 0.5 and 1, it indicates that the company has a rotation of good total assets turnover. However, the company has a high leverage value so that 82% of companies are included in the category of financial distress companies because it has an ICR value of less than one. The research is in line with research conducted by Noviadri (2014) and Pradipta (2010). This research is in line with research of Paradibta (2010) which in its research use TATO.

CONCLUSIONS AND SUGGESTIONS

The conclusions of this study show that the current ratio, retained earnings to total assets, debt to assets ratio, and total asset turnover have no significant effect on the company's financial distress. Earnings before interest and tax to total assets and return on equity have a significant negative effect on financial distress. Suggestions for further researchers, Liquidity which is calculated with current ratio in this study does not affect the condition of financial distress because of possible accounts in assets that requires a long time in liquefaction, for further research using other liquidity measurement. For

management, more careful related decision making in the use of profit, assets, and equity optimally in order to avoid the condition of economic difficulties. For investors to consider and examine the factors related to financial distress, one of them profitability.

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