Effect of Current Ratio, Net Profit Margin, Debt Equity Ratio, Return on Equity on Financial Distress

Menik Indrati¹, Ermita Putri²
¹ Fakultas Ekonomi and Business Esa Unggul University, Bekasi
² Faculty of Economics and Business Esa Unggul University, Bekasi

Abstract. The purpose of the study was to provide empirical evidence regarding the current ratio, net profit margin, debt-equity ratio, return on equity, to financial distress. The dependent variable in the study is financial distress using the Altman z-score method. The current ratio is specified in this study as the ratio of existing assets to current liabilities; the net profit margin is defined as the ratio of current year profit to sales; the return on Equity is defined as the ratio of current year profit to company equity, and the debt-equity ratio is defined as the ratio of liabilities to current year profit. The sample in this study was 96 data from 24 goods and consumption sector manufacturing companies listed on the Indonesia Stock Exchange in 2016-2019. This study used purposive sampling techniques. Data analysis techniques are utilized using multiple linear regression methods. The results also showed that the Current Ratio, Net Profit Margin, Debt Equity Ratio, Return on Equity simultaneously had a significant influence in predicting financial distress in the company. In contrast, the results of the hypothesis test study partially showed that the current ratio, debt-equity ratio, return on Equity had a significant influence. Favorable to financial distress. Meanwhile, the net profit margin harms economic desperation.

Keywords: financial distress, model Altman z-score, current ratio, net profit margin, debt-equity ratio, return on Equity

I. INTRODUCTION

Financial distress indicates a condition where the company is experiencing financial difficulties and is threatened not to maintain it (Atmaja, 2008). Financial problems show the challenges that are often encountered by manufacturing companies in the consumer goods sector. The number of small and large companies that go bankrupt is caused by economic conditions that affect the company's activities and performance. Financial statements can be used as a benchmark of the bankruptcy of a company. Analysis of financial statements shows it is crucial to predict the sustainability of a company's establishment. These predictions are significant for company owners and management to prevent the possibility of financial distress. Financial distress indicates a decrease in the financial condition experienced by a company that occurred before going into bankruptcy. Financial difficulties experienced by a company can make investors, prospective investors, and creditors reluctant to invest. If the solution to this problem is not common ground, the company will certainly go bankrupt. If the losses experienced by the company last for two consecutive periods, it can be estimated that the company is experiencing financial distress (Agusti, 2013).

In general, the current ratio is often used to analyze the company's working capital position by comparing the number of existing assets with current debt (Ginting, 2017). The current ratio is used to determine how much capacity the business has to meet its commitments. In the study, Current assets can be used to pay short-term, time-consumed finances affected by the current ratio. This is because the ability to pay debts smoothly shows essential things in the company's activities and a picture of the company's debt relationship with creditors.

Net Profit Margin (NPM) shows the comparison of operating profit with sales. This ratio describes the percentage of net income received by the company in each deal, as it includes all elements and cost revenue (Kasmir, 2014). Stated that Net Profit Margin (NPM) has a significant effect on financial distress. The higher the profit margin ratio, the better the company's ability to get a profit. Companies with high Net Profit Margin (NPM) will not experience financial difficulties because high profits will not lower economic conditions.

Rikah (2016) states that the Debt Equity Ratio (DER) shows the relationship between the long-term amount and the capital itself given to the company's owner. Definesthe debt-equity ratio used to measure how much total money alone is financed by total debt. Suppose the debt-equity ratio is getting more minor than the company's ability to pay debt tetter and the greater the debt-equity percentage. In that case, the company's ability to pay debts is getting worse. Companies that cannot afford debts will be liquidated because they are considered to have gone bankrupt (Sartono, 2001).

The valuation of the income of the owners of the company related to the capital they have invested in the company is called Return On Equity (Rohmadini, 2018). Return on Equity (ROE) or a company's capacity to generate profits based on a comparison of net profit to cost Equity was used by shareholders to evaluate a company's ability to create net income concerning dividend income.
However, that distinguishes this study from previous research by adding the Return on Equity (ROE) variable and the research object and year of analysis used. Researchers used research objects on consumer goods manufacturing companies on the Indonesia Stock Exchange in 2016-2019. Based on the explanation above, the purpose of this study is to examine what factors affect financial distress in consumer goods manufacturing companies listed on the IDX in 2016-2019 and as additional material. Evaluation and improvement of the company where the company needs to anticipate financial distress so that this testing will benefit the relevant parties.

II. LITERATURE REVIEW

Signaling Theory

The signaling theory was first proposed by Spence (1973). The signaling theory states that signs related to the condition and picture of a company discussed on the stock market affect the stability of increases and decreases in the market, and affects shareholder decisions. According to Hendrianto, in the theory of financial distress, it is said that managers issue liberal accounting if the company's financial condition is excellent or stable. In contrast, managers will hold conservative accounting if the company's financial situation is poor and its existence is doubtful. (Muflihah, 2017).

According to Khairudin and Wanda (2017), an investor considering and determining whether to invest in a company needs related information that shows signaling theory. Signaling theory puts forward their investment by the company against the decision of a shareholder as an outside party.

Agency Theory

According to agency theory, agency theory describes agency relationships as contracts between one or more people (principals) involving others (agents) to carry out some services under the name of principal involving delegation of authority to the agent. Compared to principals, managers as agents have excellent information regarding the company's operations, and selfish managers are likely to engage in illegal or manipulative activities to increase one's wealth.

Current Ratio

Harahap (2013) defines the current ratio as a company's ability to pay off its short-term debt with existing assets. This ratio can be calculated by comparing existing assets divided by existing debt. The greater the current ratio value, the smaller the financial distress. The company has some liquid assets such as cash or money used to pay off debts and finance its operational activities in the transaction period. The company does not experience financial difficulties or bankruptcy. States that the current ratio shows the general ratio used in analyzing a company's working capital position by comparing the number of existing assets with existing debt.

Net Profit Margin

In obtaining sales profits generated by a company, the management uses the net profit margin as a benchmark. Profit margin is used to calculate a company's ability to generate earnings on certain sales (Kasmir, 2014). The profit margin ratio can be used as an external consideration in making decisions related to the company. This is seen in the company's financial statements. This ratio is used to measure net income on sales and describe the company's net income on total sales (Fahmi, 2015).

Debt Equity Ratio

Brigham and Houston (2009) define the Debt Equity Ratio (DER) as the oracle used to calculate the total capital financed with incremental debt. The higher the debt-equity ratio (DER), the greater the burden borne by the company on outsiders, thus lowering the company's performance because the level of dependence on outsiders is higher. Debt Equity Ratio (DER) shows the relationship between the long-term amount and the capital itself given to the owner of the company.

Return on Equity

The Return on Equity (ROE) ratio is used to determine how well a business utilizes its resources to generate a return on Equity. It is computed using accounting-based performance indicators and equals net income divided by common shareholders' Equity. Equity. The next section discusses the return on Equity, which measures the revenue (income) provided to business owners on the money they have put in the business.

Financial Distress

Financial distress is a condition in which the company experiences economic sustainability. Companies that are in financial difficulty are companies that have an interest coverage ratio (ratio of operating profit to interest expense) of less than 1 (one) (Wardhani, 2007). Next according to financial distress shows the term used by the company to describe the company's financial condition when experiencing difficulties. Financial distress starts from the company's insolvency to meet its obligations, especially short-term obligations, including liquidity obligations and liabilities in the solvency category. The economic distress condition of a company must be known early so that the company's management can take initial actions in anticipation of the company leading to bankruptcy (Agusti, 2013). Suppose the business shows a negative number on operating profit. In that case, net income and equity book value and the company's emerging, the company can be categorized as experiencing financial distress (Sarina et al., 2020).
III. RELATIONSHIPS BETWEEN VARIABLES

Relationship between Current Ratio and Financial Distress

The higher the current asset comparison result, the higher the company’s ability to cover its short-term liabilities. The greater the current ratio value of a company, the better the company’s condition so that it will be far from financial distress. This is because the ability to pay debts smoothly shows essential things in the company’s activities, as well as being a picture of the company’s debt relationship with creditors in the study, Yuliana et al. (2020) gave results if the current ratio positively influences the possibility of financial distress. Next concluded that the current ratio has a positive effect on financial distress. The current ratio can affect the ability to pay all short-term financial liabilities at maturity using current assets.

H1: Current ratio has a positive effect on the company's financial distress.

Net Profit Margin (NPM) and Financial Distress

The greater the company's net profit margin, the higher the level of shareholder trust because the company is considered productive, thus indicating the slight possibility of the company experiencing financial distress. It can be used as information. For shareholders in investment decision making in provided results that net profit margin has a positive influence on the prediction of financial distress that occurs in the company. It was stated that net profit margin has a significant positive effect on financial distress. The higher the profit margin ratio, the better the company's ability to get high profits.

H2: Net profit margin positively affects the company’s financial distress.

Relationship debt-equity ratio (DER) and financial distress

The lower the debt-equity ratio, the company can pay off the debt without risk too much interest in the owner of capital. The total amount of assets must be greater than the total number of liabilities for the deficit to be covered by the company's assets(Masud, 2011). Which demonstrated that the debt-to-equity ratio has a statistically significant beneficial effect on financial hardship. Furthermore, based on debt-equity ratio has a positive influence on financial distress.

H3: Debt-equity ratio has a positive effect on the company’s financial distress.

Relationship Return on Equity (ROE) and Financial Distress

The higher the profit generated, the possibility of a budget that is not used by the company. If, if this is not considered it can be as curtained that the company experienced bankruptcy before experiencing financial difficulties(Masud, 2011). In which gave the results that the ratio of return on equity has a significant positive effect on financial distress that return on equity has a positive influence on economic despiration.

H4: Return on Equity has a positive effect on the company’s financial distress.

Relationship Current Ratio, Net Profit Margin, Debt Equity Ratio, Return on Equity and Financial Distress

Current ratio can affect the ability to pay all short-term financial liabilities at maturity using existing assets. The higher the recent asset comparison result, the higher the company's ability to cover its short-term liabilities. Ginting's research states that the current ratio positively influences financial distress. Net profit margin is very significant to financial distress with the higher the profit margin ratio, the better the company’s ability to get high profits. Then stated that it provides the debt equity ratio has a significant favorable influence on financial distress. Masud research provides the debt equity ratio has a significant favorable influence on financial distress. The debt equity ratio the company can pay off the debt without sacrificing too much interest of the owner of capital. It can be said that the higher the profit obtained allows the existence of funds that are idle or not used by the company’s funds following, which supposed needs. Which provides results that the return on equity ratio has a significant positive effect on financial distress.

H5: Current ratio, net profit margin, debt-equity ratio, return on equity simultaneously affect the company’s financial distress.

IV. RESEARCH MODEL

![Figure 1 Research Model](image-url)

*Corresponding Author: Menik Indrati*
Information:

--------: The overall influence of independent variables Current Ratio, Net Profit Margin (NPM), Debt Equity Ratio (DER), and Return on Equity (ROE) together (simultaneously) on financial distress dependent variables.

The effect of each independent variable current ratio, net profit margin (NPM), debt equity ratio (DER), and return on Equity (ROE) partially on the dependent irregulate financial distress.

V. RESEARCH METHODOLOGY

There is one dependent variable in this study, which is financial distress, and four independent variables, which are the current ratio, net profit margin (NPM), debt equity ratio (DER), and return on Equity (ROE). Current Ratio is determined by dividing current assets by current liabilities. Net Profit Margin (NPM) is computed by dividing its net revenue generated on each sale by its current liabilities. Debt Equity Ratio (DER) is obtained by dividing the total debt to be paid by the company in cash to the lender by the Return on Equity (ROE) with return on ordinary equity and net income against common equity that measures the rate of return typical on shareholder investment. The study used the Altman Z-Score method.

The research design used is causal research that shows research to investigate causal relationships that always involve one or more independent variables or causes of the research hypothesis and its relationship to one or more dependent variables (Rina, 2011). In casual research using quantitative shortness because this study investigated the influence of Current Ratio, Net Profit Margin (NPM), Debt Equity Ratio (DER), and Return on Equity (ROE) on financial distress by proving the significant influence of independent variables on dependent variables.

The population in this study is a company in the manufacturing sector of consumer goods listed on the Indonesia Stock Exchange. This study used secondary data from the company's annual financial statements sourced from the official website of the Indonesia Stock Exchange (https://www.idx.co.id) for the period 2016 - 2019. The sample in this research was selected as many as 24 companies for 4 years, namely in 2016 - 2019, the number of financial statements sampled in this research was 96 financial statements. Sampling is a sampling technique used is purposive samplingspecification considerations only.

VI. RESEARCH RESULTS

Descriptive Statistical Test Results

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1_CR</td>
<td>96</td>
<td>.58615</td>
<td>15.82231</td>
<td>3.422680</td>
<td>2.50627326</td>
</tr>
<tr>
<td>X2_NPM</td>
<td>96</td>
<td>-.15337</td>
<td>1.90099</td>
<td>.1104492</td>
<td>.20331591</td>
</tr>
<tr>
<td>X3_DER</td>
<td>96</td>
<td>.08330</td>
<td>4.94652</td>
<td>.7812184</td>
<td>.82950976</td>
</tr>
<tr>
<td>X4_ROE</td>
<td>96</td>
<td>-.06592</td>
<td>2.24458</td>
<td>.1927453</td>
<td>.26721961</td>
</tr>
<tr>
<td>Y_FD</td>
<td>96</td>
<td>.97481</td>
<td>11.33930</td>
<td>4.7246037</td>
<td>2.23862779</td>
</tr>
</tbody>
</table>

Valid N (listwise) 96

The descriptive statistical analysis results show that the current ratio variable has an average value of 3.42268 and a standard deviation of 2.50627. The minimum value obtained is 0.58615 which shows importance of CLEO companies in 2016 and the maximum value of 15.82231 which shows importance of CAMP companies in 2017. For variable net profit margin has an average value of 0.11044 and a standard deviation of 0.20331. The minimum value obtained is -0.15337 which shows importance of ALTO companies in 2018 and the maximum value of 1.90099 which shows importance of MERK companies in 2018. The debt equity ratio variable has an average value of 0.781218 and a standard deviation of 0.82950. The minimum value obtained is 0.08 which shows importance of ALTO companies in 2016 and the maximum value of 4.94 which shows the value of SCPI companies in 2016. The return on equity variable has an average value of 0.192745 and a standard deviation of 0.26721. The minimum value obtained is -0.06 which shows importance of INAF companies in 2018 and a maximum value of 2 which indicates which company value of MERK in 2018.

One-Sample Kolmogorov-Smirnov Test.

<table>
<thead>
<tr>
<th>N</th>
<th>Unstandardized Residual</th>
<th>0.96</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal Parameters</td>
<td>Mean</td>
<td>.0000000</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>.86749827</td>
<td></td>
</tr>
<tr>
<td>Most Extreme Differences</td>
<td>Absolute</td>
<td>.080</td>
</tr>
<tr>
<td>Positive</td>
<td>.041</td>
<td></td>
</tr>
<tr>
<td>Negative</td>
<td>-.080</td>
<td></td>
</tr>
<tr>
<td>Test Statistic</td>
<td>.080</td>
<td></td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>.144</td>
<td></td>
</tr>
</tbody>
</table>

*Corresponding Author: Menik Indrati*
The normality data test aims to determine whether the data is normally distributed or not. The data is said to be normally distributed if the probability value is >0.05. The normality test result obtained a probability value of 0.114 which weighed less than 0.05. So, it was concluded that the research data was normally distributed.

The results of the multicollinearity test analysis showed that all VIF values of research variables were below the value of 10 and the more significance value indicates greater than 0.1. This shows that there is no multicollinearity in the data.

Heteroscedasticity Test Results

<table>
<thead>
<tr>
<th>Type</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.404</td>
</tr>
<tr>
<td>X1_CR</td>
<td>.085</td>
<td>.021</td>
</tr>
<tr>
<td>X2_NPM</td>
<td>-.459</td>
<td>.450</td>
</tr>
<tr>
<td>X3_DER</td>
<td>-.064</td>
<td>.065</td>
</tr>
<tr>
<td>X4_ROE</td>
<td>.408</td>
<td>.343</td>
</tr>
</tbody>
</table>

Heteroscedasticity test results show that the probability value of variable X1 is 0.000 unstable able X2, X3, X4 is 0.311 and variable X2, X3, X4 is 0.330 and variable X1 is 0.237. Variables X2, X3, X4 are smaller than 0.05. So, it was concluded that there is heteroscedasticity in the data, namely variable X1.

Test Result F

<table>
<thead>
<tr>
<th>Type</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>2.903</td>
</tr>
<tr>
<td>X1_CR</td>
<td>.683</td>
<td>.037</td>
</tr>
<tr>
<td>X2_NPM</td>
<td>-1.327</td>
<td>.794</td>
</tr>
<tr>
<td>X3_DER</td>
<td>-1.078</td>
<td>.114</td>
</tr>
<tr>
<td>X4_ROE</td>
<td>2.455</td>
<td>.605</td>
</tr>
</tbody>
</table>

The Anova test or F-test results in a significance value (0.000) smaller than 0.05 then the regression model is fit. This means that there is a simultaneous influence of independent variables on dependent variables.

<table>
<thead>
<tr>
<th>Variable X</th>
<th>Sig</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1_CR</td>
<td>0.000</td>
<td>Effect on Y</td>
</tr>
<tr>
<td>X2_NPM</td>
<td>0.098</td>
<td>It does not affect Y</td>
</tr>
<tr>
<td>X3_DER</td>
<td>0.000</td>
<td>Effect on Y</td>
</tr>
<tr>
<td>X4_ROE</td>
<td>0.000</td>
<td>Effect on Y</td>
</tr>
</tbody>
</table>

Partial test results of variable X which provide value with a significance level of <0.05 then means that the variable affects variable Y.

Determination Coefficient Test Results

<table>
<thead>
<tr>
<th>Type</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>R Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.922²</td>
<td>.850</td>
<td>.843</td>
<td>.88635913</td>
</tr>
</tbody>
</table>

The results of the independent variable determination coefficient test consisting of current ratio, net profit margin, debt equity ratio, and return on Equity to financial distress with the size of the company as a variable moderation.

Value Adjusted R Square Value (R²0.843, meaning that independent variables can explain 84.3% of variation Y. Other reasons outside the model explain the rest (100%-84.3% = 15.7%).

*Corresponding Author: Menik Indrati*
Based on the results of multiple linear regression tests, the equation can be derived as follows:

\[ Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \]

Or

\[ FD = a + \beta_{1CR} + \beta_{2NPM} + \beta_{3DER} + \beta_{4ROE} + e \]

The constant value is 2.903. If the independent variable equals zero, then the value of \( Y \) will decrease by 2.903 units. The regression coefficient value of the \( \beta_1 \) Current Ratio is positive at 0.683. Positive values mean that there is a unidirectional relationship, meaning that if variable \( X_1 \) increases by one unit, then the value of \( Y \) will decrease by 0.683 units. Assuming other variables of constant magnitude. And vice versa.

The regression coefficient value of the \( \beta_2 \) Net Profit Margin is negative at -1.327. Negative values mean that there is a relationship in the opposite direction, meaning that if variable \( X_2 \) increases by one unit, then the value of \( Y \) will decrease by -1.327 units. Assuming other variables of constant magnitude. And vice versa.

The regression coefficient value of the \( \beta_3 \) Debt Equity Ratio is positive at -1.078. A positive value means a relationship in the opposite direction, meaning that if variable \( X_3 \) increases by one unit, then the value of \( Y \) will decrease by -1.078 units. Assuming other variables of constant magnitude. And vice versa.

The regression coefficient value of the \( \beta_4 \) Return on Equity is positive at 2.455. Positive values mean that there is a unidirectional relationship, meaning that if variable \( X_4 \) increases by one unit, then the value of \( Y \) will increase by 2.455 units. Assuming other variables of constant magnitude. And vice versa.

### Hypothesis

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Value</th>
<th>Significance</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Current ratio has a positive effect on the company's financial distress.</td>
<td>0.000</td>
<td>Accepted</td>
<td></td>
</tr>
<tr>
<td>H2: Net Profit Margin negatively affects the company's financial distress.</td>
<td>0.098</td>
<td>Rejected</td>
<td></td>
</tr>
<tr>
<td>H3: Debt Equity Ratio has a positive effect on the financial distress of the company.</td>
<td>0.000</td>
<td>Accepted</td>
<td></td>
</tr>
<tr>
<td>H4: Return on Equity has a positive effect on the company’s financial distress.</td>
<td>0.000</td>
<td>Accepted</td>
<td></td>
</tr>
<tr>
<td>H5: Current Ratio, Net Profit Margin, Debt Equity Ratio, Return on Equity positively affect the company's financial distress.</td>
<td>0.000</td>
<td>Accepted</td>
<td></td>
</tr>
</tbody>
</table>

### VII. DISCUSSION

The first hypothesis multiple linear regression analysis results. Namely, the Current Ratio, positively affects the company's financial distress. So H1 was accepted, these results were in line with the research and prove the current ratio influences financial distress. Current balance can affect the ability to pay all short-term financial obligations at maturity using existing assets. This is because the ability to pay debts smoothly shows essential things in the company’s activities and picture of the company's debt relationship with creditors.

The results of the second hypothesis of multiple linear regression analysis, namely Net Profit Margin negatively affect the company’s financial distress. So H2 was rejected, this result is in line with the research and proves net profit margin does not involve financial distress. Net profit margin indicates the company's ability to generate net profit from sales. That means the more significant the net profit margin value suggests that the company effectively generates profit. It is used to treat financial distress.

The results of the third hypothesis of multiple linear regression analysis, namely Debt Equity Ratio, positively affects the company's financial distress. So H3 was received, these results are in line with the previous research, proving that debt-equity ratio influences financial distress. Because the lower the debt equity ratio of the company can pay off debt without sacrificing too much interest of the owner of capital. Thetotal amount of assets must be greater than the total...
Effect of Current Ratio, Net Profit Margin, Debt Equity Ratio, Return on Equity, and Sales Growth on Financial Distress

The fourth hypothesis of multiple linear regression analysis results, namely Return on Equity, positively affects corporate financial distress. SoH4 was accepted; these results are in line with masud (2011): Widati (2018) which proves the return on Equity affects financial distress. Return on Equity shows in measuring a company's ability to make a profit based on a comparison of net income with cost of equity commonly used in calculating the level of return on investment (ordinary) shareholders.

The results of the fifth hypothesis multiple linear regression analysis are, namely Current Ratio, Net Profit Margin, Debt Equity Ratio, Return on Equity, have a positive effect on corporate financial distress. SoH5 was accepted; these results are in line with masud (2011); Nurhidayah (2017) that proves the effect of financial despications.

VIII. RESULT

The data used in this study amounted to 96 data from 24 companies with consumer goods sector manufacturing company objects listed on the Indonesia Stock Exchange in 2016-2019. This study has multiple linear regression results that show the current ratio, net profit margin, debt equity ratio, return on equity simultaneously positively affect the company’s financial distress. Current ratio has a positive effect on financial distress. Net profit margin negatively affects financial distress. Debt Equity Ratio has a positive impact on financial distress. Return on Equity has a positive effect on financial distress.

In this study, several things limit the implementation of research that can affect the results of this study. The prediction model used in this study only used the model. Altman Z-Score. There are still various prediction models that can be used. Including Springate, Zmajewski, Grover, and other models. Another limitation is the question of time, matter, data, and free variables used. Based on the results of testing of the sample, the conclusions obtained, and the study's limitations, the advice that can be given to be input and improve the next research by adding other factors that can affect the research. Financial distress. Then, it is expected to include independent variables that adequately explain their effect on financial distress in a particular company, industry, or service, such as return on assets, asset turnover, net working capital, company size, and debt-to-assets ratio, as well as financial distress research models. Others include Springate, Zmajewski, and Grover.

Managerial implications on research for the company are management to pay more attention to corporate debt that is very risky for the company, if not noticed will cause financial distress. For example, suppose the company has experienced financial distress. In that case, it is expected that the company can improve relations with investors, creditors, and employees so that trust remains established, and improve the company’s business activities for the better while allowing prospective investors to be more careful when doing so. Investment in the company, the decisions taken are not only focused on profit information but also consider non-financial information such as the company's financial condition and the existence of internal and external mechanisms of the company.

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