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Effect of Profit and Cash Flow in Prediction of Financial Distress Conditions

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ABSTRACT

This study aims to examine the effect of earnings and cash flow on the prediction of financial distress. Profit and cash flow as independent variables and finance as the dependent variable. This research was conducted at manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2021 period. The sampling technique in this study used purposive sampling. The samples in this study were 18 consumer and manufacturing goods companies listed on the stock exchange. The analytical method used is multiple linear regression. This research shows that profit has a significant effect on financial distress. While cash flow has a significant effect on financial distress. This result is explained by the simultaneous test (F test) the significant value is greater than the significant level of 0.05 or 0.000 <0.05. This means that it is certain that profit and cash flow have the ability to influence financial distress.

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1. INTRODUCTION

Competition between service and construction companies pushes for better performance, both financially and non-financially. Companies that are needed can always be added from time to time. Achievement or performance is the work produced by employees in a company which is assessed in terms of quality and quantity to achieve the company's strategic goals (Armadani et al., 2021).

Every company generally aims to generate profit or profit so that it can develop and survive in the long term (Marwansyah & Utami, 2017) . Technological developments are changing, competition between companies is getting tougher as technology develops (Utami, 2021) . Therefore, so that companies can move more quickly in calculating changes that will occur, company management is required to have the ability to manage the company so that it is better. Not infrequently apart from ongoing changes and increasingly fierce business competition (Masdiantini & Warasniasih, 2020).

Financial distress is a condition where finances are in an unhealthy state. (Pane et al., 2022) . Financial reports are the end result of a recording process which is a summary of financial transactions that occurred over a period of one year (Maruta, 2017) . and can be used to assess the profits achieved by the company before the current period and plans for the future (Mulyati et al., 2021) . Financial planning is something that must be done for anyone who wants financial success, namely the amount of wealth is greater than their obligations. People who are successful in finance are able to align the use of funds with the income earned (Anggraini et al., 2021).

Profit in general is an increase in the income of a business in one period whose results can be seen as long as the initial income is maintained (Santoso, 2017) . Profit is the main indicator of the company's success, because it is natural that companies are very concerned about profits. The income statement is a place where the company's profits and losses are reported. Variations in income reporting require readers of financial reports to always be prepared to face differences in classification, type of business, and pay attention to main activities (Masdiantini & Warasniasih, 2020).

Cash flow is a clue regarding acceptance and expenses (Putriani et al., 2022) . If the company's cash flow is small, creditors do not gain confidence in the company's ability to pay debts (Rahmawati & Setiawati, 2022).

2. RESEARCH METHOD

The objects of this research are manufacturing companies in various industrial sectors, goods and consumption industries that are listed on the IDX (Indonesian Stock Exchange) for the 2019-2021 period. Company data in the form of an annual profit and loss report and cash flow from *the website* www.idx.co.id. The sampling technique is based on *purposive sampling technique.* Types and sources of data using quantitative methods. As well as data sources using secondary data. Technique used is quantitative in the form of numbers and the method used is statistical method.

3. RESULTS AND DISCUSSIONS

Table 1. F Test (Simultaneous)

ANOVA [a]

Model		Sum of Squares	Df	Average Squared	F	Sig.
1	Regression	58,645	2	29,323	16,455	.000 [b]
	remainder	90,881	51	1,782		
	Total	149,526	53			

In the table above there are results from the F test or ANOVA test. Based on the table with the variable financial distress the calculated F value is 16.455 with a significance level of 0.000, the significance value is greater than the level of significance of 0.05 or 0.000 <0.05.

Tabel 2. T test (Partial)

coefficient [a]

Model	Nonstandard coefficients B	Nonstandard coefficients std. Error	Standard Coefficient Betas	Q	Sig.	Collinearity statistics Tolerance	Collinearity statistics VIF
(Constant)	1,572	.184		8,552	.000		
X1_Profit	10.253	1,805	.657	5,679	.000	.891	1.122
X2_Cash Flow	-2,948	1.117	-.305	-2,640	011	.891	1.122

The results of data processing above, the regression equation for this study. The profit variable has a count of 5.679 with a significance level of 0.000 <0.05, in these circumstances H0 is rejected and H_1 is accepted, so it can be concluded that partially profit has a significant effect on financial distress.

Cash flows have a count of -2.640 with a significance level of 0.011 <0.05, in these circumstances H_0 is rejected and H_1 is accepted, so it can be concluded that cash flows partially have a significant effect on financial distress.

DISCUSSION

From the results of statistical research simultaneously with the F test on the dependent variable *financial distress* shows that the independent variables namely profit and cash flow together have a significant effect on financial distress. Evidenced by the calculated F value of 16.455 with a significance level of 0.000 which is smaller than the predetermined significance of 0.05. The income statement and cash flow statement are interrelated financial statements, because the cash flow statement can reflect the company's net income. If the company is able to generate profits but negative cash flow, then it can experience financial problems. Investors will not believe or invest in companies because there are negative gains or losses without dividends.

In this description it can be concluded that the information in question is the company's financial information, that profit and cash flow can be used as a benchmark to find out whether the company is experiencing financial conditions or financial distress because it is most likely that companies experiencing problems can be caused by other *factors* that is in the company itself.Thus the results of this financial distress research can be explained by the profits and cash flow owned by the company.

In this result the profit on the dependent variable financial distress is 5.679 with a significance level of 0.000 <0.05. Profit has a significant positive effect on financial distress. Thus based on the results of this study it was found that profits can be considered against the condition of the company so as not to get a financial decline that can cause bankruptcy for the company. The research results prove that earnings are related to financial distress. If a company experiences continuous increase in profits, then it is not in a state of financial distress. High earning companies will be the focus of investors. Because when companies generate high profits, investors get dividends. A high profit value indicates that the company has no financial problems. conversely, if the profit value is low, then the company is vulnerable to financial problems. In the results of research on earnings affect the condition of *financial distress.*

The independent variable cash flow on the dependent variable *financial distress* yielded a t-count of -2.640 with a significance level of 0.011 <0.05. Thus, based on the results of this study, it is known that cash flow can provide additional information to consider the condition of the company so as not to experience a financial decline that can lead to bankruptcy.
These results obtained that cash flow can provide additional information to consider the condition of the company so as not to experience a financial decline that can cause bankruptcy in the company. Therefore operating cash flow and total assets can provide optimal ratio results in creditor payments, so that they can be used as a benchmark for predicting financial decline.

4. CONCLUSION

Based on the results of of research conducted of the results of the analysis regarding the effect of using profits and cash flow on financial distress, analysis with the Statistical Package for Social Science (SPSS) program version 26, can be concluded:

From these results it significant level of 0.000 which is smaller than the predetermined significance of 0.05. Thus, based on the results of this study the results of the study can be concluded that profit and cash flow can be used as benchmarks to determine whether a company is experiencing financial conditions or *financial distress.*

From the results it significance level of 0.000 < 0.05. Profit has thus based on the results of this study it was found that profits can be considered against the condition of the company so as not to get a financial decline that can cause bankruptcy for the company.
In this study, cash flow has a count of -2,640 with a significant level of 0.011 <0.05.

Then hypothesis thus, the results obtained operational cash flow can provide additional information to consider the condition of the company so as not to experience a financial decline that can lead to bankruptcy. So it cannot predict whether the company is in a state of financial distress.

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