

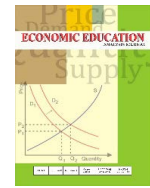


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Financial Distress: Profitability Ratios and Liquidity Ratios, with Financial Statement Fraud as Moderating

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Abstract

The purpose of this study is to examine the effect of profitability ratios and liquidity ratios on financial distress, with fraudulent financial statements as a moderating variable. This research is quantitative research. The population of this study are agricultural companies listed on the Indonesia Stock Exchange for the period 2018-2021. The data collection method used purposive sampling technique and obtained a sample of 19 companies with 76 units of analysis. The secondary data used is the annual financial report which is downloaded through the IDX's official website. Analysis of research data using descriptive statistical analysis and Structural Equation Modeling-Partial Least Square (SEM-PLS) with the application tool WarpPLS 8.0. The results show that partially the profitability ratios have no effect on financial distress, liquidity ratios have a positive effect on financial distress, financial statement fraud has a negative effect on financial distress, fraud is not able to moderate the effect of profitability ratios on financial distress, and fraud is able to moderate the effect of liquidity ratios financial distress.

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INTRODUCTION

The dynamic progress of civilization triggers the business world to grow and innovate every day. Competition between micro entities and large entities is getting tougher, so that it becomes a big challenge that must be faced by every entity or company. Failure in business affects the existence of the company and incurs high costs for the company in case of loss of some or even all of the loan (Balasubramanian et al. 2019). The increase in tariffs that must be spent by the company can affect the company's performance in carrying out its production. If the company is unable to handle existing financial problems, the company will experience difficulties and even lose.

The global economic situation in 2017 was on a downward trend due to the weak and uneven recovery of the world economy. The global economy, which initially predicted growth of 3.5 percent, had to be revised to 3.1 percent last year, namely 3 percent (Kompas.com, 2017). The impact of a declining and unstable global economy can affect the economy in Indonesia Fairly (2021). Economic growth is expected to slow down, the budget deficit is expected to remain high, foreign debt will increase significantly, and although it will not recover significantly in 2021, credit growth will still be restrained. Then the instability of the global economy also has an impact on the inflation rate of each country, which will cause selling prices to increase and reduce people's purchasing power. Dirman (2020) explains that in Indonesia, the sectors most affected by the global crisis are sectors that rely on external demand, namely sectors that rely on agriculture. These economic conditions can cause agricultural companies to experience problems or difficulties in internal financial matters.

Based on the data in Table 1, it can be seen that the manufacturing industry sector is the largest average contributor to Indonesia's Gross Domestic Product (GDP) during the 2018-2021 period of 19.67 percent. Then the second position is the large and small trading

sector, car and motorcycle repairs as much as 13.23 percent; followed by agriculture, forestry, and fisheries (agriculture) as much as 13.13 percent; the construction sector occupies the fourth position as a contributor to Indonesia's GDP by 10.61 percent; and the fifth position is a sector other than the sectors mentioned in the Table with a contribution value of 39.64 percent. These conditions indicate that the agricultural sector has a superior position in the distribution of Indonesia's GDP. The agricultural sector is a sector that can absorb a large number of workers and is also a source of food for Indonesia and other countries, therefore maintaining its existence is the obligation of all levels of society.

Table 1. Average GDP Distribution in 2018-2021

Sector	%
Construction	10.61
Agriculture, Forestry, Fisheries	13.13
Wholesale & Retail, Auto & Motorcycle Repair	13.23
Processing Industry	19.67
Others	39.64

Source: BPS, 2021

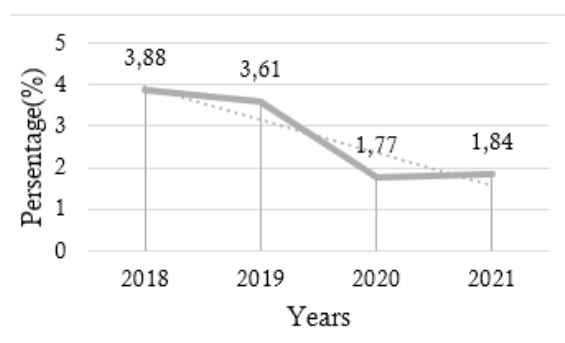


Figure 1. Agricultural GDP Growth Rate

Source: Pusat Data dan Sistem Informasi Pertanian, 2022

Figure 1 shows the growth rate of agricultural GDP from 2018 to 2021. If you look at the picture, it shows a significant decline in the GDP growth rate of the agricultural sec-

tor, even though the agricultural sector is the top three largest contributors to GDP in Indonesia. In 2018, the agricultural sector had a GDP growth rate of 3.88 percent. The decline began to occur in 2019 with a growth value of 3.61 percent. The worst declines occurred in 2020 and 2021 with a growth rate of 1.77 and 1.84 percent respectively. The downward trend in GDP growth in 2020 and 2021 was caused by the Covid-19 pandemic which began to creep up in early 2020. Fairly (2021) explained that the COVID-19 pandemic caused a decline in GDP growth in Indonesia, especially Central Java.

The massive spread of the Covid-19 virus caused the country to experience a recession due to the continued decline in GDP. This impact is felt directly by all levels of society who carry out economic activities from the micro to the macro level. One of the effects of a recession or sluggish economy is that it can cause the stock price index to decline. In the agricultural sector, the stock price indices from 2018 to 2020 are 1,564, 1,524 and 1,498 per December (BPS, 2021). The decline in the stock price index in this sector can cause companies to suffer delisting or write-off of company shares listed on the IDX due to these conditions. Companies whose shares have been removed from the IDX have certainly failed to maintain and manage the company's performance to remain healthy.

Initial sign of a company that allows experience delisting can be seen from the special notation issued by the Indonesia Stock Exchange (IDX). Special notation, also known as special notation, is a special feature issued by the IDX at the end of 2018 which is used to see the condition of the company. Special notation in the form of notification with a special symbol given to investors regarding the current state of a company. IDX applies a special notation in the form of letters, where each letter has a different meaning and is given according to the condition of the issuer. This feature is a warning and attention from IDX to investors to avoid troubled issuers or companies. There are 3 agricultural compa-

nies that were given special notation by IDX out of a total of 72 companies with special notation.

Table 2. Special Notation as of March 2022

Code	Company Name	Notation
BEEF	PT Estika Tata Tiara Tbk	E
GOLL	PT Golden Plantation Tbk	B, L, Y, X
UNSP	Bakrie Sumatra Plantations Tbk	E

Source: Bursa Efek Indonesia, 2022

Companies that have been running for a certain period of time can liquidate or dissolve when experiencing financial distress. Financial distress or financial difficulties occurred before the company became bankrupt. Understanding the company's financial difficulties in advance will allow the company's internal staff to take precautions to predict situations that can lead to bankruptcy, therefore it is important to develop a model of financial distress (Mas'ud & Srengga, 2015). The right way to predict the presence of financial distress is to calculate financial performance indicators from financial reports that have been published by the company. Financial indicators are based on the financial ratios listed in the financial statements. Financial reports can be a source of financial information and financial analysis tools for companies used by internal and external parties. Rani (2017) explains that the financial statements that have been published by the company are one of the sources of information regarding the position, performance, and changes in the company's financial position which are useful for accommodating the right decision making. So financial reports can be a source of literacy for internal and external parties in assessing whether the company is experiencing financial distress or under control.

Financial distress is closely related to signal theory (signaling theory) put forward by Spence (1973) where it is explained that the

sender or owner of the information acts as a signaler or signal in the form of information that reflects the condition of the company that is useful for the recipient. More complete and relevant information can be used as an analytical tool to be used in decision making. There are two signals contained in financial information, namely positive and negative signals. If the information issued by the company is a positive signal, it will have a good impact on the company, otherwise if the company has a negative signal, it will have a bad impact on the company. Therefore, the company will try to provide the best signal for external parties.

Previous research related to financial distress has been carried out and researched a lot like the research from Julius (2017), Annafi & Yudowati (2021), Mas'ud & Srengga (2015), and Saputri & Asrori (2019), but problems regarding this matter still continue to occur which encourages this research to find out the real factors that influence financial distress. Previous research has shown that financial distress is influenced by two factors, namely internal and external. Internal factors include profitability ratios, ratios leverage, and liquidity ratios.

The profitability ratio is a measure of the capability to generate the maximum profit or profit by owning assets and capital (Rohmadini et al., 2018). The main goal of a company is to obtain high profits in accordance with economic principles. High profits will foster the welfare of stakeholders and will attract investors to invest their funds in the company. High profits will also reflect the success rate of the company in carrying out its operational activities. This study uses proximate profitability ratios return on assets (ROA) which can show the ability of all existing assets and be used to generate profits. Optimal use of assets will have an impact on the company's income level which will also be even greater.

The liquidity ratio represents the company's ability to meet its short-term obligations in a timely manner (Sari, 2020). The company must be able to meet its current obligations which are due soon by utilizing its

current assets. The liquidity ratio plays an important role in maintaining the financial stability of a company. Companies that have a high level of liquidity, the company has a tendency to avoid financial distress. This situation indicates that the higher the company's liquidity ratio, the level of financial distress the company will be lower. Every company must try to achieve a high level of liquidity to picture good company performance and effective operational activities. This research uses current ratio (CR) as a liquidity proxy, where CR is able to measure a company's capability to pay off short-term debt using its current assets.

Meanwhile, Association of Certified Fraud Examiners (ACFE) body survey fraud Indonesia 2019 reveals that there are three biggest frauds in Indonesia. These frauds are corruption, misuse of assets, and fraud or fraudulent financial statements where financial reporting reports are the most fraudulent disclosure media. The company's published financial reports provide all financial information regarding the company's financial condition, performance and cash flow. The company's goal of issuing financial reports is to show the best signal of the company's condition (Martantya & Daljono, 2013). The company's motivation to show the best signal can be a motive for fraudulent financial statements in order to show the existence of a company that is always positive, even though in reality the company is experiencing financial difficulties. This is related to signaling theory, where the company seeks to provide a positive signal by manipulating financial reports.

The company does not want its performance to be judged badly by external parties when the company is in a state of financial difficulty. The company's internal parties, especially management, will be motivated to commit fraudulent financial statements when the company is in a condition of financial distress (Sekarwulan & Umar, 2021). Research conducted by Annafi & Yudowati (2021) shows that fraudulent financial statements have a negative effect on financial distress. The greater the financial statement fraud committed

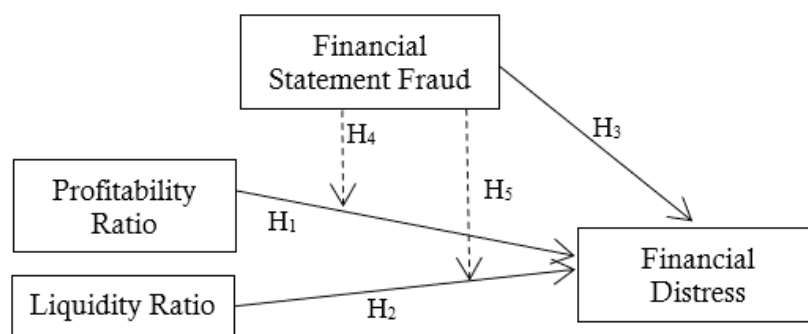


Figure 2. Research Thinking Framework

by the company, the smaller the company is indicated to be experiencing financial distress. Pressure is a component of fraudulent financial reporting in fraud hexagon theory which has the most significant dominance against financial distress (Rukmana, 2018). The novelty of this research is to use external pressure as a ratio proxy leverage as an indicator of fraudulent financial reporting which is suspected of moderating the influence of profitability and liquidity on financial distress. Where Prasastie (2013) using the financial stability as a proxy for pressure variable, the results of which affect fraudulent financial statements

The purpose of this study was to determine the effect of the variable profitability ratios and liquidity ratios on financial distress with fraudulent financial statements as a moderating variable. Then examine the influence of the variable profitability ratios and liquidity ratios on financial distress, as well as examining the role of financial statement fraud as a moderating variable. Figure 2 is the framework for this research.

METHODS

The type of research used in this research is quantitative research. The method used in this quantitative research is the documentation method which is a research method that collects data from available or published sources or commonly called secondary data. The research design used is a hypothesis testing study. The population in this study are agricultural companies listed on the Indonesia

Stock Exchange (IDX) for the 2018-2021 period. The samples in this study amounted to 19 companies with 76 units of analysis determined using techniques of purposive sampling. Criteria sample selection is based on companies that use the rupiah currency and publish financial reports consistently. The source of this research data comes from the official IDX website, namely www.idx.co.id in the form of an annual financial report.

The variables tested in this study are financial distress by proxy interest coverage ratio (ICR) as the dependent variable, profitability ratio by proxy return on assets (ROA) and liquidity ratio by proxy current ratio (CR) as an independent variable, as well as financial statement fraud with external pressure indicators (leverage) as a moderating variable. Validity and reliability tests were carried out to obtain valid and reliable data used in research. Data analysis used is descriptive analysis to give a picture of the research variables, besides that in this study using analytical techniques-Structural Equation Modeling (SEM) based Partial Least Square (PLS) with the help of WarpPLS 8.0 software.

RESULTS AND DISCUSSION

Descriptive statistical analysis is used to provide an overview of the distribution and behavior of research sample data as seen from the minimum value, maximum value, average, and standard deviation of each variable. The results of descriptive analysis on the company agriculture shows that there are 28 units expe-

riencing financial distress with percentage 37 percent, while the remaining 48 units of analysis are in non-financial distress with percentage 63 percent. The profitability ratio in this study is classified as moderate with a percentage of 71 percent. The liquidity ratio shows that the majority of companies are illiquid with a total of 60 units of analysis or 79 percent of the total 76 units of analysis. Financial statement fraud is said to have a non-default probability because the results of the analysis show that 72 units of analysis are classified as healthy, then the rest are unhealthy.

The next test is the approach Structural Equation Modeling (SEM) based Partial Least Square (PLS). The SEM model can be seen by analyzing Outer Model and Inner Model. First, outer model or measurement models are used to test construct validity and construct reliability. Construct validity testing can be seen from convergent validity and discriminant validity. Furthermore, the reliability test can be seen from the value of Cronbach's alpha and composite reliability.

The procedure for testing convergent validity is by associating each indicator with its latent variable. Convergent validity test with reflective indicators is measured by value loading factor on each construct. Mark loading factor is said to be high if the indicator correlates > 0.70 . However, for early stage research, loading factor 0.5 to 0.6 is considered sufficient (Ghozali, 2016).

Table 3. Convergent Validity Test Results

Variable	Loading Factor	Information
ROA	1.000	Valid
CR	1.000	Valid
LEV	1.000	Valid
ICR	1.000	Valid

Source: Processed data, 2022

Description:

ROA = Return on assets

CR = Current ratio

LEV = Leverage

ICR = Interest Covered Ratio

Based on the results of data processing as shown in Table 3, the value loading factor of $1 > 0.7$. This means that the ROA, CR, LEV, and ICR variables can be declared valid.

The discriminant validity test in PLS shows that the indicators for each construct are different, where each construct is really not highly correlated with other constructs. Discriminant validity testing can be carried out in two stages, namely the first stage is AVE (Average Variance Extracted) with a value of at least 0.5 or more. The second stage is seen from the value cross loading factors that serve to determine whether the construct has sufficient discriminant or not (Ghozali, 2016). The way by comparing the value of the construct or variable in question, which must be greater than the value of the other constructs.

Table 4. Discriminant Validity Test Results

Variable	ROA	CR	LEV	ICR
ROA	1.000			
CR	0.334	1.000		
LEV	-0.464	-0.557	1.000	
ICR	0.172	0.634	-0.342	1.000

Source: Processed data, 2022

Based on Table 4 shows that value cross loading the indicators show a correlation with each research variable. This can be seen from the correlation between the construct and the measurement items, which are larger than the other construct measures. This shows that latent constructs predict the size of their block better than the size of other blocks.

Analysis stage outer model PLS, the reliability test is used as a measure of the coefficient of each latent variable. Reliability describes the extent to which measurement results can be trusted or relied upon for accuracy, and provide relatively consistent measurement results after several measurements have been made. To determine the reliability of research variables, it is done by looking at the value of Cronbach's alpha and composite reliability.

The measurement item is said to be reliable if the value of Cronbach's alpha and composite reliability is greater than 0.6 or 0.7.

Table 5. Reliability Test Results

Variable	Cronbach's Alpha	Composite Reliability	Result
ROA	1.000	1.000	Reliable
CR	1.000	1.000	Reliable
LEV	1.000	1.000	Reliable
ICR	1.000	1.000	Reliable

Source: Processed data, 2022

Based on the results in Table 5 it can be seen that the result value cronbach's alpha and composite reliability all variables have values above 0.7 and 0.6, namely 1. These numbers indicate that the variables using the ROA, CR, LEV, and ICR proxies in this study are reliable. This indicates that compositely all variables have sufficient internal consistency in measuring the latent/construct variables measured so that they can be used in further analysis.

Test inner model or a structural model is a PLS analysis that aims to test and see the correlation between constructs or variables measured by the significance value of each path coefficient, as well as stating the magnitude of the hypothesized influence between variables. The structural model is measured using the R-square (R²) as the coefficient of determination on the dependent variable. R-value squares can show the level of influence of the variables in the study. R-valuesquare > 0.67 means good while R-square a value of > 0.33 is defined as sufficient or moderate. Meanwhile, R Square with a value of <0.19 is considered weak (Ghozali, 2016).

The test results in Table 6 show the magnitude of the R value² is 0.44. These results can be interpreted that the independent variable is able to influence financial distress as the dependent variable by 44 percent, while the remaining 56 percent is influenced by other factors outside the research.

Based on Table 7 shows that the value

Table 6. Inner Model Result

Variable	R Square
Financial Distress (ICR)	0.44

Source: Processed data, 2022

Table 7. Inner Model no Moderation Result

Variable	R Square
Financial Distress (ICR)	0.59

Source: Processed data, 2022

of RSquare the test without using the moderation path produces a value of 0.59 or 59 percent, meaning that the independent variable can affect the dependent variable by 59 percent, while the remaining 41 percent is influenced by other variables outside the study. If we look back at Table 6 it is shown that the value of R-square after adding the moderation path to the financial statement fraud variable, which is equal to 0.44 or 44 percent. Thus the financial statement fraud variable can be a moderation that weakens the effect because it starts from R-square first by 59 percent to 44 percent. This defines that the financial statement fraud variable is classified as pseudo moderation, where there is an effect of the moderating variable on the dependent variable in the first estimate, and in the second estimate with moderation there is a moderating effect on the independent variable on the dependent variable.

The procedure for testing the hypothesis in this study was carried out using the method bootstrapping based resampling. This method aims to solve the statistical size of a sample in the hope that the sample can represent the actual population data. Application of the method bootstrapping allows for data to be distributed freely, meaning that it does not require normal distribution assumptions and does not set certain conditions regarding the shape of the distribution. Hypothesis testing can be seen through the significance value of p-value. Based on the statistical value for alpha 5%, H_a is said to be accepted if the p-value < 0,05.

Table 8. Hypothesis Testing Results

Variable	Path Coefficient	P-Value	Result
ROA→ICR	-0.077	0.246	Rejected
cR→ICR	0.254	0.010	Rejected
1EV→ICR	-0.229	0.018	Accepted
1EV→ROA*ICR	0.069	0.269	Rejected
1EV→CR*ICR	-0.401	<0.001	Accepted

Source: Processed data, 2022

Profitability Ratio Has a Negative Influence on Financial Distress

The first hypothesis in this study states that the profitability ratio has a negative effect on financial distress. The results of the analysis in this study do not support the hypothesis. Based on the results of the data analysis, the profitability ratio has no effect on financial distress, so it can be said that the size of the profitability ratio does not affect the occurrence of financial distress. The results of this study are in line with the research conducted by Rohmadini et al. (2018) which states that the profitability ratio has no significant effect on financial distress. The same research results were obtained by Saputri & Asrori (2019) which stated that the profitability ratio had no effect on financial distress. Based on signaling theory, the results of this study are biased because the size of the profitability ratio is not able to influence financial distress.

The results of the descriptive analysis show that the majority of companies are classified as moderate profitability ratios, which means that the company is able to manage its assets well and financial distress can be minimized. Then even though the company's profitability ratio is low, if the assets are managed consistently and stably it tends to overcome the occurrence of financial distress (Julius, 2017). The low value of profitability can be caused by too large total assets. One component of total assets that has a large contribution is inventory. Inventories that are still stored and have not been sold will later be sold in the future, so that there are delays in income or income

which results in low company profits. The case with PT Bakrie Sumatera Plantations Tbk has a profitability ratio value of -58.3 percent in 2021, where this figure is classified as a very low value for a profitability ratio with inventories and other assets owned by the company of 14 percent of its total assets. This means that the company still has the opportunity to increase its profitability ratio.

Liquidity Ratio Has a Negative Influence on Financial Distress

The second hypothesis in this study states that the liquidity ratio has a negative effect on financial distress. The results of the analysis in this study rejected the hypothesis. Based on the results of this study, the liquidity ratio has a positive effect on financial distress, so it can be said that the higher the liquidity ratio, the higher the probability of the company experiencing financial distress. The results of the descriptive analysis of the liquidity ratio show that agricultural companies listed on the IDX for the 2019-2021 period are included in the category of non-liquid companies. This indicates that agricultural companies listed on the IDX for the 2019-2021 period are in a financial condition with poor performance and difficulties in meeting urgent needs. The results of this study are in line with the results of research conducted by Yustika (2013) which states that the liquidity ratio has a significant positive effect on financial distress. The same research results were obtained by Pulungan et al. (2017) which shows the liquidity ratio has a positive influence on financial distress. Based

on signaling theory, the signal of the liquidity ratio is useful for outsiders or external companies to analyze the position and financial condition of the company whether it is in a liquid or non-liquid state.

This study shows that the liquidity ratio has a positive effect on financial distress, where the higher the liquidity ratio the higher the tendency of the company to experience financial distress. This could be because the sample company has current assets that are not needed and cannot generate income, for example trade receivables or uncollectible accounts. The case of an agricultural company, PT Bisi International Tbk, has a high liquidity ratio of 583 percent in 2020 with a trade receivables value of 30 percent of its total current assets. The second cause of the liquidity ratio has a positive effect on financial distress is the amount of inventory kept in the company. Inventory is an element or part of the current assets of a company. The thing that causes the level of the liquidity ratio is the amount of current assets owned by the company. Current assets in the form of idle inventory in agricultural companies can cause companies to experience financial distress, this is because the size of the assets cannot be used to fund short-term debt (Septiani & Dana, 2019). Inventory assets that are not utilized optimally can reduce the rate of return or company sales which, if left unchecked, will affect the company's performance.

Financial Statement Fraud Has a Negative Influence on Financial Distress

The third hypothesis in this study states that fraudulent financial reporting has a negative effect on financial distress. The results of the analysis in this study support the hypothesis. Based on the results of this study, fraudulent financial statements have a negative effect on financial distress, so that it can be said that the higher the company's fraudulent financial statements, the level will tend to decrease financial distress. The results of the descriptive analysis of financial statement fraud show that agricultural companies listed on the IDX

for the 2018-2021 period are included in the category of companies with a low probability of default so that financial statement fraud can be minimized. This indicates that agricultural companies listed on the IDX for the 2018-2021 period are in a healthy financial condition and are less likely to manipulate financial information. The results of this study support Rohmadini et al. (2018) which states that the ratio of leverage or fraudulent financial statements have a negative effect on financial distress. The same research results were obtained by Masdupi et al. (2018) which shows that leverage has a negative influence on financial distress. The conclusion is that the higher the fraud in the financial statements, the smaller the company will experience financial distress.

Based on signaling theory, the occurrence of fraud in financial statements can provide a good or positive signal to investors and creditors. This is because the company's actions manipulate information to make it appear as if the company's condition is doing well. Financial statement fraud in this study is proxied using a ratio leverage. Ratio leverage being able to picture the total debt capability in funding the assets owned by the company, can also be interpreted by the amount of the value of the company's assets that are sourced from third party loan funds. Companies that have a high level of fraudulent financial statements will have a low probability of occurring financial distress. The information in the financial reports appears to be good because it is manipulated, as a result external parties such as investors and creditors assess the company's performance as healthy (Rukmana, 2018).

Financial Statement Fraud Moderates the Effect of Profitability Ratios on Financial Distress

The fourth hypothesis in this study states that the role of fraudulent financial statements in moderating the effect of profitability on financial distress. Based on these results, fraudulent financial statements are not able to moderate the effect of profitability on financial distress, so that it can be said that the size

of the fraudulent financial statements does not affect the profitability of the company's financial distress.

The results of the descriptive analysis in this study indicate that fraudulent financial statements in agricultural companies listed on the IDX for the 2018-2021 period are classified as in a healthy condition or have a low probability of default due to high loans (Anjilni, 2021). This indicates that the company's ability to manage its debts to fund its assets is in the effective category. Based on signaling theory, financial statement fraud is indicated to be able to change the value of profitability into a good or positive signal to attract the interest of investors and creditors. High profitability ratios provide a picture of the company's condition which is far from financial distress. However, this study shows that the size of the profitability does not affect a company's financial distress. Thus, the level of profitability ratios that increase or decrease does not indicate that the company is under pressure which requires it to manipulate information to appear always progressive.

This study shows that external pressure cannot influence management to commit fraudulent financial statements on the profitability ratios side. When management manipulates information by increasing its profitability ratio, the company's burden or obligation to pay dividends will increase. Meanwhile, if management lowers the level of its profitability ratio, then the company's image will be bad and will be suspected by the independent auditors to examine the reasons for the company's profitability ratios dropping dramatically, which means the company is in a bad condition financial distress. The conclusion is that companies will not take risks by manipulating profitability ratios in order to appear healthy or fine.

Financial Statement Fraud Moderates the Effect of Profitability Ratios on Financial Distress

The fifth hypothesis in this study states that fraudulent financial statements are able

to moderate the effect of the liquidity ratio on financial distress. The results of the analysis in this study support the hypothesis. Based on the results of the study, fraudulent financial statements can weaken the effect of the liquidity ratio on financial distress, so that it can be said that the higher the fraudulent financial statements of a company, the lower the level of liquidity ratios which then causes the company to experience financial distress. Based on hexagon fraud theory, the occurrence of fraud is caused by external pressure that is so great. This pressure can come from the size of the loan made by the company, which under certain conditions cannot fulfill its obligations so that external pressure motivates management to commit fraud (Prasastie, 2013). When the loan is too large, the company will use its assets under the pretext of its actual operational activities to cover its obligations. This will make the company's liquidity decrease or be non-liquid because of the large loans and small assets owned by the company, causing the company to tend towards a financial distress condition.

This hypothesis is also supported by the results of the R-Square which in the first stage of the analysis without providing a moderation path produces a value of 0.59 or 59 percent, then the second stage by providing a moderation path for financial statement fraud produces R-Square by 0.44 or 44 percent. These results indicate that fraudulent financial reporting is able to weaken the effect of the liquidity ratio on financial distress, where there is a decrease in the value of R-Square on financial distress. Fraud can be committed by reducing company assets to show increasing profitability, on the other hand this makes the company's liquidity value decrease because when assets are less than debt, the liquidity value will be much reduced and even minus. The margin resulting from the manipulation of information can be used privately by the management of the company if cash or cash equivalents are deducted.

When a company is under great pressure to achieve financial goals and objectives,

namely profit, it can trigger fraudulent acts on its financial reports so that it always looks profitable. This can be called a material misstatement in the financial statements, which can be detrimental to investors and creditors. One way that can be done is to reduce or delete company assets, namely inventory. Inventories that make a large contribution to the asset account will be difficult to see unless inspected and counted directly. The company's profitability can grow when the value of assets is small because the net income is greater than the assets. Therefore, the liquidity ratio will decrease because the value of assets is smaller or in balance with the value of the company's debt, thus indicating the condition of the company which is having difficulties in fulfilling its obligations.

The results of this study indicate that there are two variables that affect financial distress, namely liquidity and fraudulent financial statements. This shows that this study supports the signal theory which explains that financial ratios can be a signal/indicator for internal and external analysis of the company. This research shows that fraudulent financial statements are able to moderate liquidity against financial distress, which means that these results support the theory of hexagon fraud with a focus on pressure indicators.

CONCLUSION

Based on the discussion that has been described, it can be concluded in this study, namely: there is no effect on profitability ratios financial distress; there is a positive influence on the liquidity ratio financial distress; there is a negative effect of fraudulent financial statements of financial distress; there is no role of fraudulent financial reporting in moderating the influence of profitability ratios on financial distress; there is a role of fraudulent financial statements in moderating the effect of the liquidity ratio on financial distress. For companies it would be nice to always keep the ICR value above 1 by increasing revenue, optimizing operating expenses and minimizing

debt with high interest. Then, companies that commit financial statement fraud in certain parts need to be stopped because it can affect other items in the financial statements. Last but not least, you can look at Yustika (2013) research and Dirman (2020) research where to analyze more comprehensively the independent variables that can affect financial distress.

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