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# Analysis of The Effect of Profitability, Liquidity, Operating Cash Flow, And Capital Structure on Financial Distress With The Altman Z-Score Approach

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**Abstract**
Financial distress is a company's financial condition that is not healthy or is in the stage before bankruptcy. Therefore, identifying early signs of financial distress is important as a basis for evaluation. This study aims to empirically examine the effect of profitability, liquidity, operating cash flow, and capital structure on financial distress in food and beverage companies listed on the IDX in 2018-2022 because the results of a survey conducted by the Central Statistics Agency (BPS) in 2020 showed that as many as 82.85% of business actors experienced a decrease in income where the highest was experienced by the food and beverage sector, namely 92.47%. This study uses the Altman Z-Score model last 1995 as a tool to predict financial distress. The sample of this study was obtained using purposive sampling method so that 26 company samples were obtained from 27 food and beverage sector companies listed on the IDX in 2018-2022. The data analysis technique in this study used multiple linear regression analysis. The results stated that profitability has a negative effect on financial distress, while liquidity and operating cash flow have a positive effect on financial distress, while capital structure has no effect on financial distress.

## Introduction

Throughout 2018 to 2020, many companies experienced a decrease in revenue and resulted in financial distress. Annither et al. (2020) state that financial distress is a phenomenon where the company is at a stage before heading towards bankruptcy or liquidation. Financial distress can be described as the company's inability to pay maturing obligations or a situation where the company's revenue cannot cover costs. Financial distress can be seen from the financial performance contained in a company's financial statements. Companies can be said to indicate financial distress when debt increases, and sales and profits decrease (Giarto & Fachrurrozie, 2020).

Financial distress can be measured using financial performance. Financial performance can be measured using financial ratios. When the profitability and liquidity ratios of a company are increasing, it can be interpreted as having healthy financial performance. This situation indicates that the company is able to generate profits and fulfill its obligations. Earnings quality can be seen from the ratio of operating cash flow to current liabilities. But there are also those who argue that financial distress can be measured by the financing owned by the company. In general, financing has two methods, namely debt and equity methods. Good management of financing sources can minimize the occurrence of financial distress. Based on the results of the Covid-19 pandemic impact survey conducted by the Central Statistics Agency (BPS) on 34,559 business actors consisting of 25,256 micro and small enterprises (MSEs), 6,821 medium and large enterprises (MSEs), and 2,482 agricultural businesses, it shows that the phenomenon has a significant impact on all business sectors in Indonesia. A total of 82.85% of business actors reported a decrease in income, 14.60% of their income remained the same, and only 2.55% experienced an increase in income. Overall, 82.29% of MSEs and 84.20% of MSEs experienced a decrease in income due to the pandemic.

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According to the Central Statistics Agency (BPS), one of the company sectors with the highest decline in revenue is food and beverage companies with a percentage of 92.47%. This is supported by a decrease in demand of 87% in the food and beverage sector. Sectors affected by the Covid-19 pandemic will certainly experience financial losses and decreased performance. The decline in performance and sales can result in the company having difficulty managing finances to meet its obligations or it can be said to be experiencing financial difficulties. Based on these conditions, conducting financial analysis to predict the early signs of financial distress is very important for companies, so that the company's financial condition can be controlled appropriately. Financial distress conditions can be caused by internal company factors, including profitability, liquidity, financial leverage, and cash flow (Sudaryanti & Dinar, 2019). Research on the prediction of financial distress using internal factors of a company is carried out with the aim that companies always pay attention to their financial health and stability through the prediction of internal factors, so that they can evaluate and develop the right strategy in order to avoid financial distress.

Signaling theory was first put forward by Spence (1973), which explains that the sender (owner of information) provides a signal in the form of information that describes his view of the company's future prospects that are beneficial to the recipient (investor). Signalling Theory (signal theory) emphasizes the importance of information sent by companies to users of financial statements, so companies always try to get information about the condition of the company to provide signals to outsiders (investors). Signaling theory has a close relationship with the financial ratios used in analyzing the company's financial condition. In connection with financial distress conditions, signal theory is useful in analyzing the company's financial condition and prospects as information provided by internal parties to external parties (Septazzia & Rahayu, 2020). Signal theory is not only useful for external parties but can be useful for internal parties to obtain information as a signal in preventing financial distress. This study uses signal theory to analyze the effects of profitability, liabilities, operating cash flow, and capital structure which can be used as signals to predict the occurrence of financial distress in food and beverage sector companies. In this study, companies experiencing financial distress are interpreted as giving negative signals, while companies that do not experience financial distress or are financially healthy are interpreted as giving positive signals.

According to Platt & Platt (2002), financial distress is the financial condition of a company that is not healthy or a crisis that is at a stage before the company goes bankrupt. According to Harto & Napisah (2020), financial distress is a broad concept consisting of many situations where companies experience financial difficulties or are commonly referred to as failure, default, inability to pay off debt, and bankruptcy. Financial distress is characterized by the company's inability to meet its obligations, especially short-term obligations including liquidity obligations and solvency categories. This condition is first indicated by the violation of debt covenants and the reduction or elimination of dividend payments. Companies that are in the stage of financial difficulty will face a lack of cash flow in fulfilling their obligations. Prediction of financial distress can be analyzed with financial ratios and non-financial factors that the company has. Financial ratios have a major contribution in predicting financial distress, especially ratios that focus on profit, and company cash flow. If the company information obtained from the prediction of financial statements shows a weakened financial condition, it becomes a negative signal and makes stakeholders lose confidence.

According to Sirait (2017), profitability is the ability of a company's business to achieve overall profitability and convert sales into profits and cash flow. Profitability assumes that companies with high profits have a great opportunity to compete with similar competitors. A company with high profitability means it has a high level of ability to earn profits and can avoid financial distress. Creditors and investors generally often consider profitability

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because this ratio affects the company's ability to earn profits.

Liquidity is a ratio that describes the relationship between current assets and short- term liabilities of a company where the relationship shows how the company's ability to meet maturing obligations using current assets (Brigham & Houston, 2018). Companies that are able to fulfill their due obligations with their current assets can be interpreted as the company is in a liquid state so that it can avoid financial distress conditions.

Operating cash flow is the entity's main revenue-generating activity and activities that are not investment and income activities (Martini et al., 2016). Operating cash includes company activities to produce products/services used in sales activities. Cash flow from operating activities is closely related to company profits and can measure how much sales will become operational cash later. The greater the amount of company cash, the higher the company's liquidity level.

Capital structure is a permanent expenditure and reflects the relationship between long-term liabilities and own capital (Brigham & Houston, 2018). Optimal capital structure is an important discussion in corporate finance. If a company uses debt financing, it is feared that when debt increases, the risk of default is also getting bigger. Therefore, companies are guided to be able to plan and determine the right capital structure between the use of debt and capital financing in order to always avoid financial distress conditions.

Every company has a goal to earn profit or profit. The profitability ratio measures the effectiveness of company management in generating profits. According to Saputri & Asrori (2019), when the profitability ratio is high, it means that the company's performance is considered good because it generates high profits from the company's operational activities. When the profit owned by the company is large, the company will automatically reduce the use of debt so that the chances of facing financial difficulties are small. Profitability is a fundamental aspect of the company, in addition to providing interest to investors to invest, this ratio is also a measuring tool for the use of company resources in the company's operational process. Profitability is measured using the Return On Assets (ROA) proxy. The greater the ROA value, the lower the possibility of the company experiencing financial distress. A high ROA value illustrates that the company has a high level of ability to earn profits. The decline in return on assets indicates that the inefficient use of assets in generating profits makes it difficult for companies to obtain funding sources from investors, and the risk of entering the financial distress stage increases. This is in line with research conducted by Nilasari (2021), Ramadhani & Khairunnisa (2019), and Santoso & Nugrahanti (2022) which state in their research that profitability has a negative effect on financial distress. Thus, the first hypothesis of this study is

$H_1$: Profitability has a negative effect on financial distress

According to Hani (2015), the liquidity ratio is a ratio that describes the company's ability to meet maturing financial obligations. The high value of company liquidity illustrates positive things for internal and external parties. The greater the ratio of current assets to current liabilities, the more liquid the company is able to meet its short-term obligations and the less chance of financial distress. The current assets owned by the company must be greater than the amount of the company's current debt because the company incurs costs to cover its obligations, so the company will be better prepared at the due date. Liquidity ratio is measured using the Current Ratio (CR) proxy by comparing current assets and current debt. The calculation results of CR can show the level of ability of assets that can be converted into cash in the near future to meet the short-term liabilities of the company (Brigham & Houston, 2018). Companies with current liabilities that increase rapidly compared to their current assets indicate that the company is in financial distress. A high level of liability is feared to experience the risk of default if the current assets owned by the company are not sufficient to cover its short-term liabilities. This is in

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line with research conducted by Ardi et al. (2020), Asmarani & Lestari (2020), and Nilasari (2021) who in their research found that liquidity has a negative effect on financial distress. Thus, the second hypothesis of this study can be developed as follows:

$H_2$: Liquidity has a negative effect on financial distress.

Operating cash flow as one of the important indicators of the company used by investors to determine the financial condition of the company. Operating cash flow is used to check the quality of a company's earnings and also as a means of payment for company bills. Companies that have high-value operating cash flow indicate that they have sufficient sources of funds for their company's operating activities. While companies with declining operating cash flow without being able to find a solution, the company may experience financial distress. Cash flow from the company's operating activities illustrates a business operation can generate cash that can be used to maintain the company's operating activities and as funds to pay off obligations. Operating cash flow is calculated by comparing the company's Operating Cash Flow (OCF) and current liabilities. The results of the OCF calculation can provide information on how much the company's ability to get cash to meet operational needs from within the company. Companies with high OCF levels can be interpreted as having healthy financial performance so that they can avoid financial distress. The low OCF value obtained shows a negative signal for the company because internal cash flow cannot meet operational activities and short-term obligations. This is in line with research conducted by Giarto & Fachrurrozie (2020), and Rinofah et al. (2021) which found that operating cash flow has a negative effect on financial distress. Thus, the third hypothesis of this study can be developed as follows:

$H_3$: Operating cash flow has a negative effect on financial distress.

The capital structure shows the company's ability to run its business using capital derived from debt. Companies that most of their financing comes from debt will pose a risk of financial difficulties. This is because the company's assets are smaller than the company's debt. Company financing originating from debt has a big influence on the company, because the company's financing depends on external parties. The greater the company's financing from debt, the greater the possibility of the company being exposed to financial distress due to the company's large obligations to cover the debt. Capital structure is measured using the Debt-to-Equity Ratio (DER) proxy by comparing total liabilities and equity. The calculation results of DER can show the level of the company's ability to pay obligations against its capital. The higher the DER value obtained, the higher the risk borne by the company because the company's capital is highly dependent on debt from external parties. This is in line with research conducted by Fadhilah & Nurdin (2020), and Wahyuni et al. (2020) which state that capital structure has a positive influence on financial distress. Thus, the fourth hypothesis of this study can be developed as follows:

$H_4$: Capital structure has a positive effect on financial distress.

**Methodology**

The type of research is an empirical study using a quantitative approach with research data derived from secondary data. The population used in this study are food and beverage sector companies listed on the Indonesia Stock Exchange in 2018- 2022. The sampling technique uses purposive sampling and is included in the type of judgment sampling because there are criteria that have been determined in this study, namely:

1. Food and beverage sector companies that are listed consecutively on the Indonesia Stock Exchange in 2018-2022.
2. Food and beverage sector companies that publish audited financial statements in 2018- 2022.

This study aims to find out the factors that affect financial distress so that the operational variables used in this study are as follows:

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**Table 1**. Operational Variabel

| Variable | Measurement | Source |
|---|---|---|
| **Dependent Variable:** *Financial Distress* (Y) | Altman Z-Score<br>Z-Score = 3,25 + 6,56X1 + 3,26X2 + 6,72X3+ 1,05X4<br><br>Description:<br>Z = Bankruptcy index<br>X1 = Working capital / total assets<br>X2 = Retained earnings / total assets<br>X3 = Earnings Before Interest and Taxes (EBIT) / total assets<br>X4 = Book value of equity / total liabilities | Bramantha & Yadnyana (2022) |
| **Independent Variable:** Profitability (X1) | Return On Assets $= \frac{Net\ Income}{Total\ Assets}$ x 100% | Islamiyatun et al. (2021) |
| Liquidity (X2) | Current Ratio $= \frac{Current\ Assets}{Current\ Liabilities}$ x 100% | Haras et al. (2022) |
| Operating Cash Flow (X3) | OCF $= \frac{Net\ Cash\ Flow\ From\ Operations}{Current\ Liabilities}$ x 100% | Feanie & Dillak (2021) |
| Capital Structure (X4) | Debt to Equity Ratio $= \frac{Total\ Debt}{Total\ Equity}$ x 100% | Artamevia & Wahyuni (2022) |

## Result And Discussion

### Results

The descriptive analysis and classical assumption test on the data of this study are as follows:

**Table 2.** Descriptive Analysis

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Financial Distress | 130 | -64.8356 | 21.7262 | 6.956249 | 8.9469536 |
| Return on Assets | 130 | -1.3693 | 8.3024 | .117371 | .7440364 |
| Current Ratio | 130 | -.5324 | 99.8294 | 4.278803 | 13.2563222 |
| Operating Cash Flow | 130 | -1.0706 | 3.5761 | .556008 | .7410386 |
| Debt to Equity Ratio | 130 | -15.0340 | 27.0381 | 1.206914 | 3.4195355 |
| Valid N (listwise) | 130 | | | | |

Source: Data Process

Table 2 shows the results of the descriptive statistical test of financial distress proxied by the Altman Z-Score method showing a standard deviation value of 8.9469 and a mean value of 6.9562, indicating that the average company sampled is in a safe zone or not experiencing financial distress because it is above 2.6. Return on assets (ROA) has a standard deviation value of 0.7440 with a mean value of 0.1173. The minimum value obtained is - 1.3693 owned by the company Magna Investama Mandiri Tbk. in 2019, while the maximum value obtained is

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8.3024 owned by the company Magna Investama Mandiri Tbk. in 2020. Current ratio (CR) has a standard deviation value of 13.2563 with a mean value of 4.2788. The minimum value obtained is -0.5324 owned by the company Wahana Interfood Nusantara Tbk. in 2022, while the maximum value obtained is 99.8294 owned by the company Inti Agri Resources Tbk. in 2019. Operating cash flow (OCF) has a standard deviation value of 0.7410 with a mean value of 0.5560. The minimum value obtained is -1.0706 owned by the Inti Agri Resources Tbk. company in 2022, while the maximum value obtained is 3.5761 owned by the Campina Ice Cream Industry Tbk. company in 2020. Debt to equity ratio (DER) has a standard deviation value of 3.4195 with a mean value of 1.2069. The minimum value obtained is - 15.0340 owned by the Magna Investama Mandiri Tbk. company in 2021, while the maximum value obtained is 27.0381 owned by the Pratama Abadi Nusa Industri Tbk. company in 2021.

**Table 3**. Normality Test

One-Sample Kolmogorov-Smirnov Test

| | | |
|---|---|---|
| N | | 130 |
| Normal Parameters[a,b] | Mean | .0000000 |
| | Std. Deviation | 6.04182623 |
| Most Extreme Differences | Absolute | .132 |
| | Positive | .132 |
| | Negative | -.132 |
| Test Statistic | | .132 |
| Asymp. Sig. (2-tailed) | | .000c |
| a. Test distribution is Normal. | | |
| b. Calculated from data. | | |
| c. Lilliefors Significance Correction. | | |

Source: Data Process

Table 3 contains the results of the normality test using One Sample Kolmogorov- Smirnov which uses 130 samples with the results of the Asymp. Sig. (2-tailed) value of 0.000. This value can be interpreted as the residual data in this regression model is not normally distributed because the Asymp. Sig (2-tailed) is less than 0.05. However, the results of this data can still be used for further analysis because the amount of data used in this study is more than 100 data so that the normality assumption is not important for data over 100, and the data is still assumed to be normally distributed (Gujarati & Porter, 2004).

**Table 4**. Multicollinearity Test

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | (Constant) | | |
| | Profitabilitas | .992 | 1.008 |
| | Likuiditas | .982 | 1.019 |
| | Operating Cash Flow | .969 | 1.032 |
| | Capital Structure | .970 | 1.031 |
| a. Dependent Variable: Financial Distress | | | |

Source: Data Process

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Table 4 contains the results of the multicollinearity test which obtained a tolerance value of the four variables of more than 0.1 and a VIF value of less than 10, so it can be concluded that there is no correlation between the independent variables, so there are no symptoms of multicollinearity between the independent variables in the regression model.

**Table 5**. Heteroscedasticity Test

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .266 | .536 | | .495 | .621 |
| | Ln_ROA | .062 | .141 | .039 | .443 | .659 |
| | Ln_CR | -.102 | .052 | -.171 | -1.947 | .054 |
| | Ln_OCF | .093 | .116 | .071 | .804 | .423 |
| | Ln_DER | .059 | .089 | .058 | .661 | .510 |

a. Dependent Variable: ABS_2

Table 5 contains the results of the heteroscedasticity test which shows that the significance value of each independent variable in the research regression model is greater than 0.05, so there are no symptoms of heteroscedasticity in the regression model.

**Table 6**. Autocorrelation Test

Model Summary[b]

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .738[a] | .544 | .529 | 6.1377342 | 1.817 |

a. Predictors: (Constant), Capital Structure, Profitabilitas, Likuiditas, Operating Cash Flow

b. Dependent Variable: Financial Distress

Table 6 contains the results of the autocorrelation test showing that all variables used in the research model obtained a Durbin-Watson (DW) value of 1.817, this value is obtained in the Durbin Watson table which shows a comparison of the value of the 0.05 significance table with the number of samples (n) of 130 and the number of independent variables used as many as 4 (k = 4). The value that has been obtained meets the assumptions dU < dW < 4-dU, with the model (1.777 < 1.817 < 2.226) which indicates the absence of autocorrelation symptoms so it can be concluded that in this regression model there are no autocorrelation symptoms.

**Table 7**. Multiple Linear Regression Analysis

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 5.254 | .741 | | 7.094 | .000 |
| | Profitabilitas | -7.340 | .729 | -.610 | -10.064 | .000 |
| | Likuiditas | .148 | .041 | .219 | 3.592 | .000 |
| | Operating Cash Flow | 3.887 | .741 | .322 | 5.247 | .000 |

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| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| | Capital Structure | -.190 | .160 | -.073 | -1.185 | .238 |

a. Dependent Variable: Financial Distress

This multiple linear regression analysis was carried out to test the effect of the independent variables on the dependent variable. From the results of multiple linear regression tests in Table 7, the regression equation model in this study was developed as follows:

**FD** = 5,254 – 7,340ROA + 0,148CR + 3,887OCF – 0,190DER

**Table 8.** Coefficient of Determination Test

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .738[a] | .544 | .529 | 6.1377342 |

a. Predictors: (Constant), Capital Structure, Profitabilitas, Likuiditas, Operating Cash Flow

b. Dependent Variable: Financial Distress

In Table 8 there is a coefficient of determination that shows the R Square value, which means how much the dependent variable can be explained by the independent variable. The coefficient of determination test results shows how much R Square or the coefficient of determination is on the research model. The test results obtained a coefficient of determination of 0.529 or 52.90%. This value indicates that financial distress can be explained by 52.90% by the independent variables, namely profitability, liquidity, operating cash flow, and capital structure. While the remaining 47.10% (100% - 52.90%) can be explained by other variables outside the research model.

**Table 9.** Simultaneous Test (F-Test)

ANOVA[a]

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 5617.217 | 4 | 1404.304 | 37.277 | .000[b] |
| | Residual | 4708.973 | 125 | 37.672 | | |
| | Total | 10326.189 | 129 | | | |

a. Dependent Variable: Financial Distress

b. Predictors: (Constant), Capital Structure, Profitabilitas, Likuiditas, Operating Cash Flow

In Table 9, the results of the simultaneous effect test or F test show that the F value is 37.277 with a significant value obtained of 0.000 where the value is less than 0.05. It can be concluded that the independent variables used in this research model, namely profitability, liquidity, operating cash flow, and capital structure, are in a condition of goodness of fit, which means that the regression model in this study is suitable for further t test testing.

Table 10. Partial Test (t-Test)

| Model | | Unstandardized Coefficients | | Standardize d Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std.Error | Beta | | |
| 1 | (Constant) | 5.254 | .741 | | 7.094 | .000 |

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| Model | | Unstandardized Coefficients | | Standardize d Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std.Error | Beta | | |
| | Profitabilitas | -7.340 | .729 | -.610 | -10.064 | .000 |
| | Likuiditas | .148 | .041 | .219 | 3.592 | .000 |
| | Operating Cash Flow | 3.887 | .741 | .322 | 5.247 | .000 |
| | Capital Structure | -.190 | .160 | -.073 | -1.185 | .238 |

a. Dependent Variable: Financial Distress

Based on Table 10, the t test results show that profitability has a value of -7.340 with a significance level of 0.000 which is smaller than 0.05. Based on the regression coefficient value and the level of significance that has been obtained, it can be interpreted that profitability has a negative and significant effect on financial distress conditions in a company. That way the first hypothesis which states H1: profitability has a negative effect on financial distress is **accepted**.

From the table above, the t test results show that liquidity has a value of 0.148 with a significance level of 0.000 which is smaller than 0.05. Based on the regression coefficient value and the level of significance that has been obtained, it can be interpreted that liquidity has a positive and significant effect on financial distress conditions in a company. That way the second hypothesis which states H2: liquidity has a negative effect on financial distress is **rejected**.

From the table above, the t test results show that operating cash flow has a value of 3.887 with a significance level of 0.000 which is smaller than 0.05. Based on the regression coefficient value and the level of significance that has been obtained, it can be interpreted that operating cash flow has a positive and significant effect on financial distress conditions in a company. That way the third hypothesis which states H3: operating cash flow has a negative effect on financial distress is **rejected**.

From the table above, the t test results show that the capital structure obtained a value of -0.190 with a significance level of 0.238 which is greater than 0.05. Based on the regression coefficient value and the level of significance that has been obtained, it can be interpreted that capital structure has no effect on financial distress conditions in a company. That way the fourth hypothesis which states H4: capital structure has a positive effect on financial distress is **rejected**.

**Discussion**

This study found that the higher the level of profitability in food and beverage sector companies listed on the Indonesia Stock Exchange, the lower the possibility of financial distress in a company, while the lower the level of profitability of a company, the higher the possibility of the company being exposed to financial distress. These results are in accordance with signal theory because profitability proxied by return on assets (ROA) can be used as a signal in predicting the occurrence of financial distress in a company. Companies with a high level of profitability provide a positive signal because the company can generate high profits or profits so that it can avoid financial distress. Companies that give negative signals mean companies that have low levels of profitability because this indicates that there are obstacles in the company so that it can reduce company profits.

This study found that the higher the level of liquidity in food and beverage sector companies listed on the Indonesia Stock Exchange, the higher the occurrence of financial distress. These results are not in accordance with the

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implications of signal theory where a high level of liquidity indicates that the company has the ability to meet its short-term obligations with its current assets so that the company avoids financial distress. However, this study found the opposite result, namely the more liquid a company is, the possibility of financial distress will increase. A high level of liquidity indicates that the company has a high value of current assets, but the high value of current assets indicates that there are company funds that are not optimally utilized which results in the company being unable to pay off due obligations in a timely manner and make new loans with the aim of paying off obligations (Hapsari, 2012).

In this study, the results show that the higher the value of operational cash flow in food and beverage sector companies listed on the Indonesia Stock Exchange, the higher the possibility of the company being exposed to financial distress. This condition can occur because the company cannot improve its operational activities, especially in fulfilling obligations to creditors (Fitri & Dillak, 2020). Conversely, companies that have a high operating cash flow value can avoid financial distress if the company can manage its operating activities optimally for operational activities and repayment of the company's short- term obligations. In line with this research, in this study companies categorized as not experiencing financial distress tend to have the ability to manage the value of their operational cash flow optimally, this is indicated by the decreasing due liabilities that the company has from year to year. The companies in question are Sekar Laut Tbk. and Campina Ice Cream Industry Tbk.

The results in this study are not in accordance with signal theory because the capital structure proxied by the debt-to-equity ratio (DER) does not have the ability to be used as a sign by investors or companies in indicating financial distress conditions. The lack of effect of capital structure to identify financial distress conditions is because the company has high income as well. Even though the company has large liabilities when compared to its equity, it cannot be concluded that the company is in financial distress (Dini et al., 2021). Large liabilities can be covered by the company's high income and good fund management because income can give companies the opportunity to fulfill obligations and manage finances better.

**Conclusions**

This study aims to analyze the effect of financial ratio variables, operating cash flow and capital structure on the financial distress condition of a food and beverage sector company listed on the IDX in the 2018-2022 period. Based on testing and discussion in this study, it can be concluded that the profitability variable has a negative and significant effect on financial distress. The liquidity variable has a positive and significant effect on financial distress. Operating cash flow variables have a positive and significant effect on financial distress. The capital structure variable has no effect on financial distress.

**Limitations**

Suggestions that can be given. First, further research can use other methods of measuring financial distress because there are still other methods besides using the Altman Z- Score such as the Grover, Springate, or Zmijewski methods. Second, changing the proxy for measuring capital structure, namely DER with DAR like the research conducted by Rissi & Herman (2021) so that there is no extreme data due to negative equity values and the impact of the capital structure variable is not influential

**Research Contribution**

Contribution for the development of science. The results obtained in this study do not fully support the theory of empirical signaling because the results in this study state profitability. empirically because the results in this study state that profitability (ROA) has a positive effect on financial distress. (ROA) has a positive effect on financial

distress, liquidity (CR) and operating cash flow (OCF) have a negative effect on financial distress. Operating cash flow (OCF) have a negative effect on financial distress. Therefore, these three variables can used as a signal in describing the condition of the company so that signal theory is supported. But on the other hand, the capital structure variable (DER) has no effect on financial distress and therefore the variable does not have the ability to be used as a signal in describing the condition of the company so that the signal theory is not supported.

Contribution for practical use. Profitability ratio (ROA) has a positive effect on financial distress, liquidity ratio (CR), and operating cash flow has a negative effect on financial distress. financial distress can be utilized by investors, creditors, and internal companies as a sign or signal to predict financial distress. as a sign or signal to predict financial distress. Investors and creditors can use these three variables as a consideration for making investment decisions andconsideration for making investment and lending decisions. lending decisions. The company concerned can also use the three variables as a basis for making investment and lending decisions.

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