

# The Impact of Liquidity Ratio, Ratio of Activity, Company Size, Debt Policy, and Sales Growth on Financial Distress

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**Abstract**— This study aims to identify and analyze the impact of liquidity ratio, activity ratio, size of the company, debt stability, and sales growth on financial distress in the commodity and consumer industry companies listed on the Indonesian Stock Exchange in 2018–2022. The selection of a company sample using purposive sampling resulted in a total of 217 companies. This research method uses double-linear regression analysis. The results of this study show that liquidity ratio, the ratio of activity, the size of the company, debt stability, and sales growth influence financial distress.

**Keywords**— Liquidity Ratio, Activity Ratio, Company Size, Debt Policy, Sales Growth, Financial Distress.

## I. INTRODUCTION

The expansion of the business world to this day has made competition between large and small companies more and more stringent. The constantly changing economic conditions have affected the activities and performance of companies, both small and large. The number of companies that have problems and financial risks that a company faces when left to exist can threaten its existence, so not closing is likely to result in disgrace for the company. (Ayuningtyas & Suryono, 2019).

Every company is founded with the hope of generating profits so that it can survive or thrive in the long term and not undergo liquidation. In fact, the assumptions don't always go as well as expected. Often, companies that have been operating for a certain period of time have been forced to dissolve or liquidate because of financial difficulties that end in bankruptcy. This is not the few phenomenon of bankruptcy experienced by companies in Indonesia.



Figure 1.1: profit and loss rate and total assets in 2015–2020 (in million rupiah)

Figure 1.1 above shows the phenomenon of financial distress occurring in companies in Indonesia in 2020. Based on the observation results, there are three food and beverage subsector

companies listed in the Indonesian Stock Exchange (IDX), namely ALTO, PSDN, and one company in the Shariah share index of IIKP, that suffered losses during the last three years in the six-year observation period 2015–2020. The ALTO company experienced financial distress during the course of the 2015–2020 period. IIKPs did not experience financial distress during the period of 2015–2020. The IIKPS company was stable from year to year, and even in the midst of the economic downturn in 2019 and 2020 due to the impact of the COVID-19 pandemic, it was not significantly affected. PSDN experienced unstable conditions, where in 2015 and 2016 it experienced financial stresses, then in 2017 and 2018 it increased and did not suffer financial stress.

According to the researchers, companies that are potentially bankrupt and the emergence of financial distress are very interesting to study because it is a threat that can be experienced by all companies, regardless of the type or size of the company, and it can occur at any time. Seeing the enormous losses to various parties raises the idea that the prediction of financial distress through the predictive model needs to be developed with the hope that it can be used as a reference to identify, from an early stage, the conditions that are heading towards bankruptcy.

Financial distress is a situation in which a firm is experiencing financial difficulties characterized by not having the operating cash flow to pay its obligations smoothly. Further, according to Platt and Platt in Fitri et al., 2020 stated that financial distress is a stage of decline in financial conditions characterized by delays in delivery, declining product quality, cash flow difficulties and delayed payment of bills from banks. If the company continues to borrow, it is likely that the total liability will exceed the total assets owned by the company. This condition will indicate that the company is in financial distress and if the company cannot cope with the condition then the company will go bankrupt. (Fitri et al., 2020).

One factor that affects financial distress in the company is liquidity. Liquidity ratio is the ability of an entity to pay its liabilities smoothly by utilizing Triwahyuningsih's smooth assets (Asmarani & Purbawati, 2020). That's when a company has to have a smooth fund that's bigger than its smooth debt. When a company is in an illicit condition or unable to meet its operational funds and pay its short-term obligations, the potential for a company to suffer financial distress is higher. Previous research conducted by Asmarani and Purbawati. (2020) proved that liquidity has a significant influence on

financial distress. But this study contradicts the research carried out by Silanno, Glousa Lera & Loupatty. (2021) where his research finds that the projected liquidity ratio compared to the current ratio has no influence on the financial distress condition.

The second factor that also affects financial distress is the ratio of activity. The activity ratio is a ratio used to measure the efficiency of a company in using its assets. Efficiency is achieved, for example, in the areas of sales, inventory, debt billing, and efficiency in other areas. The activity ratio is also used to evaluate the ability of a company to carry out daily activities (Rina et al., 2019). Previous research by Yuriani et al. (2020) proved that the ratio of activity projected to total asset turnover can have a significant impact on financial distress. This is contrary to the research conducted by Rana et al. (2019) that proves that activity ratios have no influence on financial stress.

The third factor that also affects financial distress is the size of the company. Corporate size is a scale that can describe the state of a company, both small and large. The large amount of assets of a company indicates that the relationship is positive for creditors because it is easier for the company to pay off its liabilities in the future. (Nilasari Intan, 2021). Assets are chosen to calculate the size of the company because assets are considered to be the most stable. Because of that, large and small assets have to do with the company's finances. The larger the total assets of the company, the smaller the likelihood that the company will suffer financial distress. Previous research conducted by D. Putri and Ardini (2020) showed that the size of a company has an influence on financial distress. This study is inconsistent with a study conducted by Muzharoatiningsih & Hartono (2022; Suryaputra & Christiawan (2014; Nila (2021) which found that the size of a company measured by total assets has no significant influence on financial distress.

The fourth factor that affects financial distress is debt policy. The debt policy, according to Fahmi in Dwiausti & Dillak (2019), is a policy that measures how much a company is funded by debt. Debt is an external source of funding for the company to carry out its operational activities. The use of debt by the company has a sensitive influence on the high and low value of the company. The debt policy, according to Nainggolan & Listiadi (2014:868) in Ecodemica et al. (2019), is the policy that a company pursues to finance its operations using financial debt, or what is commonly referred to as financial leverage. Previous research carried out by Idarti and Hasanah (2018) showed that debt policy has a positive impact on financial distress. This study is not in line with research conducted by Widhiari and Merkusiwati (2015) which shows that the policy of debt projection with a debt-to-equity ratio (DER) has no effect on financial distress.

Another factor that affects financial distress is sales growth. Sales growth is the ratio used to predict the future growth of an entity based on receipts generated for products or services and revenues generated by sales. (Lisiantara & Febrina, 2018). This is a signal to investors and creditors because high sales growth will affect the company's assets and profits, so the investor and creditor are interested in providing investment and credit to the company. Sales growth shows that low figures can cause the company to suffer financial distress because of the fall in sales from the past period, which can affect the assets, profits, and

debt of the company (Wibowo & Susetyo, 2020). Previous research conducted by Sitanggang (2020) stated that sales growth partially had a significant impact on financial distress. This is inconsistent with research conducted by Simanjuntak et al. (2017) and Wibowo & Susetyo (2020), which state that sales growth has no effect on financial distress conditions.

In previous studies showing inconsistencies with the given results, the researchers were motivated to do the research again by adding independent variables (Setyowati & Sari Nanda, 2019) on the influence of liquidity, operating capacity, company size, and sales growth on financial distress in manufacturing companies listed on the Indonesian Stock Exchange (IDX) in 2016–2017. The difference with previous researchers is that this study adds variables in the activity ratio and debt policy, with the reason that activity ratios are important indicators in evaluating company performance. In addition, the company needs a ratio that is used to measure its efficiency in using the assets it owns. (Rina et al., 2019). With the activity ratio, the company will be thinking more about how to use the company's resources more effectively. Thus, the revenue of a company or business can rise and generate cash.

The researchers also added a debt policy variable; the source of corporate funding can be obtained from both internal and external companies. The decision on which source of funding to choose is entirely in the hands of management, taking into account the advantages and disadvantages of each decision taken. One of the sources of financing in the fulfillment of the capital structure most often done by management is debt.

Debt policy is the policy that a company pursues to finance its operations using financial debt, or what is commonly referred to as financial leverage. Financial leverage shows the use of debt as a factor in an effort to improve financial performance because companies that obtain funds with debt can know how much influence the loan has on the improvement of the company's performance. (Ifada, 2013).

Based on the explanation of the phenomenon of gaps and research gaps, researchers are interested in conducting research related to the influence of the factors that influence financial distress. The findings of this research are expected to contribute to the literature on financial management and provide valuable insights for companies in identifying the risk of occurrence of financial distress. Corporate policymakers and managers can leverage these findings to formulate effective strategies to improve financial performance and ensure corporate sustainability. Understanding the dynamics of financial distress in a company is crucial to creating a strong and resilient economy.

## II. LITERATURE REVIEW

### *Agency theory*

Jensen and Meckling (1976) explained that agency relations in agency theory are contracts between one or more people (principal) involving other people (agent) to perform some services on behalf of the principal by involving delegation of authority to the agent. According to Anthony and Govindarajan (2005), the agency theory is a relationship or contract between the principal and the agent. The agency theory is related to financial distress, which relates to important company

information that, if concealed, can cause losses to the principal, such as information that explains the company's negative experience in the credit sector. Negative experience or bad experience in the credit field is an indication that the company has low profitability, liquidity, and sales growth. Errors in decision-making by agents can also result in large losses for the company that can end in financial difficulties or distress. (A. Kartika et al., 2020).

#### *Financial Distress*

Financial distress is a condition in which a company's finances are unhealthy or in crisis. (Yustika, 2015). According to Plat and Plat in Ayuningtyas & Suryono (2019), information that a company is approaching financial pressure can trigger management action to prevent the problem from occurring, namely by making mergers or acquisitions by a better managed company. Financial distress would be an early warning of possible future bankruptcies.

#### *Liquidity Ratio*

A liquidity ratio is a ratio that measures a company's ability to repay due debts from both external and internal entities. In this study, the liquidity ratio was measured by the current ratio (CR) proxy. A current ratio is a ratio that shows the company's ability to pay off short-term obligations that will expire at the time of full billing. (Nukmaningtyas, 2018). Liquidity is the ratio that describes a company's ability to pay off its short-term obligations. According to Sofyan (2015:301), the liquidity ratio describes the company's ability to meet its short-term obligations. Liquidity can be measured by a smooth ratio or a quick ratio. The quick ratio is the calculation of the most liquid value, where assets are smoothly deducted by stocks. The smooth ratio measures the ability of a company to meet its short-term debt with smooth assets. (Mamduh dan Abdul, 2016: 75). The higher the smooth ratio, the more the company can cover the lender's debt with smooth assets (Wibowo & Susetyo, 2020).

The results of research conducted by Yuriani et al. (2020) and Asmarani & Purbawati (2020) show that liquidity projected by the current ratio has proved to have a negative influence on financial distress. This reflects that the higher the liquidity of a company, the greater its ability to fulfill its short-term obligations, so the lower the likelihood of economic distress for the company concerned. Based on the results of the study, the researchers proposed the following hypothesis:

H1: Liquidity ratio affects financial distress

#### *Activity Ratio*

Activity is a ratio used to measure the level of efficiency over the use of resources owned by the company or to assess the ability of the company to carry out its daily activities. This ratio is also known as the ratio of use of assets, which is the ratio used to evaluate the effectiveness and intensity of company assets in generating sales. Total asset turnover is the ratio used to measure the amount of sales that will be generated from each rupee of funds invested in the total asset. (Simanjuntak et al., 2017).

The results of a study conducted by Setyowati & Sari Nanda (2019) and Fitri et al. (2020) show that the ratio of activity has a negative influence on financial distress. Based on this description, the hypothesis put forward in this study is:

H2: the ratio of activity to financial distress

#### *Company Size*

According to Nurmindia et al. (2017) the size of a company is the value that shows how large or small a company is in various ways, i.e., as seen from the total assets, total sales, and market capitalization. In this study, the company's size is measured using the total number of assets owned by the company, because according to Agustia and Suryana et al. (2018), the total company's income will be more stable compared to the total sales and will be most relevant compared with the market capitalization value.

Company size is the value that shows how large or small a company is in various ways, i.e., as seen from the total assets, total sales, and market capitalization. (Nurmindia et al., 2017). According to Riyanto (2010), the size of a company is one of the factors that a company considers in determining how large the policy of funding decisions (assets) is in meeting the size of the company's assets. The smallness of a company is indicated by a value that is often called the size of the company. Investors on the stock exchange often assume that investing in shares in large companies is more convincing and can yield more profits than investing in stocks in smaller companies. Besides, it's useful in bidding positions because it can determine the value of the contract. (Bringham & Houston, 2016).

Research conducted by Setyowati and Sari Nanda (2019) shows evidence of a significant negative influence of corporate size on financial distress. This is supported by research carried out by Maulana et al. (2021) that proves that the size of a company has a positive influence on financial stress. Based on this, the hypothesis of this study is as follows:

H3: Company size affects financial distress

#### *Debt Policy*

Debt, according to Hanafi (Idarti & Hasanah, 2018), is an economic sacrifice that may arise in the future from the organization's obligation now to transfer assets or provide services to another party in the future as a result of transactions or events in the past. Companies are assessed to be at risk when they have a large portion of debt in their capital structure, but if the company uses little or no debt at all, then the company is assessed not to be able to harness additional external capital that can improve the company's operational performance.

Studies conducted by Idarti & Hasanah (2018) and Yusuf et al. (2022) show evidence of the significant negative influence of debt policy on financial distress. This is in line with the research carried out by Simorangkir et al. (2021) that proves that debt policies have a significant influence on financial struggle. Based on the above explanation, the hypothesis that can be formulated is as follows:

H4: Debt policy affects financial distress

#### *Sales Growth*

Measuring the rate of sales growth can be measured by the success of investments in past periods and can be used as a prediction for the company's future growth in both markets. (2015).

According to Fahmi (2012), a growth ratio is a ratio that measures how much a company is capable of maintaining its

position in industry and in economic development in general. According to Kasmir (2013), a growth rate (growth ratio) is the ratio that describes a company's ability to maintain its economic position in the midst of economic growth and the business sector.

A study conducted by Setyowati & Sari Nanda (2019) and Rochendi & Nuryaman (2022) explains that sales growth has a negative impact on financial distress. Based on the description above, the hypothesis that can be formulated is as follows:

H5: Sales growth affects financial distress.

III. METHODOLOGY

This research uses a quantitative approach. The population taken is a manufacturing company in the goods and consumption sector listed on the Indonesian Stock Exchange for the period 2018–2022. The data used is secondary data from the company's annual financial report. The data analysis technique used in this study is double linear regression. The method used in the sampling is the purposive sample method according to certain criteria. The sample criteria used are as follows: 1) Companies publish annual reports and financial reports for five consecutive years (2018–2022), which can be accessed from the official website of the IDX (www.idx.co.id) or from the respective official websites of each company. 2) Manufacturing companies in the goods and consumption sector that are not consecutively listed on the Indonesian Stock Exchange (IDX) for the period 2018–2022. 3) Manufacture companies that do not publish financial reports on the company's website or the website of the Indonesia Stock Exchange (IDX) during the period 2018–2022. This study used the following measurements:

TABLE 1. Operational Measurement

Variable	Indicators
Financial Distress	$Z'' = 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$
Liquidity Ratio	$Current\ ratio = \frac{aktiva\ lancar}{hutang\ lancar} \times 100\ %$
Activity Ratio	$Total\ Asset\ Turnover\ (TATO) = \frac{Penjualan}{Total\ Aset} \times 100\ %$
Company Size	Company size (SIZE) = Ln Total Aset
Debt Policy	$Debt\ To\ Equity\ Ratio\ (DER) = \frac{Total\ Hutang}{Total\ Modal}$
Sales Growth	$Sales\ growth = \frac{Sales\ t - Sales\ t-1}{Sales\ t-1}$

TABLE 2. Research Sample

Number	Criteria	Total
1	Manufacturing companies in the goods and consumption sector are listed on the Indonesia Stock Exchange (IDX) for the period 2018–2022.	71
2	Manufacturing companies in the goods and consumption sector that are not listed successively on the Indonesia Stock Exchange (IDX) for the period 2018–2022.	(21)
3	Manufacturing companies that do not publish financial statements on the company's website or the Indonesia Stock Exchange (IDX) website during the period 2018–2022.	(4)
	<b>Number of five-period samples</b>	46
	<b>Observation year: 2017-2021</b>	5 years
	<b>Number of research samples</b>	230
	<b>Outlier</b>	13
	<b>Final number of research samples</b>	217

The number of Goods and Consumption Sector Manufacturing Companies listed on the Indonesian Stock Exchange in 2018–2022 consecutive amounts to 71. There are 21 goods and consumer sector manufacturers not listed consecutively on the Indonesia Stock Exchange (IDX) in the period 2018–2022. There are four production and consumption sector companies that have published their financial statements on the company website or website of the Indonesian Stock Exchange (IDX) during the period 218–2022. Based on the data obtained from 46 goods and consumption companies over a period of 5 years, the number of samples for the research is as much as 230.

IV. RESULT AND DISCUSSION

TABLE 3. Descriptive Statistical Test

Variable	N	Min	Maks	Mean	Std. Deviation
Liquidity	217	0,34712	98,63435	3,5669211	7,99367213
Activity	217	,02634	3,57551	1,0351518	,56423373
Company Size	217	25,44703	32,82638	28,7048943	1,60638838
Debt Policy	217	0,05424	0,94456	0,4171839	0,19275354
Sales Growth	217	-0,92169	2,08388	0,0733754	0,27452767
Financial Distress	217	-4,03467	17,95929	5,3003799	4,20992451

Source: SPSS Data output

From Table 3 above, it can be seen that the data analyzed consists of 217 samples obtained from the 46th year report of manufacturing companies in the sector of goods and consumption registered with the IDX over 5 years (2018–2022). Financial distress is a dependent variable that has the lowest value of -4,03467 obtained from PT Indofarma (Persero) Tbk in 2022 and the highest valuation of 17,95929 obtained from PT Wilmar Cahaya Indonesia Tbc in 2022. Whereas the average value (mean) received is 5,3003799 with a standard deviation value of 4,20992451. Liquidity ratio is an independent variable, with the lowest value of 0.34712 obtained from PT Bumi Teknokultura Unggul Tbk in 2022 and the highest value of 98,63435 obtained from PT Inti Agri Resources Tbc in 2020. Whereas the average value (mean) obtained is 3,5669211 with a standard deviation value of 7,99367213. The ratio of activity is an independent variable, with the lowest value of 0.02634 obtained from PT Inti Agri Resources Tbk in 2022 and the highest rating of 3.57551 received from PT Wilmar Cahaya Indonesia Tbc in 2022. Whereas the average value (mean) received was 1.0351518 with a standard deviation value of 0.56423373. The size of the company is an independent variable, with the lowest value of 25,44703 obtained from PT Pratama Abadi Nusa Industri Tbk in 2020 and the highest rating of 32,82638 received from PT Indofood Sukses Makmur Tbc in 2022. Whereas the average value (mean) received was 28,7048943, with a standard deviation value of 1,60638838. Sales growth is an independent variable that has the lowest value of -0.92169 obtained from PT Indofarma (Persero) Tbk in 2022 and the highest valuation of 2.08388 obtained from PT Pratama Abadi Nusa Industri Tbc in 2022. Whereas the average value (mean) received is 0.0733754, with a standard deviation value of 0.27452767.

TABLE 4. Normality Test

	Unstandardized Residual	Result
Asymp. Sig. (2-tailed)	,200 <sup>c,d</sup>	Normal

Source: SPSS Data output

The results of the normality test showed that all the variables in this study were distributed normally. It can be seen from the size of the asymptote. Sig. (2-tailed) is 0.200c,d, where the value is greater than 0.05.

TABLE 5. Multicollinearity test

Variable	Tolerance	VIF	Information
Liquidity	0,822	1,216	There is no multicollinearity
Activity	0,951	1,052	There is no multicollinearity
Company Size	0,957	1,045	There is no multicollinearity
Debt Policy	0,862	1,161	There is no multicollinearity
Sales Growth	0,980	1,021	There is no multicollinearity

Source: SPSS Data output

The multicollinearity test can be measured by looking at the VIF value to see if the low tolerance value is equal to the high VIF because  $VIF = 1/\text{tolerance}$ . Based on the results of the table above, it can be explained that liquidity has a tolerance value of 0.822 and a VIF value of 1.216. The activity has a tolerance value of 0.951 and a VIF value of 1,052. The size of the company has a tolerancy value of 0,957 and a VIF worth of 1,045. The debt policy has tolerance values of 0.862 and a VIF of 1.161. The tolerance calculation shows that the entire independent variable has a tolerance value  $> 0.10$ . Then the calculation of the VIF value also shows the same result: all the independent variables have VIF values  $< 10$ . It can be concluded that there was no multicollinearity in this study.

TABLE 6. Autocorrelation Test

Durbin-Watson Values	
	1,822

Source: SPSS Data output

The results of the autocorrelation test above show that the Durbin-Watson value is 1,822. With Durbin Watson values between -2 and +2, it can be concluded that the linear regression model used in this study does not involve autocorrelation.

TABLE 7. Heteroscedasticity Test

Variable	Sig.	Information
Liquidity	0,672	There is no heteroscedasticity
Activity	0,423	There is no heteroscedasticity
Company Size	0,093	There is no heteroscedasticity
Debt Policy	0,073	There is no heteroscedasticity
Sales Growth	0,844	There is no heteroscedasticity

Source: SPSS Data output

Based on the results of the table after performing the glacier test, the heteroscedasticity values are as follows: liquidity of 0.672; activity of 0.423; company size of 0.094; debt policy of 0.073; sales growth of 0.844. And it can be concluded that this study is free from the problem of heteroscedasticity. It is known that all variables ave a significance value  $> 0.05$ .

*Coefficient of determination test*

From the test results of the coefficient of determination above, adjusted R2 has a value of 0.802, or 80.2%. It can be concluded that the dependent variable financial distress can be

explained by the independent variable used in this study by 80.2%, and the remaining 19.8% is explained by other variables that were not used in this study.

TABLE 8. Coefficient of determination test, F test, Multiple linear regression analysis test, Hypothesis test

Variable	B	t	Sig.	Information
(Constant)	5,813	2,450	0,015	
Liquidity	0,076	4,345	0,000	H1 Accepted
Activity	1,630	7,038	0,000	H2 Accepted
Company Size	0,164	2,028	0,044	H3 Accepted
Debt Policy	-17,419	-24,464	0,000	H4 Accepted
Sales Growth	1,029	-24,464	0,029	H5 Accepted
Adjusted R Square	0,802			
F	176,219			
Sig.	,000 <sup>b</sup>			

Source: SPSS Data output

*F test*

From the above F test results, a significant value smaller than 0.05 is 0.000 ( $0.000 < 0.05$ ), and the value of F count is 176.219  $> F$  table 2.26. So it can be concluded that the regression model used in this study is fit for use.

*Multiple linear regression analysis tests*

*Regression equation:*

$$FD = 5,813 + 0,076Li + 1,630Ak + 0,164UP - 17,419KH + 1,029PP + e$$

1. The value of coefficient C (constant) in the model shows a value of 5.813. This value indicates that if the independent variable in this study is "0", then the value of financial distress is 5.813.
2. The value of the coefficient of liquidity ratio is 0.076. This value indicates that variable liquidity has a positive effect on financial distress, which means that for every increase in one unit of variable liquidity, financial distress will increase by 0.076.
3. The coefficient of activity ratio is 1.630. This value indicates that the activity variable has a positive effect on financial distress, which means that for every increase of one unit of the activity ratio variable, financial distress will increase by 1.630.
4. The value of the company size coefficient is 0.164. This value indicates that the variable size of the company has a positive effect on financial distress, which means that for every increase of one unit of the variable size of the company, financial distress will increase by 0.164.
5. The value of the coefficient of debt policy amounted to -17.419. This value indicates that the variable debt policy has a negative effect on financial distress, which means that for every increase in one unit of the variable debt policy, financial distress will decrease by -17.419.
6. The value of the coefficient of sales growth amounted to 1.029. This value indicates that the variable sales growth has a positive effect on financial distress, which means that for every increase in one unit of the sales growth variable, financial distress will increase by 1.029.

**Hypothesis test**

Based on Table 8 above, the hypothesis testing to see whether or not the influence of the independent variable on the dependent

variable can be described by looking at the value in the GIS column, as follows:

### 1. *The Effect of the Liquidity Ratio on Financial Distress*

The test results showed a significance level of 0.000 (p-value > 0.05) with a regression coefficient of 0.076, meaning that the liquidity ratio proxied through the current ratio affects the disclosure of financial distress. So the first hypothesis (H1), which states that liquidity ratios affect financial distress, is accepted.

Based on the results of this study, it is stated that liquidity, as measured by the current ratio (CR), is positively significant to financial distress. The direction of the relationship shown is positive, meaning that the higher the CR, the possibility of financial distress will also increase. A high liquidity value indicates a large amount of current assets. In current assets, there are several components that make up current assets, namely cash, accounts receivable, and inventory. At a time when the company's liquidity is high and the proportion of cash is greater than the inventory and receivables, the cash funds owned by the company are also large, so the company has sufficient funds in cash to finance short-term debt. However, when the proportion of current assets in the form of inventories and receivables is greater, the company needs to be careful to manage the smooth turnover of inventory and collection of receivables. If the company is less efficient in managing its current assets, such as collecting receivables and selling inventory, it will lack funds in cash, so it will have difficulty paying off its short-term debts and potentially experience financial distress.

The test results of liquidity variables are not in accordance with the implications of agency theory, where the higher and the increase in liquidity, the better and better the company is able to pay off its short-term obligations, so that the company will avoid financial distress. Measurement of liquidity using current assets will result in a high liquidity value which indicates that the company is in a healthy state. However, high current assets indicate that there are funds that are not used optimally and become pent-up funds in the form of receivables that are likely to become bad debts.

The results of this study are in line with research conducted by Yuriani et al. (2020) and Asmarani & Purbawati (2020), who stated that liquidity was proven to have an influence on financial distress. But this study is not in line with research conducted by Silanno, Glousa Lera, and Loupatty (2021) where the results of the research found that the liquidity ratio had no effect on financial distress conditions.

### 2. *The Effect of Activity Ratio on Financial Distress*

The test results showed a significance level of 0.000 (p-value > 0.05) with a regression coefficient of 1.630, meaning that the ratio of activities proxied through Total Asset Turnover (TATO) affects the disclosure of financial distress. Then the second hypothesis (H2), which states that the ratio of activity affects financial distress, is accepted.

Based on the results of this study, it is stated that the ratio of activity measured by total asset turnover (TATO) is positive and significant for financial distress. The direction of the relationship shown is positive, meaning that the higher the total asset turnover (TATO), the greater the possibility of financial distress. A high tattoo ratio can mean a company has a lot of

investment in long-term assets. However, long-term assets are not always easy to convert into cash in a short time. If companies face an urgent need for cash (for example, to pay off short-term debt), they may have difficulty converting long-term assets into cash, which can lead to financial distress. The higher the tattoo ratio, the greater the pressure on the company to maintain efficient operations. A small delay or error in the operational process can result in a major disruption to the company's revenue. If the company is unable to maintain this operational efficiency, the risk of financial distress may increase.

The test results of the variable activity ratio are not in accordance with the implications of agency theory, where a high total asset turnover ratio indicates good management. The amount of sales compared to operating expenses will increase profits, so large profits can indicate a company can avoid financial distress.

The results of this study are in line with research conducted by Yuriani et al. (2020) which states that activity ratios can significantly affect financial distress. The results of this study are not in line with research conducted by Rina et al. (2019) which proves that the activity ratio has no influence on financial distress.

### 3. *The Effect of Company Size on Financial Distress*

The test results showed a significance level of 0.044 (p-value > 0.05) with a regression coefficient of 0.164, meaning that the size of the company proxied through the size of the company (firm size) affected the disclosure of financial distress. So the third hypothesis (H3), which states that the size of the company has an effect on financial distress, is accepted.

Based on the results of this study, it is stated that the size of the company, as measured by the size of the company (firm size), is positively significant to financial distress. The direction of the relationship shown is positive, meaning that the larger the company (firm size), the greater the possibility of financial distress. The results of this study show that companies with large total assets cannot be separated from great risk. The larger the company, the more complex the problems to be faced. Complex corporate problems are characterized by the number of subsidiaries with diverse business lines, so good management is needed to manage the company. Diverse business lines certainly have different business characteristics that require appropriate and appropriate management. If the company's management is not good, it increases the risk of business continuity.

The test results of the variable size of the company are not in accordance with the implications of agency theory, where the company is seen in terms of capital, and a company that has a large company size means it has large assets. The company has a strong capital structure because of the company's operational financing of its assets rather than debt. Large companies measured by large assets have many consequences, allowing companies to create greater profits. So that the company's growth is large, it will be able to settle short-term and long-term debt and avoid financial distress.

The results of this study are in line with research conducted by D. Putri and Ardini (2020) which states that the size of the company has an effect on financial distress. The results of this study contradict the results of research (Muzharoatiningsih & Hartono, 2022; Suryaputra & Christiawan, 2014; Nila, 2021),

which states that company size does not have a significant effect on financial distress.

#### 4. *The Effect of Debt Policy on Financial Distress*

The test results showed that the significance level of 0.000 (p-value > 0.05) with a regression coefficient value of -17.419 means that the debt policy proxied through the debt-to-equity ratio (DER) has an effect on the disclosure of financial distress. So the fourth hypothesis (H4), which states that debt policy has an effect on financial distress, is accepted.

Based on the results of this study, it was stated that the debt policy, as measured by the debt-to-equity ratio (DER), is negatively significant to financial distress. The direction of the relationship shown is negative, meaning that the higher the debt-to-equity ratio (DER), the possibility of financial distress will also decrease or avoid the occurrence of financial distress conditions. According to Kasmir (2015: 157) in Saladin & Damayanti (2015), the debt-to-equity ratio is a ratio used to assess debt and equity. This ratio is found by comparing all debt, including current debt, and total equity. The higher the percentage of debt to total equity, the greater the risk that the company is unable to meet its long-term obligations. However, many companies rely on long-term debt to fund the company's capital so that the company has the capital to run the company and increase the company's profits. The higher the long-term debt of the company, the higher the business capital owned by the company, and the company has a lot of funds to run the company so as to obtain large profits. The higher the company's long-term debt (debt to equity ratio), the more it will avoid financial distress (Rikah, 2016).

The results of the test of debt policy variables are not in accordance with the implications of agency theory, where the use of debt that is too high will have a bad effect on the company because the more the company has a lot of debt, the company can be said to be in bad condition. So the company will be stuck with high debt levels, and it will be difficult to release the debt burden. Then the company will be threatened with entering financial distress because it cannot meet its needs and complete the obligations that become its burden.

The results of this study are in line with research conducted by Idarti and Hasanah (2018) which states that debt policy has a positive influence on financial distress. The results of this study are not in line with research conducted by Widhiari and Merkusiwati (2015) which states that debt policy has no effect on financial distress.

#### 5. *The Effect of Sales Growth on Financial Distress*

The test results showed a significance level of 0.029 (p-value > 0.05) with a regression coefficient value of 1.029, meaning that sales growth proxied through the growth ratio has an effect on financial distress disclosure. So the fifth hypothesis (H5), which states that sales growth has an effect on financial distress, is accepted.

Based on the results of this study, it is stated that sales growth, as measured by a positive growth ratio, is significant to financial distress. The direction of the relationship shown is positive, meaning that the higher the growth ratio, the greater the possibility of financial distress. Growth (sales growth) is used to measure the growth of sales for a company. Sales growth reflects a company's ability to increase its sales over time. The higher

the sales growth rate of a company, the more successfully it implements its strategy in terms of marketing and product sales. This means that the greater the profit the company will get from the sale, Growth using sales growth as a tool of analysis, namely the reduction of sales in the research year and the previous year's sales divided by previous sales. The results showed that the level of growth (sales growth) has a positive and significant effect on financial distress. This is because high growth (sales growth) does not necessarily have a small burden, so the resulting profit is only a little, and the possibility of financial distress will be even greater.

The test results of sales growth variables are not in accordance with the implications of agency theory: the more the company's sales increase, the more it avoids financial difficulties (financial distress). High sales growth can increase the company's revenue from sales that occur during a certain period of time. This is a signal for investors and creditors because the company's high sales growth will affect the company's assets and profits, so investors and creditors are interested in providing investment and credit to the company.

The results of this study are in line with research conducted by Sitanggang (2020 and Okrisnesia et al. (2020), which states that sales growth has a significant effect on financial distress. The results of this study are not in line with research conducted by Simanjuntak et al. (2017) and Wibowo & Susetyo (2020), which stated that sales growth had no effect on financial distress conditions.

## V. CONCLUSION

Based on the results of the data analysis and discussion that have been described in the previous chapter, this study was conducted to determine the effect of liquidity ratios, activity ratios, company size, debt policy, and sales growth on financial distress in manufacturing companies in the goods and consumption sector. So it can be concluded from the regression analysis as follows:

1. Liquidity ratios affect financial distress in manufacturing companies in the goods and consumption sectors in 2018–2022. The results of this study showed that H1 was accepted.
2. The activity ratio affects financial distress in manufacturing companies in the goods and consumption sectors in 2018–2022. The results of this study showed that H2 was accepted.
3. The size of the company has an effect on financial distress in manufacturing companies in the goods and consumption sectors in 2018–2022. The results of this study showed that H3 was accepted.
4. Debt policy has an effect on financial distress in manufacturing companies in the goods and consumption sectors in 2018–2022. The results of this study showed that H4 was accepted.
5. Sales growth has an effect on financial distress in manufacturing companies in the goods and consumption sectors in 2018–2022. The results of this study showed that H5 was accepted.

Researchers provide suggestions that can be considered for further research, namely:

1. Increase the number of samples to be used by selecting industry groups in certain sectors and making the sample more representative of the population.
2. Extend the period of research so that the amount of data obtained increases and opens opportunities to obtain better data processing results.
3. Further research can add other variables that affect financial distress that are not studied in this study, such as profitability ratios, leverage ratios, corporate structure, and so forth.
4. For academics, it is expected that the results of this study can then be used as a reference for subsequent studies that have similar themes, namely the influence of liquidity ratios, activity ratios, company size, debt policy, and sales growth on financial distress.

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