

THE Influence of Liquidity, Profitability, and Leverage on Financial Distress Prediction in Manufacturing Companies of The Food and Beverage Sub-Sector Listed in The Indonesia Stock Exchange (IDX)

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ABSTRACT

The aim of this study is to examine how liquidity, profitability, and leverage influence the potential of financial distress in manufacturing companies in the food and beverage subsector that have been listed on the Indonesia Stock Exchange (IDX) for the period 2020 to 2022. There are four variables used, namely liquidity with cash ratio (CR) measurement indicators, profitability using return on capital employed (ROCE), leverage with long term debt to equity ratio (LDR), and financial distress measured by interest coverage ratio (ICR). The sampling technique used was purposive sampling and resulted in a sample of 38 companies and 84 financial reports. Data has been collected through documentation, and multiple linear regression analysis was employed for analysis. The results showed that: 1) Liquidity has a negative effect on financial distress 2) Profitability has a negative effect on financial distress, while 3) Leverage has no effect on financial distress.

Keywords: Liquidity, profitability, leverage, financial distress, cash ratio (CR), return on capital employed (ROCE), long term debt to equity ratio (LDR), interest coverage ratio (ICR).

INTRODUCTION

Background

The food and beverage processing industry is one of the most established industries in Indonesia, with a large number of businesses vying for sales. The industry is growing rapidly in Indonesia as these consumer goods are necessary for human survival, along with clothing and shelter. Several studies have analyzed the business aspects of the food and beverage industry in Indonesia, including its growth and development potential, its significant role in meeting consumer needs, and its ability to survive amid Indonesia's economic conditions.

Increasing household consumption is the main driving force behind Indonesia's economy, and the food and beverage sector is one of the fastest growing in the country. The food and beverage industry in Indonesia has been growing consistently year after year. According to the Central Statistics Agency (BPS), the gross domestic product (GDP) at constant prices (ADHK) of the food and beverage industry grew 5.35 percent in the first quarter of 2023, in line with national GDP growth of 5.03 percent. The GDP of the food and beverage industry amounted to Rp 209.51 trillion in the second quarter of 2023, an increase of 4.62 percent compared to the same period the previous year (year on year). This makes the food and beverage industry the subsector with the largest contribution to Indonesia's GDP. (<https://kemenperin.go.id/>)

Competition among companies in the food and beverage sector listed on the Indonesia Stock Exchange (IDX) is getting tighter with the increasing number of companies listed. Until 2022, there are 84 manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange (IDX), an increase from 33 companies in 2020.

The industrial sector is an important element in international trade on the Indonesia Stock Exchange (IDX). In today's globalized world, companies face greater challenges and risks to stay competitive and avoid debt or even bankruptcy. When a company's financial

situation deteriorates before filing for bankruptcy, this is referred to as financial distress (Hutauruk, 2021).

A company has the potential to experience financial difficulties if there are negative numbers in operating profit, net profit, and book value and when the company merges (Brahmana, 2007). In addition, companies are categorized as having difficulty in fulfilling debt interest payment commitments or debt principal payments due to high dependence on debt financing, so the company can be considered experiencing financial difficulties.

Another phenomenon of financial distress is a company that has the potential to experience cash flow problems, as evidenced by the decline in the organization's ability to pay its debts to creditors. (Hanifah 2013). Financial statement analysis techniques can predict and measure company financial distress. Predicting the survival of the company is important for business owners and management to avoid financial difficulties.

Various studies have been conducted in an effort to predict the occurrence of financial distress. Previous research shows that one way is to utilize financial ratio analysis techniques. Investors can conduct financial ratio analysis to assess which companies are performing well and have a high rate of return (Latifah & Suryani, 2020).

Financial distress prediction is an indispensable tool for businesses to recognize early warning signs of impending bankruptcy, regardless of their current financial position. Conducting fundamental analysis, which involves examining financial ratios, is an important step for companies to assess their financial health and take preventive steps to avoid potential financial distress. This proactive approach can help minimize the risk of financial disaster and ensure business stability.

Analyzing financial statements through financial ratios can provide valuable insights into a company's financial health, including the likelihood of financial distress. By utilizing this information, investors and stakeholders can make informed decisions and take the necessary actions to reduce risk and ensure long-term success. Do not ignore the power of financial ratios in predicting potential problems and maximizing opportunities for growth and prosperity (Maulidin, 2014). According to Altman (2010), the most important indicators are often associated with profitability, liquidity, solvency, and leverage, along with other ratio measurements such as cash flow and earnings coverage. Liquidity, profitability, and leverage ratios are the ratios used in this study.

Liquidity ratio is the company's ability to provide payments on its short-term obligations, such as accounts payable, dividend payable, tax payable, and others. This ability is used for the continuity of the company's operations when the company must pay off its debts. High liquidity indicates that the company has sufficient internal funding to fulfill its responsibilities. (Sembiring et al., 2022). In other words, the liquidity ratio is a ratio that measures or assesses the company's ability to earn profits through various activities carried out by the company. In this study, the ratio used to measure financial distress is the Cash Ratio (CR) which is used to measure the company's ability to meet its short-term obligations with its cash.

Meanwhile, the profitability ratio is an indicator used to measure the company's ability to generate profits from every economic sacrifice made by the company in a certain period (Rangkuti et al., 2020). In other words, the company's inability to generate profits can be indicated by low profitability. This study combines profitability through Return on Capital Employed (ROCE) by highlighting the relationship between capital utilization efficiency and bankruptcy potential.

The third variable, the leverage ratio is the company's ability to manage assets funded by debt, in order to reduce costs and raise capital to increase the rate of return. A high level of leverage indicates a greater likelihood of financial distress for the company (Brigham and Houston n.d. 2019). (Brigham and Houston n.d. 2019). In this study, the leverage indicator

used is the Long Term Debt to Equity Ratio (LDR). This ratio can measure and determine how much of the company's own capital is used as collateral for long-term debt.

According to Marsela's research (2023), financial distress situations are positively affected by profitability and liquidity. Leverage has a negative impact on people experiencing financial difficulties. This finding is consistent with Carolin Simorangkir's previous research (2020). Meanwhile, leverage helps people in financial distress, according to Runis et al.'s research (2021). Financial distress has a negative correlation with profitability and liquidity.

Previous research conducted by Rina (2019) found that liquidity and leverage have no significant effect on financial distress and profitability has a positive effect on financial distress. This research is in line with Muhammad Miqdad (2023) which only has different results on the profitability ratio which shows a negative effect on financial distress.

Another study conducted by Vio Dawa Faniko (2022) found that liquidity and leverage have a negative effect. while profitability has a positive effect on financial distress. In research conducted by Putri Nadia Stepani (2023) has the results that liquidity and profitability have a negative effect and leverage has no effect on financial distress.

Problem Formulation

Based on the background, the researchers concluded several problem formulations as a reference in compiling the research, the problem formulations in this study are as follows: 1) how the effect of liquidity, profitability, and leverage on financial distress. 2) how does liquidity affect financial distress. 3) how does profitability affect financial distress. 4) how does leverage affect financial distress in food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2020-2022?

Research Contribution

This research has contributions to achieve, among others:

1. For further research, this research is expected to be used as input material in research related to financial analysis and can be the basis for further research that tries to explore certain aspects.
2. For the field of financial accounting and financial management, this research can provide in-depth insight into financial elements and assist in developing better risk management strategies.

LITERATURE REVIEW

Agency theory

Agency theory or Agency Theory is formed because of the separation of functions between the company owner (principal) and management (agent), According to Jensen and Mecking (1978), this theory creates a work contract wherein both parties agree to perform services in the principal's best interests. The principal gives the agent access to his resources with the understanding that the agent will oversee their management. Management is accountable for two things: first, it must take action and then report the outcomes. The latter may be used in financial accounting as a benchmark to evaluate the state of the company's finances. The firm will make a large profit and stay out of financial distress if its operational operations are carried out effectively.

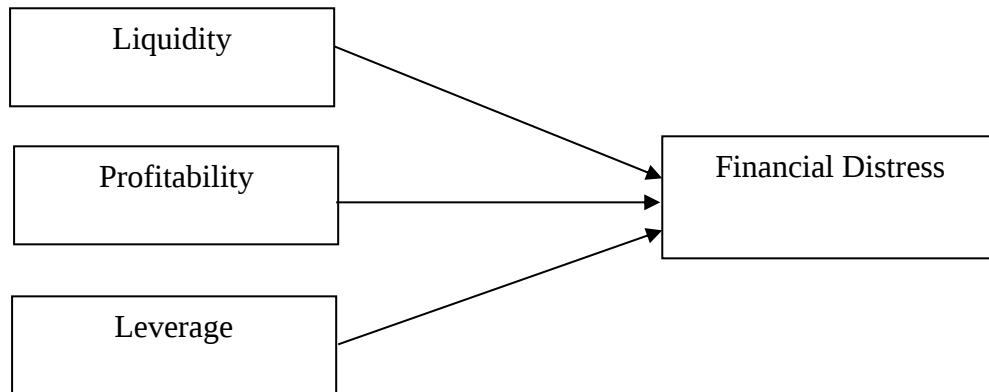
Financial Distress

According to Hutauruk (2021), A firm's financial situation that is deteriorating prior to the company filing for bankruptcy is known as financial distress. The failure of the business to fulfill its immediate commitments is a symptom of financial difficulty. Financial distress, on the other hand, is a stage of a company's financial deterioration that may be identified prior to bankruptcy, according to Deanta (2018). According to Almamy et al. (2016), financial distress is a state of affairs when a company's inability to meet its financial commitments on time is caused by a shortage of liquidity.

Hypothesis

- H1 : There is an Effect of Liquidity, Profitability, and Leverage on Financial Distress.
 H1a : There is an Effect of Liquidity on Financial Distress.
 H1b : There is an Effect of Profitability on Financial Distress.
 H1c : There is an Effect of Leverage on Financial Distress.

Conceptual Framework



RESEARCH METHODS

Type of Research

Quantitative correlation analysis is used in this study. Correlational research is an appearance of research where the issue features take the form of a correlational relationship between two or more variables (Sugiyono, 2019).

Population and Sample

The manufacturing companies in the food and beverage subsector that were listed on the Indonesia Stock Exchange (IDX) between 2020 and 2022 comprised the study's population. While the sample of this study used purposive sampling method, namely the technique of determining the sample with consideration of certain criteria. The sampling criteria are as follows:

1. Food and beverage subsector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2020 to 2022.
2. Companies that do not exit or delisting from the Indonesia Stock Exchange (IDX) during the observation years, namely 2020 to 2022.
3. Companies that experience loss conditions, stagnant profits and / or a decrease in profits during the observation period, namely 2020 to 2022.
4. The company publishes financial reports that provide all the required data on the research variables.

Definition of Operational Variables

1. Liquidity: Liquidity ratio is a measurement that can determine how the company's liabilities compare to its assets and cash flow (Azani et al., 2022). According to Sembiring et al., (2022) Liquidity is the company's ability to provide payment of its short-term liabilities. This ability is used for the company's operational sustainability when the company has to pay off its debts. Cash Ratio is an indicator used in this study with the following formula:

$$\text{Cash Ratio} = \frac{\text{Cash or cash equivalent}}{\text{Current liabilities}}$$

2. Profitability: According to Hardianti & Utityati (2020), Profitability is a crucial component in evaluating the capacity of the business. The ability of the company to turn a profit with its current resources, including sales activity, cash, capital, staff, branches, and so on, is referred to as profitability. Profitability is an indicator to measure the ability of a company

to generate profits from every economic sacrifice made by the company in a certain period (Rangkuti et al., 2020). The indicator of measuring the profitability variable used by the author is Return on Capital Employed (ROCE), with the following formula:

$$\text{Return On Capital Employed} = \frac{\text{Earning Before Interest and Taxes}}{\text{Total Asset} - \text{Liabilities}}$$

3. Leverage: According to Brigham and Houston (2019) Leverage is the company's ability to manage assets funded by debt in order to reduce costs and increase capital to increase the level of return. Meanwhile, Kasmir (2018) emphasizes the definition of Leverage is a measure that's used to determine how much debt the company is using to fund its operations. Leverage will describe the extent to which the company uses debt and capital to support its operational activities. The measurement indicator used is the Long Term Debt to Equity Ratio (LDR), with the following formula:

$$\text{Long Term Debt to Equity Ratio} = \frac{\text{Long Term Liability}}{\text{Equity}}$$

4. Financial distress: According to Hutaeruk (2021), Financial distress is a company's financial condition that is experiencing a stage of decline before the company goes bankrupt. The company's inability to meet its short-term obligations is a sign that the company is experiencing financial distress (Herlangga & Yunita, 2020). Financial distress reflects a financial situation in which the company experiences a lack of liquidity that reduces its ability to pay its financial obligations when due (Almamy et al. 2016). This variable is measured by the Interest Coverage Ratio (ICR), with the following formula:

$$\text{Interest Coverage Ratio} = \frac{\text{Operating Profit (EBIT)}}{\text{Interest Expense}}$$

Data Collection Sources and Methods

The Indonesia Stock Exchange (IDX)-listed manufacturing businesses in the food and beverage subsector that have issued annual financial reports for the years 2020 to 2022 serve as secondary data for this study. Data collection methods are carried out by means of documentation, namely data collection methods that come from recording sources or other publications. Data obtained from internet searches and websites (www.idx.co.id).

RESEARCH RESULTS AND DISCUSSION

Statistical Descriptive Test Results

Table 1 Descriptive Statistic Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Liquidity	84	0,00	1,79	0,3207	0,41500
Profitability	84	-12,10	0,87	-0,1044	1,35688
Leverage	84	0,01	6,01	0,7308	1,00244
Financial Distress	84	-24311,33	1490,66	-280,0936	2658,79728
Valid N (listwise)	84				

Based on the table above, it can be seen that the number of samples (N) is 84, as a whole in the observation period 2020 to 2022. The average value of the liquidity variable is 0.3207, with a standard deviation of 0.41500. Its maximum value is 1.79, and its minimum value is 0.00. The profitability variable had an average value of -0.1044 and a standard deviation of 1.35688, with a minimum value of -12.10 and a maximum value of 0.87. With an average value of 0.7308 and a standard deviation of 1.00244, leverage has a minimum value of 0.01 and a maximum value of 6.01 and financial distress has a minimum value of -24311.33 and a maximum value of 1490.66 with an average value of -280.0936 and a standard deviation of 2658.79728.

Normality Test Results

Table 2 One-Sample Kolmogorov-Smirnov Test

		Liquidity	Profitability	Leverage	Financial Distress
N		84	84	84	84
Normal Parameters ^a	Mean	0,5027	0,5104	0,5137	0,4960
	Std. Deviation	0,27988	0,28147	0,27359	0,27419
Most Extreme Differences	Absolute	0,079	0,075	0,067	0,068
	Positive	0,079	0,072	0,065	0,059
	Negative	-0,074	-0,075	-0,067	-0,068
Test Statistic		0,079	0,075	0,067	0,068
Asymp. Sig. (2-tailed) ^c		0,200 ^d	0,200 ^d	0,200 ^d	0,200 ^d

The table above shows that each of the research variables is normally distributed with a significant asymptotic of $0.200 > 0.05$.

Multiple Linear Regression Test Results

Table 3 Multiple Linear Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,962	0,042		23,108	,000
	Liquidity	-0,120	0,064	-0,123	-1,886	,063
	Profitability	-0,792	0,064	-0,814	-12,334	,000
	Leverage	-0,002	0,051	-0,002	-,035	,972

a. Dependent Variable: Financial Distress

Based on the table above, the multiple linear regression equation is found, namely $Y = \beta_0 + \beta X + \beta_{1122} X + \beta X_{33} + \varepsilon$. $Y = 0.962 - 0.120$ (sig. 0.063) $X_1 - 0.792$ (sig. 0.000) $X_2 - 0.002$ (sig. 0.972) $X_3 + \varepsilon$ with description Y : Financial Distress, β_0 : Constant, $\beta(123)$: Regression Coefficient, X1: Liquidity, X2: Profitability, X3: Leverage, and ε : Error or nuisance variation.

Classical Assumption Test Results

1. Multicollinearity Test

Table 4 Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	Liquidity	0,577	1,735
	Profitability	0,561	1,783
	Leverage	0,957	1,045

a. Dependent Variable: Financial Distress

The table above shows that each variable's tolerance value is greater than 0.10 and the VIF value is less than 10.

2. Heteroscedasticity Test

Table 5 Glejser Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,062	0,032		1,952	0,054
	Liquidity	0,002	0,049	0,007	0,048	0,962
	Profitability	0,031	0,049	0,092	0,622	0,535
	Leverage	-0,005	-0,039	-0,016	-0,137	0,891

a. Dependent Variable: ABRESID

The table above shows that the significant value of each liquidity, profitability and leverage variable is greater than 0.05.

3. Autocorrelation Test

Table 6 Autocorrelation Test

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,897 ^a	0,805	0,797	0,12339	1,602
a. Predictors: (Constant), Leverage, Liquidity, Profitability					
b. Dependent Variable: Financial Distress					

Based on table show that the autocorrelation test results, the Durbin Watson value is 1.602 and the number of independent variables (k) of 3, the dU value is 1.7199. Then the dU value (1.7199) > d value (1.602) < 4-dU value (2.2801) is obtained. So it can be concluded that in this research regression model there is no autocorrelation.

Hypothesis Test

1. Simultaneous Significance Test (F Test)

Table 7 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5,022	3	1,674	109,947	0,000 ^b
	Residuals	1,218	80	0,015		
	Total	6,240	83			
a. Dependent Variable: Financial Distress						
b. Predictors: (Constant), Leverage, Liquidity, Profitability						

The table above shows that the F_{count} value is 109.947 with a significance level of 0.000 < 0.05, it is concluded that the hypothesis H_0 is rejected and H_1 is accepted, which means that simultaneously liquidity, profitability, and leverage have a significant effect on financial distress.

2. Coefficient of Determination (R^2)

Table 8 Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,897 ^a	0,805	0,797	0,12339
a. Predictors: (Constant), Leverage, Liquidity, Profitability				
b. Dependent Variable: Financial Distress				

According to the table above, the dependent variable, financial distress, can be explained by the independent variables, liquidity, profitability, and leverage, to the tune of 80.5%. This indicates that the value of R square (R^2) is 0.805. However, factors beyond the reach of the study model have an impact on the remaining 19.5% of the dependent variable.

3. Partial Test (t-test)

Table 9 Partial Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,962	0,042		23,108	0,000
	Liquidity	-0,120	0,064	-0,123	-1,886	0,063
	Profitability	-0,792	0,064	-0,814	-12,334	0,000
	Leverage	-0,002	0,051	-0,002	-0,035	0,972
a. Dependent Variable: Financial Distress						

The table above shows that the liquidity and profitability variables have a significant value < 0.05. This means that it has an effect on financial distress. While leverage has a significant value > 0.05, which means that the leverage variable has no effect on financial distress.

Discussion

1. The effect of liquidity on financial distress

In the partial test (t-test), According to this research, the liquidity variable has a tcount value of -1.886 at a significant level of 0.063 < 0.05, indicating the acceptance of H_{1a} and the rejection of H_0 . The t test table indicates that liquidity has a significant negative effect on

financial distress. The results of this research are consistent with earlier studies by Dawa (2022) and Runis et al. (2021), which found a substantial negative relationship between liquidity and financial distress. Furthermore, contrary to Simorangkir's (2020) and Marsela's (2023) results, which indicate that liquidity significantly reduces financial distress.

2. The effect of profitability on financial distress

The profitability variable has a t_{count} value of -12.334 with a significance level of $0.000 < 0.05$, according to the partial results of the test (t-test), which indicates that H_0 is rejected and H_{1b} is approved. The t-test table indicates that there is a significant negative correlation between profitability and financial distress. The results of this study are not in line with research by Rina (2019), Simorangkir (2020), Dawa (2022), Marsela (2023) and Saputri (2023) which state that profitability has a significant positive effect on financial distress. However, this research can be in line with research conducted by Runis et al., (2021) and Zakya (2022) which state the same thing that profitability has a significant negative effect on financial distress.

3. The effect of leverage on financial distress

The partial test results (t-test) show that the leverage variable has a t_{count} value of -0.035 which means H_0 is accepted and H_{1c} is rejected. Based on the t test table, it is concluded that the significance level is $0.972 > 0.05$, which can be concluded that leverage has no significant effect on financial distress. The results of this study of this study contradict those of Simorangkir (2020), Dawa (2022), and Marsela (2023) research, which indicated a significant negative relationship between leverage and financial distress. Conversely, research by Saputri and Runis et al. (2021) indicated that leverage significantly reduces financial distress. However, this study may be compared to studies by Rina (2019), Stepani (2023), and Miqdad (2023) that conclude leverage has no effect on financial distress.

CONCLUSIONS AND SUGGESTIONS

Conclusions

This research can be concluded as follows:

1. Liquidity affects financial distress in food and beverage subsector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2020 - 2022. Against a negative direction relationship between liquidity and financial distress.
2. Profitability affects financial distress in food and beverage subsector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2020-2022, against a negative directional relationship between profitability and financial distress.
3. Leverage has no effect on financial distress in food and beverage subsector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2020-2022.
4. Based to the study's results, financial hardship in manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange (IDX) during 2020 and 2022 is significantly impacted by liquidity, profitability, and leverage simultaneously. the exact time.

Suggestions

Suggestions for future researchers are as follows:

1. For future researchers, it is hoped that they can expand the research by adding the number of samples not only focused on the food and beverage sector but more broadly expected to be all sectors in manufacturing companies, so that research results can be obtained with a higher level of generalization.
2. For further researchers, it is expected to add other variables that are appropriate and are thought to affect financial distress, such as company size, sales growth, corporate governance mechanisms, intellectual capital, audit committees, and others.

3. This study measures financial distress using the Interest Coverage Ratio (ICR), so further research is expected to try to measure financial distress with other measuring instruments so that it can produce better research such as using the Altman Z-score analysis model, springate model, business risk analysis, and so on.

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