



The Effect of Liquidity, Leverage And Sales Growth on Financial Distress

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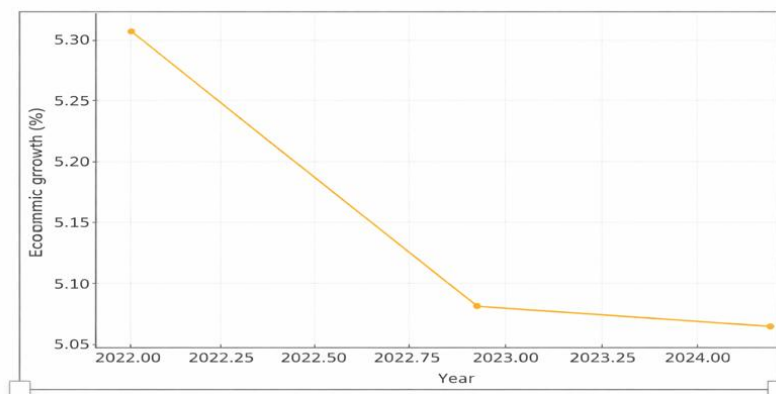
ABSTRACT

This study aims to determine liquidity, leverage, sales growth, and financial distress in property and real estate companies, as well as the effect of liquidity, leverage, and sales growth on financial distress in property and real estate companies listed at Indonesia Stock Exchange in 2022-2024, both partially and simultaneously. The population in this study was 93 property and real estate companies listed at Indonesia Stock Exchange in 2022-2024. The sampling technique used in this study was purposive sampling, with a sample of 13 companies. The analytical method used in this study was panel data regression analysis with the Random Effect Model (REM) approach. The results of the data analysis showed: (1) A tendency for liquidity to increase and then stabilize. Leverage fluctuated with a tendency to improve. Sales growth fluctuated and did not show stable growth. Meanwhile, financial distress fluctuated and tended to worsen towards the end of the observation period. (2) The results also showed that liquidity, leverage, and sales growth simultaneously influenced financial distress. (3) Partially, liquidity and leverage had a positive effect, while sales growth had no effect on financial distress.

Keywords: Financial Distress, Leverage, Liquidity and Sales Growth.

INTRODUCTION

In recent years, the global economy has faced pressure due to the economic uncertainty following the Covid-19 pandemic, which has been felt by various countries, including Indonesia. The trade war between the United States (US) and China has also weakened the global economy, with Indonesia being no exception (Research and Development Agency of the Ministry of Defence of the Republic of Indonesia, 2025). The impact of this economic slowdown has been felt by companies in Indonesia, at both the micro and macro levels (Kristanti, 2021: 2). The global economic environment remains unstable due to supply chain disruptions, changes in US monetary policy, and fluctuations in commodity prices. Although signs of recovery began to emerge in 2021 and 2022, economic uncertainty continues to pose a challenge for Indonesia in the post-pandemic era (Thorbecke, 2023).



Source: BPS- Statistics Indonesia 2025 (re-processed)

Figure 1. Indonesia's Economic Growth 2022–2024

Indonesia's economic growth for the 2022–2024 period, based on data from the Statistic Indonesia (BPS) shown in Figure 1, indicates a transition from a recovery phase towards stabilisation. In 2022, growth reached 5.31%, reflecting the strong post-pandemic rebound effect, marked by increased public mobility and the recovery of economic activity, particularly household consumption. However, in 2023 and 2024, growth slowed slightly to 5.05% and 5.03% respectively. This situation does not necessarily indicate an economic downturn, but rather points to a process of normalisation following a phase of relatively high recovery.

This stable growth rate of around 5% indicates that Indonesia's economic fundamentals remain strong, primarily due to domestic consumption, which is the main contributor to Gross Domestic Product (GDP). On the other hand, the slight slowdown has also been influenced by external factors, such as the global economic slowdown, geopolitical uncertainty, and monetary tightening policies in various countries, which have impacted export and investment performance. Uneven economic recovery is evident across different sectors, with the coal, iron and steel, and health and pharmaceutical sectors experiencing significant growth, whilst the non-commodity manufacturing and construction sectors have shown weak performance (Thorbecke, 2023). These conditions give rise to high business uncertainty, particularly for sectors vulnerable to a slowdown in economic activity and funding, thereby potentially increasing corporate financial distress.

The property and real estate sector is the most vulnerable to economic fluctuations, as it is long-term in nature, requires substantial capital, and relies on external financing (Rachmawati et al., 2024). A decline in public purchasing power and rising interest rates can significantly reduce property sales (Sun, 2024). Data from the Indonesia Stock Exchange (2025) indicates that several property and real estate companies have experienced delays in submitting their financial reports. This may indicate financial pressure. Such pressure raises the risk of an increasing number of companies facing difficulties in meeting their financial obligations (Nurquran & Ardianto, 2023).

Financial distress itself is a state in which a company is unable to meet its obligations. Assessment can be carried out using negative profit indicators, such as operating profit, net profit, or earnings per share. (Kristanti, 2021: 4). In addition to profit indicators, the assessment of financial difficulties can also be carried out using a quantitative statistical approach (Kristanti, 2021: 6). To identify conditions of financial distress in companies within the property and real estate sector, this study employs the Altman Z-Score model, which classifies a company's financial condition. The Altman Z-Score model is used as a tool to measure the potential for bankruptcy or financial distress, thereby assisting public entities in

making more informed decisions regarding financial management and resource allocation (Rashid et al., 2023). The model combines several key financial ratios into a single index, providing a comprehensive and efficient assessment of a firm's financial condition. Its clear classification into safe, grey, and distress categories also allows for easy interpretation, while its widespread use in prior research supports its reliability and validity. The Z-score obtained is then interpreted and categorised as safe, vulnerable, or critical to determine the company's financial condition (Sawir, 2005: 24).

By analysing key financial ratios, the Altman Z-Score model is used to assess the risk of bankruptcy or financial distress, thereby helping public entities make sound decisions regarding resource allocation and financial management. In the private sector, which is influenced by market competition, the model has since been adapted, as its original version was only relevant to publicly listed companies. Altman proposed a re-estimation to enable the model to be applied to privately held companies. Furthermore, as the economies of developing countries have evolved, the Altman Z-Score has also been modified to account for the specific characteristics of these markets. Unique financial structures and rapid growth demand a different approach to risk assessment, leading Altman to introduce specific adjustments for the context of developing economies (Rashid et al., 2023).

Based on the results of financial distress assessments of companies in the property and real estate sector during the period 2022–2024, it was found that some companies remain in a state of financial distress or in the grey area. Several companies, such as Bukit Darmo Property Tbk, Duta Anggada Realty Tbk, Modernland Realty Tbk, Bliss Properti Indonesia Tbk, and Perintis Trinita Properti Tbk, have consistently been in the financial distress category for three consecutive years, indicating weak financial performance and a high risk of financial difficulties.

Furthermore, there are companies experiencing fluctuations in their financial condition, such as Adhi Commuter Properti Tbk and Metro Realty Tbk, which have moved from the financial distress category to the grey area. Meanwhile, Diamond Citra Propertindo Tbk and PP Properti Tbk have shown a deterioration in their financial condition, moving from the healthy or grey area category to financial distress. Conversely, Saptausaha Gemilangindah Tbk has shown significant improvement, moving from a state of financial distress in 2022 to the healthy category in 2023 and 2024. These findings indicate that the phenomenon of financial distress remains a real problem within the property and real estate sector in Indonesia.

The discrepancies in previous research findings, alongside the continued indications of financial distress in the property and real estate sector, highlight the importance of conducting further analysis to understand the factors influencing financial distress in this sector. Therefore, this study aims to analyse the conditions of each variable and the influence of liquidity, leverage, and sales growth on financial distress in property and real estate companies listed on the Indonesia Stock Exchange from 2022 to 2024.

LITERATURE REVIEW

In the business world, every company faces financial risks that could potentially lead to financial distress, which is a situation where a company struggles to meet its financial obligations on time. Financial distress can serve as an early warning sign of deteriorating financial performance that may escalate into bankruptcy, thereby threatening the company's operational viability. This study focuses on three factors suspected of influencing financial distress, namely liquidity, leverage, and sales growth. Liquidity describes a company's ability to meet its short-term obligations (Fitriana, 2024: 25). There are several discrepancies in research findings regarding the impact of liquidity on financial distress.

According to Mappadang et al. (2019), liquidity has a positive effect because an increase in liquidity stems from additional debt that is not accompanied by an increase in revenue. Conversely, Susanto et al. (2025) found a negative effect because companies with high liquidity are able to meet their short-term obligations. Meanwhile, Ma'arif & Rahayu (2019) concluded that liquidity has no effect because the current ratio cannot be used as a definitive indicator of whether a company is experiencing financial distress or not.

The second factor is leverage, a ratio used to assess a company's ability to settle all its liabilities—both short-term and long-term—using the assets or wealth it holds as collateral, thereby preventing the company from being liquidated or closed down (Fitriana, 2024: 32). There are several discrepancies in research findings regarding the impact of leverage on financial distress. Yoganata's (2024) study indicates that leverage has a positive effect, as high debt increases the risk of financial difficulties. However, Damayanti & Kurnia (2024) conclude that the effect is negative, as high debt can still be managed effectively. Meanwhile, Oktaviani & Lisiantara (2022) concluded that leverage has no effect because sound financial management can prevent financial distress.

The third factor in this study is sales growth, defined as the year-on-year increase in sales of the products or services offered by a company. A company can be said to be experiencing sound growth if sales increase consistently in its business operations (Hidayat, 2022: 23). There are some discrepancies in research findings regarding the impact of sales growth on financial distress. In To's (2025) study, sales growth had a negative effect because an increase in sales indicates a more stable company condition. According to Kinanti & Arsjah (2025), sales growth has no significant effect if it is not accompanied by efficient cost control and optimal cash flow management. Meanwhile, Muslimin & Bahri (2023) concluded that the sales growth ratio has a positive effect because an increase in sales is not always followed by an increase.

The trade-off theory explains that companies seek to achieve an optimal financial structure by balancing the benefits of using debt in the form of a tax shield against the costs incurred, namely the risk of bankruptcy and financial distress. High liquidity indicates a company's ability to meet its short-term obligations; optimally managed leverage reflects a balance between the benefits and risks of debt financing; and strong sales growth demonstrates a company's ability to increase revenue and operating cash flow. Therefore, according to trade-off theory, liquidity, leverage and sales growth play a crucial role in reducing the risk of financial distress.

Based on the above discussion and drawing on previous research, the following theoretical framework can be formulated:

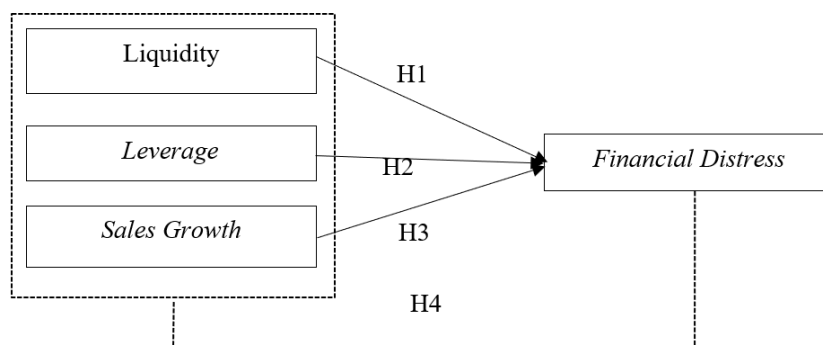


Figure 2. Theoretical Framework

H_1 = Liquidity has a partial negative effect on financial distress.

- H₂ = Leverage has a partial negative effect on financial distress.
- H₃ = Sales growth has a partial negative effect on financial distress.
- H₄ = Liquidity, leverage and sales growth have a simultaneous effect on financial distress.

METHODOLOGY

This study employs a descriptive method with a quantitative approach. The research design used is a survey study, as the data were obtained from a sample representative of the population of companies. Data analysis was conducted using panel data regression with the aid of E-Views 13 software. The data used were secondary data in the form of financial statements from property and real estate companies, obtained through documentary research. The study population consists of 93 companies, whilst the sample was determined using purposive sampling, resulting in 13 companies with a total of 39 observations. The criteria used to select the sample are as follows:

1. Property and real estate companies listed on the Indonesia Stock Exchange (IDX) up to 2024.
2. Property and real estate companies that consistently presented financial statements during the period 2022–2024.
3. Property and real estate companies that experienced financial distress for at least one year during the period 2022–2024.

This study uses financial distress as the dependent variable, defined as a deterioration in a company’s financial health (Sawir, 2005: 26). It employs a modified Altman Z-Score model as follows:

$$Z = 6,56 X_1 + 3,267 X_2 + 6,72 X_3 + 1,05 X_4$$

This study utilises independent variables, including liquidity, which reflects a company’s ability to settle its short-term liabilities (Kasmir, 2019: 110). This is measured using the current ratio, as follows:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \times 100\%$$

Leverage is a ratio used to measure the extent to which a company relies on debt in its operational activities (Djaja, 2024: 87). It is measured using the debt-to-equity ratio, as follows:

$$\text{Debt to Equity Ratio} = \frac{\text{Liabilities}}{\text{Equity}} \times 100$$

Sales growth is the annual rate of sales growth calculated from historical data and used as a basis in financial planning to forecast future sales (Brigham & Houston, 2019: 595). The formula used is:

$$\text{Sales Growth} = \frac{\text{Sales}_{t1} - \text{Sales}_{t-1}}{\text{Sales}_{t-1}} \times 100\%$$

RESULTS AND DISCUSSION

Results of Descriptive Statistical Analysis

Table 1. Descriptive Statistical Analysis

	Y	X1	X2	X3
Mean	-0,18	1,11	-0,43	2,47
Median	0,73	0,88	1,57	0,03
Max	11,00	5,15	7,31	96,67
Min	-16,05	0,02	-76,75	-1,00
Std. Dev.	4,74	1,16	12,78	15,49
Observations	39	39	39	39

Source: Eviews 13 output (processed in 2026)

Based on the results of the analysis of the processed data, it can be seen that the dependent variable Y or Financial Distress has a mean of -0.18; a median of 0.73; a maximum value of 11.00; whilst the minimum value is -16.05; with a standard deviation of 4.74, indicating a considerable variation in data across companies. The independent variable X1 (Liquidity) has a mean of 1.11; a median of 0.88; a maximum value of 5.15; a minimum value of 0.02; and a standard deviation of 1.16. This indicates a relatively small variation in data. The independent variable X2 (Leverage) has a mean of -0.43; a median of 1.57; a maximum value of 7.31; a minimum value of -76.75; and a standard deviation of 12.78. This indicates a very wide spread of data. The independent variable X3 (Sales Growth) has a mean of 2.47; a median of 0.03; a maximum value of 96.67; a minimum value of -1; and a standard deviation of 15.49. This indicates that sales growth across companies tends to fluctuate.

Selection of the Regression Model for Panel Data: The Chow Test

The Chow test is used to determine whether the most appropriate model is the Fixed Effects Model (FEM) or the Common/Pooled Effects Model (CEM) (Basuki & Prawoto, 2016: 301). The test results show that the cross-sectional probability is less than 0.05 ($0.0000 < 0.05$); therefore, H_0 is rejected, and the Fixed Effects Model (FEM) is selected.

Table 2. *The Chow Test*

	Cross-Section F	Prob.
Chow Test	33,350776	0,0000

Source: Eviews 13 output (processed in 2026)

Hausman Test

The Hausman test is used to determine which model is more appropriate: the Random Effects Model (REM) or the Fixed Effects Model (FEM) (Basuki & Prawoto, 2016: 301). The test results show that the cross-sectional random probability value is greater than 0.05 ($0.9708 > 0.05$); therefore, H_0 is accepted, and the Random Effects Model (REM) is selected.

Table 3. *Hausman Test*

	Chi-Sq.Statistic	Prob.
Hausman Test	0,240398	0,9708

Source: Eviews 13 output (processed in 2026)

Lagrange Multiplier Test

The Lagrange Multiplier (LM) test was conducted to assess whether the Random Effects Model (REM) is more appropriate than the Common Effects Model (CEM) (Basuki & Prawoto, 2016: 301). The test results show that the value of the Breusch-Pagan cross-sectional probability is below 0.05 ($0.0000 < 0.05$); therefore, H_0 is rejected, and the Random Effects Model (REM) is selected.

Table 4. *Lagrange Multiplier Test*

	Breusch-Pagan
Langrange Multiplier Test	0,0000

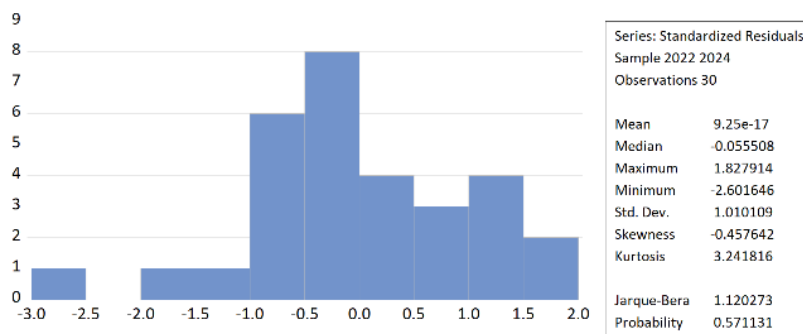
Source: Eviews 13 output (processed in 2026)

Tests of Classical Assumptions

Normality Test

The normality test is used to determine whether the collected data are normally distributed or originate from a normally distributed population (Basuki & Prawoto, 2016: 48). Based on the results of the normality test, a Jarque-Bera value of 1.120273 and a probability

of 0.571131 were obtained. The result shows that the probability is > 0.05 , i.e. $0.571131 > 0.05$. It can therefore be concluded that the data are normally distributed.



Source: Eviews 13 output (processed in 2026)

Figure 3. Normality Test

Multicollinearity Test

The multicollinearity test is used to detect strong relationships between independent variables in a regression model. If there is a high correlation between independent variables, the relationship between the independent variables and the dependent variable may become inaccurate or distorted (Basuki & Prawoto, 2016: 48). Based on the results of the multicollinearity test on the table 5 below, the correlation coefficients between the independent variables are less than 0.10, namely 0.098943; -0.012349; and 0.045183. It can therefore be concluded that multicollinearity does not occur or that the model has passed the multicollinearity test.

Table 5. Multicollinearity Test

	X1	X2	X3
X1	1,000000	0,098943	-0,012349
X2	0,098943	1,000000	0,045183
X3	-0,012349	0,045183	1,000000

Source: Eviews 13 output (processed in 2026)

Heteroscedasticity Test

The heteroscedasticity test is used to detect whether the regression model exhibits differences in residual variance across observations. A good regression model should have constant residual variance, or homoscedasticity (Basuki & Prawoto, 2016: 48). Based on the results of the heteroscedasticity test in the table above, the probability values for each independent variable are greater than 0.05. This indicates that the regression model is homoscedastic, or free from the problem of heteroscedasticity.

Table 6. Heteroscedasticity test

Variable	Prob,
X1	0,7860
X2	0,7677
X3	0,8037

Source: Eviews 13 output (processed in 2026)

Panel Data Regression Model

Following the assessment of the suitability of the panel data regression model, it was found that the Random Effects Model (REM) is the best model. This model was applied to analyse the effects of liquidity, leverage, and sales growth on financial distress.

Table 7. Data Panel Regression Model

Variabel	Coefficient	Std.Error	t	Prob.
C	-2,960	1,123	-2,63	0,013
X1	2,511	0,247	10,15	0,000
X2	0,035	0,015	2,30	0,027
X3	0,009	0,013	0,72	0,472

Source: Eviews 13 output (processed in 2026)

Based on the panel data regression equation above, it can be explained that:

1. The constant of -2.960 indicates that if liquidity, leverage and sales growth are all zero, then financial distress is -2.960.
2. Liquidity (X1) has a coefficient of 2.511, meaning that a 1% increase in liquidity will increase financial distress by 2.511.
3. Leverage (X2) has a coefficient of 0.035, meaning that a 1% increase in liquidity will increase financial distress by 0.035.
4. Sales growth (X3) has a coefficient of 0.009, meaning that a 1% increase in liquidity will increase financial distress by 0.009.

Hypothesis Testing

F-Test and Coefficient of Determination

The R-squared value (R^2) indicates the proportion of variation in the dependent variable (financial distress) that can be explained by changes in the model's independent variables (liquidity, leverage, and sales growth). The results of the coefficient of determination and the F-test are as follows:

Table 8. Coefficient of Determination and F-Test

R-squared	0,775554
Adjusted R-squared	0,756316
S.E. of regression	0,986771
F-statistic	40,31322
Prob(F-statistic)	0,000000

Source: Eviews 13 output (processed in 2026)

Based on the test results, the adjusted R-squared value is 0.7563, or 75.63%. This indicates that financial distress can be explained by liquidity, leverage and sales growth to the extent of 75.63%, whilst the remaining 24.57% is influenced by other variables outside the scope of this study. This value indicates that the research model has a sufficiently strong explanatory power. This is because liquidity and leverage are key indicators in assessing a company's ability to meet its obligations and manage its funding structure in relation to financial distress. The F-test results show a calculated F-value of 40.31322 with a probability of 0.000000. This value is greater than the F-table value (2.874187) and the probability is less than 0.05; therefore, 'H'_a is accepted and 'H'₀ is rejected. Consequently, liquidity, leverage, and sales growth simultaneously influence financial distress.

t-Test

Based on the test results in Table 4, the results of the partial tests for each independent variable against the dependent variable are obtained. For the liquidity calculation (X1), a calculated t-value of 10.15 was obtained, which is greater than the critical t-value of 2.03, and the probability value of 0.000 is less than 0.05; therefore, 'H'_{a1} is accepted and 'H'₀₁ is rejected. Thus, liquidity has a partial effect on financial distress.

The results of the partial test for leverage (X2) show a calculated t-value of 2.30, which is greater than the critical t-value of 2.03, and a probability value of $0.027 < 0.05$; therefore, 'H' _ 'a2' is accepted and "H" _ '02' is rejected. Thus, leverage has a partial effect on financial distress. Meanwhile, the results of the partial test for sales growth (X3) show a calculated t-value of 0.72, which is smaller than the critical t-value of 2.03, and a probability value of $0.472 > 0.05$; therefore, 'H' _ '03' is accepted and "H" _ 'a3' is rejected. Thus, sales growth does not have a partial effect on financial distress.

Discussion

Liquidity in Property and Real Estate Companies Listed on the Indonesia Stock Exchange, 2022–2024

In this study, liquidity describes a company's ability to settle short-term liabilities using its current assets. Liquidity is considered good if it is above 2, whilst a value below 2 indicates poor liquidity. The following graph illustrates the average liquidity of companies during the study period.



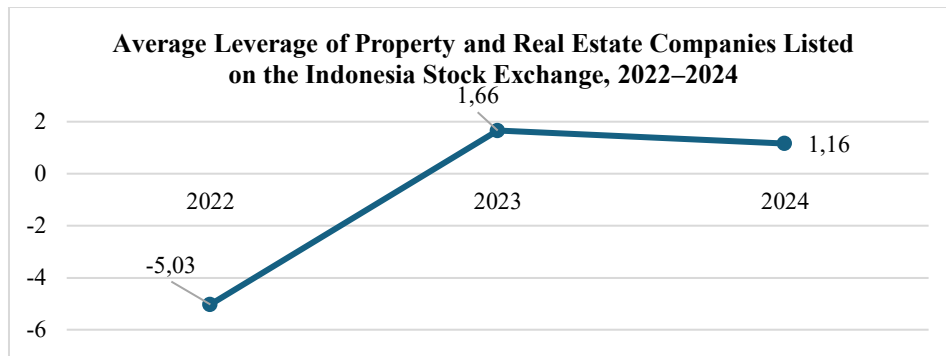
Source: Company Annual Financial Reports (compiled in 2026)

Figure 4. Average Liquidity of Property and Real Estate Companies Listed on the Indonesia Stock Exchange, 2022–2024

Figure 4 shows time series data on liquidity, proxied by the current ratio, for the period 2022–2024. In 2022, an average liquidity ratio of 1 indicates that current assets were only sufficient to cover current liabilities, meaning the situation was still considered unsafe. In 2023, the average current ratio increased to 1.16, signalling an improvement in the company's ability to meet short-term liabilities, although it remained below the safe threshold. In 2024, the average current ratio remained at 1.16, indicating that the company's liquidity conditions were stable but had not yet reached a safe level.

Leverage in Property and Real Estate Companies Listed on the Indonesia Stock Exchange, 2022–2024

This ratio reflects the level of debt utilisation compared to equity in the company's funding structure. According to Djaja (2024: 87), a healthy total debt-to-equity ratio is below 0.8. The following graph illustrates the average leverage of companies during the study period. Figure 5 shows the time series data for average leverage, proxied by the debt-to-equity ratio, for the period 2022–2024. In 2022, the average leverage stood at -5.03. This negative value does not indicate a healthy situation, but rather suggests the presence of negative equity, thereby clearly reflecting an unhealthy financial condition and a high risk of financial distress.



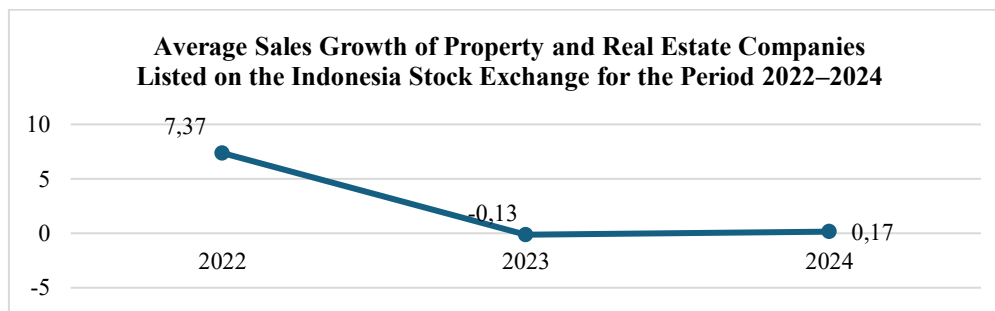
Source: Company Annual Financial Reports (compiled in 2026)

Figure 5. Average Leverage of Property and Real Estate Companies Listed on the Indonesia Stock Exchange, 2022–2024

In 2023, the average leverage increased to 1.66. Although there was an improvement compared to the previous year, the value remained above the 0.8 threshold and was therefore classified as insolvent. In 2024, the average leverage decreased to 1.16, indicating an improvement in capital structure. However, as the value remained above 0.8, the leverage level was still classified as insolvent.

Sales Growth of Property and Real Estate Companies Listed on the Indonesia Stock Exchange, 2022–2024

The sales growth in this study illustrates a company's ability to increase sales, where a positive value indicates growth and a negative value indicates a decline. The following graph presents the average sales growth over the study period. Figure 6 shows time series data for the average sales growth of property and real estate companies listed on the Indonesia Stock Exchange for the period 2022–2024. In 2022, sales growth stood at 7.37%, indicating a phase of expansion and rising sales.



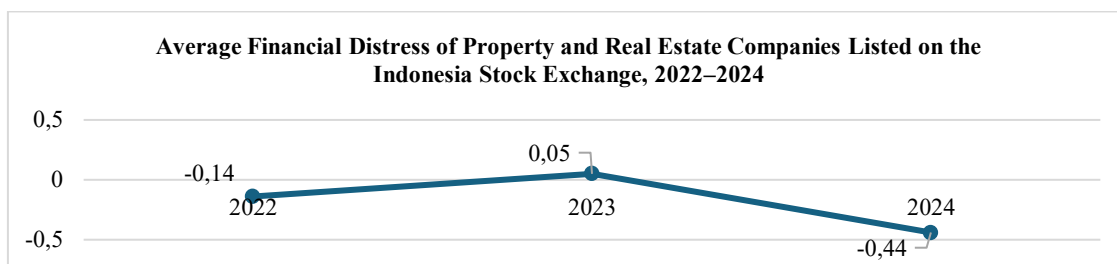
Source: Company Annual Financial Reports (compiled in 2026)

Figure 6. Average Sales Growth of Property and Real Estate Companies Listed on the Indonesia Stock Exchange, 2022–2024

In 2023, there was a sharp decline to a negative figure of -0.13, indicating a weakening in sales due to a possible slowdown in demand or economic factors. In 2024, conditions began to show signs of recovery with a positive value of 0.17. However, this remains very low, suggesting that the property and real estate sector has only just entered the early stages of recovery.

Financial Distress in Property and Real Estate Companies Listed on the Indonesia Stock Exchange, 2022–2024. In this study, financial distress describes a deterioration in a company's financial health, as indicated by weak financial ratios and Z-scores. The modified Altman Z-Score model was used as it is considered appropriate for companies in developing

countries and across various industrial sectors. The following graph illustrates the average level of financial distress.



Source: Company Annual Financial Reports (compiled in 2026)

Figure 7. Average Financial Distress of Property and Real Estate Companies Listed on the Indonesia Stock Exchange, 2022–2024

Figure 7 shows time series data for the average financial distress score of property and real estate companies for the period 2022–2024. In 2022, the average was recorded at -0.14, which is well below the safe threshold of 1.1, indicating an unhealthy financial condition. This may be due to high debt burdens, a decline in sales, or weakened corporate liquidity. In 2023, the value increased to 0.05, yet it remained within the distress category, suggesting that the companies' financial condition was not yet fully stable. In 2024, the value fell again to -0.44, indicating increased financial pressure, which may be influenced by a weakening of operating cash flow, rising liabilities, or the failure of sales performance to recover.

The Simultaneous Influence of Liquidity, Leverage, and Sales Growth on Financial Distress

The research findings indicate that liquidity, leverage, and sales growth simultaneously influence financial distress. This suggests that financial distress is not determined by a single factor but results from various aspects of a company's financial condition, such as the ability to meet short-term obligations, funding structure, and sales dynamics. In the capital-intensive property and real estate sector, which involves long-term project cycles, an imbalance in these three aspects can increase the risk of financial distress. Such a situation may arise when sales growth requires additional financing that increases leverage, whilst liquidity is limited, thereby placing pressure on the company's cash flow.

This is further supported by an adjusted R-squared value of 0.7563 (75.63%), indicating that financial distress can be explained by liquidity, leverage, and sales growth to the extent of 75.63%, whilst the remaining 24.37% is influenced by factors outside the scope of this study, such as profitability, cash flow, and company size. These findings confirm that financial distress is a complex condition influenced by various aspects of a company's finances.

The Effect of Liquidity on Financial Distress

The research findings indicate that liquidity has a positive effect on financial distress, meaning that an increase in liquidity is accompanied by an increase in financial distress. The findings suggest that a high level of liquidity does not necessarily reflect sound financial health. This may occur because high levels of current assets do not always indicate effective asset management, but may stem from the accumulation of receivables or slow-moving inventory, which still has the potential to cause financial distress.

In the property sector and sales growth, which are capital-intensive and have long project cycles, the accumulation of inventories and receivables can increase the current ratio. Although the company appears liquid in terms of ratios, this situation can still create cash

flow pressure in meeting short-term obligations. Some companies with high current ratios still fall into the distress or grey area categories based on the Z-Score. This indicates that high liquidity does not always reflect adequate cash flow; such conditions can increase financial pressure.

These results can be explained by the trade-off theory, which states that there is a trade-off between benefits and costs in financial decisions. Excessively high liquidity can lead to idle funds and reduce asset productivity, thereby potentially increasing the risk of financial distress. These research findings are also supported by studies conducted by Yoganata (2024), Rachmawati et al. (2024), and Mappadang et al. (2019). However, they contradict the findings of studies by Kinanti & Arsajah (2025), Susanto et al. (2025), and Lausiri & Nahda (2022).

The Partial Effect of Leverage on Financial Distress

The research findings indicate that leverage has a positive effect on financial distress, suggesting that the higher the leverage ratio, the greater the risk of experiencing financial distress. Increased debt usage adds to interest expenses and repayment obligations, which can constrain a company's cash flow. This is evident in several companies with high DERs that fall into the distress category, indicating that a funding structure overly reliant on debt increases financial vulnerability. Some companies also have negative equity, indicating that total liabilities exceed the company's net assets. Although this does not directly cause bankruptcy, it serves as a signal of increased risk of financial distress.

These findings are consistent with the trade-off theory, which explains that the use of debt provides benefits such as additional funds and a tax shield, but can also incur costs such as interest expenses and the risk of bankruptcy. When leverage is too high, these costs may outweigh the benefits, thereby increasing the risk of financial difficulties. The results of this study are consistent with the research by Kristiana & Susilawati (2021), E.W. & H.N. (2018), and To (2025). However, they contradict the findings of Efendi et al. (2023), Ma'arif & Rahayu (2019), and Damayanti & Kurnia (2024).

The Impact of Sales Growth on Financial Distress

The research findings indicate that sales growth does not have a significant impact on financial distress. This is consistent with descriptive data showing that companies' sales growth during the study period tended to fluctuate. Although some companies experienced an increase in sales, a number of them remained in the distress category, suggesting that increased sales do not always lead to an improvement in financial conditions. In the property and real estate sector, sales growth is often influenced by project cycles and instalment payment systems, so it does not necessarily generate strong cash flow. Furthermore, an increase in sales may also be accompanied by a rise in operating costs and working capital requirements, rendering its impact on financial distress insignificant. This indicates that liquidity and leverage factors play a more dominant role in influencing financial distress than sales growth.

The finding that sales growth does not affect financial distress can be explained by the trade-off theory, which emphasises the balance between benefits and costs in financial decisions. An increase in sales may boost a company's funding, but it is also accompanied by higher operational costs and working capital requirements. If the benefits do not outweigh the costs incurred, then the impact on financial distress becomes insignificant. These findings are consistent with those of Burhanuddin et al. (2019), Oktaviani & Lisiantara (2022), and Putri & Kristanti (2020). However, they contradict the findings of Muslimin & Bahri (2023), Nadapdap & Hazmi (2024), and Damayanti & Kurnia (2024).

CONCLUSION AND SUGGESTION

The results of the study indicate that average liquidity showed an upward and stable trend, leverage fluctuated and tended to improve, sales growth fluctuated and remained unstable, whilst financial distress fluctuated and tended to worsen towards the end of the study period. The results of the study indicate that liquidity, leverage, and sales growth simultaneously influence financial distress. Partially, liquidity and leverage have a positive effect on financial distress, whilst sales growth has no significant effect. Companies and management need to pay attention to liquidity management and debt structure so that the risk of financial distress can be minimised. Investors are advised to consider liquidity and leverage conditions before making investments. Future researchers may wish to include additional variables and expand the research period or sector.

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