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Financial Performance and Operating Cash Flow as Determinants of Financial Distress

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ABSTRACT
Financial distress is a critical issue that may threaten corporate sustainability, particularly in the property and real estate sector, which is characterized by high capital intensity, long project cycles, and substantial dependence on external financing. Understanding the factors influencing financial distress is essential for stakeholders in evaluating corporate financial conditions and making informed decisions. This study investigates the effects of liquidity, profitability, leverage, and operating cash flow on financial distress among property and real estate companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The study adopts a quantitative approach using secondary data obtained from companies' annual financial statements. A total of 40 companies were selected through purposive sampling, resulting in 200 firm-year observations. Financial distress was measured using the Modified Altman Z-Score model. Data were analyzed using descriptive statistics, classical assumption tests, and multiple linear regression analysis with IBM SPSS Statistics 27. The results indicate that liquidity and profitability have a positive and significant effect on financial distress, while leverage has a negative and significant effect on financial distress. Meanwhile, operating cash flow does not have a significant effect on financial distress. These findings suggest that variations in liquidity, profitability, and leverage play an important role in explaining financial distress conditions in property and real estate companies, whereas operating cash flow is not a determining factor. This study contributes to the financial distress literature by providing empirical evidence from the Indonesian property and real estate sector during the post-pandemic recovery period. The findings also offer practical implications for investors and corporate managers in assessing financial performance, identifying potential financial distress risks, and formulating strategies to enhance long-term financial sustainability.

Keywords: Financial Distress, Liquidity, Profitability, Leverage, Operating Cash Flow.
JEL Code: G33, G32, L85

I. Introduction

The property and real estate sector is one of the strategic sectors that has a major contribution to national economic growth because it is directly related to various supporting sectors such as construction, building material manufacturing, transportation, and financial services (Novianti, 2024). However, since the COVID-19 pandemic, this sector has experienced significant pressure due to declining people's purchasing power, slowing investment, and disruption of economic activities. Bank Indonesia (2021) noted that residential property sales contracted by 15.19% in the third quarter of 2021, while the growth of the

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Residential Property Price Index only reached 1.41%. This condition shows that the recovery process of the property sector is relatively slow compared to other sectors. In addition, weak demand for commercial property also led to a decline in the company's cash flow and increased pressure on the financial stability of the property company (Masdupi et al., 2018). This situation is an important concern because the property sector has business characteristics with long cash cycles and high capital requirements (Goh, 2023). Therefore, an analysis of the financial condition of property companies is relevant to be carried out, especially in detecting the potential for financial distress early (Natalia & Sha, 2022).

Financial distress is a condition when a company experiences financial difficulties before entering the bankruptcy stage which is characterized by a decline in the company's ability to fulfill its financial obligations (Runis et al., 2021). This condition is generally shown through a decrease in profit, weak operating cash flow, increased debt burden, and decreased company liquidity. In the property and real estate sector in Indonesia, the phenomenon of financial distress can be seen through the increasing cases of suspension and delisting of issuers on the Indonesia Stock Exchange (Permana et al., 2017). Several property companies experienced a significant decline in financial performance after the pandemic, and there were even companies that suffered losses in several consecutive periods (Bursa Efek Indonesia, 2024). This condition shows that the property sector has a high level of vulnerability to changes in macroeconomic conditions. In addition, the high dependence on external funding makes property companies more sensitive to changes in interest rates and market slowdowns (Curry & Banjarnahor, 2018). If these conditions are not properly anticipated, the risk of company bankruptcy will increase (Junillah et al., 2025).

In detecting potential financial distress, financial performance analysis is one of the most widely used approaches because it can describe the company's overall health condition (Kasmir, 2019). Financial ratios such as liquidity, profitability, and leverage can be used as indicators to assess a company's ability to maintain financial stability (Astuti, 2021). According to the signaling theory introduced by Spence, the financial information published by the company is a signal for investors and creditors in assessing the company's prospects. Liquidity reflects a company's ability to meet its short-term obligations, while profitability refers to a company's ability to generate profits from its assets (Guest et al., 2021). Meanwhile, leverage describes the level of debt utilization in a company's capital structure (Brigham & Houston, 2010). These ratios are important indicators because changes in the company's financial condition can provide an initial signal regarding the potential for financial distress (Syuhada et al., 2020). Therefore, the company's financial performance needs to be comprehensively analyzed so that the company is able to anticipate the risk of financial difficulties early (Kristanti et al., 2016).

In addition to financial ratios, operating cash flow is also an important indicator in assessing the company's ability to maintain its business sustainability. Operating cash flow indicates the company's ability to generate cash from the company's main operational activities (Hery, 2015). In the property sector, operating cash flow plays a very important role because the company's business processes take a long time from project construction to the sale of property units. This condition often causes a difference between the accounting profit and the real cash received by the company. Companies can record high profits, but experience liquidity difficulties due to weak operating cash flow (Kristanti & Pancawitri, 2024). Goh (2023) explained that the property sector has a high level of cash flow sensitivity due to dependence on external financing and the length of the property project cycle. Thus, operating cash flow analysis is important to determine the company's ability to maintain financial stability and maintain its operational activities in a sustainable manner (Elahi et al., 2021).

Research on financial distress has been done before, but it still shows inconsistent results. Research by Novianti (2024) found that liquidity has a significant positive effect on financial distress, while Bukhori et al. (2022) show a significant negative influence. In the profitability variable, Dewi & Edastami (2025) found a significant positive influence on financial distress, while Ananda et al. (2022) showed a significant negative influence. Differences in results also occurred in the variables of leverage and operating cash flow. Runis et al. (2021) found that leverage had a significant positive effect on financial distress, while Suryani & Mariani (2022) found a significant negative effect. In the operating cash flow variable, Awwaliyah et al. (2024) found a

significant negative influence, while Wijaya & Suhendah (2023) showed a significant positive influence. The inconsistency of the results of the study shows that the influence of financial ratios on financial distress still needs further testing, especially in the property and real estate sectors in Indonesia (Rissi & Herman, 2021).

Despite extensive research on financial distress, empirical findings regarding the effects of liquidity, profitability, leverage, and operating cash flow remain inconclusive. Previous studies have reported conflicting results, particularly in explaining how these financial indicators influence the likelihood of financial distress across different industries and economic conditions. Such inconsistencies create uncertainty for investors, creditors, and corporate managers in identifying reliable predictors of financial difficulties. This issue becomes increasingly important in the Indonesian property and real estate sector, which is characterized by long project cycles, high capital intensity, and substantial dependence on external financing. Following the COVID-19 pandemic, many firms in this sector experienced weakened financial performance and increasing financial vulnerability, highlighting the need for a more comprehensive examination of the determinants of financial distress. Accordingly, the main research question addressed in this study is: To what extent do liquidity, profitability, leverage, and operating cash flow affect financial distress in property and real estate companies listed on the Indonesia Stock Exchange during the 2020–2024 period? Addressing this question is important because early identification of financial distress determinants can assist stakeholders in evaluating corporate financial health, improving risk management strategies, and preventing potential bankruptcy. Furthermore, this study seeks to provide empirical evidence that helps reconcile inconsistent findings in prior literature while offering insights into financial distress prediction during the post-pandemic recovery period.

This study has novelty compared to previous research because it focuses on the property and real estate sector for the period 2020–2024 which reflects conditions during the crisis and post-COVID-19 pandemic recovery. In addition, this study adds operating cash flow variables as a complement to the analysis of financial ratios to obtain a more comprehensive picture of the company's financial condition (Awwaliyah et al., 2024). This study also uses the Modified Altman Z-Score model which is considered more suitable for the non-manufacturing sector than the classic Altman model (Altman, 2018). The use of this model is expected to be able to provide more accurate financial distress prediction results for property and real estate companies. Thus, this study not only re-examines the influence of financial ratios on financial distress, but also strengthens the literature related to the prediction of financial difficulties in the property sector in Indonesia (Fitri & Dillak, 2020).

The results of this research are expected to make a theoretical and practical contribution. Theoretically, this research is expected to expand the development of accounting and financial management science, especially related to the factors that affect financial distress in the property and real estate sectors. Practically, the results of this study can be a consideration for investors, company management, and regulators in detecting potential financial difficulties early. Information about the company's financial condition can also be used as a basis for investment and corporate policy decision-making (Kasmir, 2019). In addition, this research is expected to help companies in developing more effective financial management strategies to be able to maintain financial stability in the midst of economic uncertainty. Based on this background description, this study aims to examine the influence of liquidity, profitability, leverage, and operating cash flow on financial distress in property and real estate companies listed on the Indonesia Stock Exchange for the 2020–2024 period.

II. Literature Review and Hypothesis Development

2.1. Signaling Theory

Signaling theory explains that companies provide information to external parties as a form of signal about the company's condition. The information aims to reduce the asymmetry of information between management and investors and creditors (Spence, 1973). In the context of the company, financial statements are one of the main media in conveying information about the company's financial condition to external

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parties. Based on signaling theory, information about liquidity, profitability, leverage, and operating cash flow can provide an overview of the company's financial health. Companies with good financial conditions will give positive signals to investors through high profits, the ability to meet short-term liabilities, and the stability of the company's cash flow (Syuhada et al., 2020). On the other hand, companies that experience a decline in financial performance will give a negative signal that can increase investors' concerns about the risk of financial distress.

A practical illustration of signaling theory can be observed in the property and real estate industry. Investors often evaluate a company's financial condition based on information disclosed in annual reports, particularly financial ratios and cash flow performance. For example, property companies that consistently report strong profitability, adequate liquidity, and positive operating cash flows tend to send positive signals regarding their financial stability and future growth prospects. Such signals may increase investor confidence and facilitate access to external financing. Conversely, declining profitability, excessive leverage, or negative operating cash flows can be interpreted as warning signals of potential financial difficulties, causing investors and creditors to reassess the company's risk profile. This issue is particularly relevant in the property sector because project development requires substantial capital investment and involves long operating cycles, making stakeholders highly dependent on financial information when evaluating a company's ability to sustain its operations and meet future obligations. In the property and real estate sectors, signal theory has become relevant because the industry is characterized by long cash cycles and high levels of dependence on external funding. Therefore, financial information disclosure is important so that investors can assess the company's ability to maintain the sustainability of its business (Kristanti & Pancawitri, 2024). Thus, signal theory is used as the grand theory in this study to explain the relationship between liquidity, profitability, leverage, and operating cash flow to financial distress.

2.2. Financial Distress

Financial distress is a condition when a company experiences financial difficulties before entering the bankruptcy stage which is characterized by a decline in the company's ability to fulfill its financial obligations (Wijaya & Suhendah, 2023). This condition is usually shown through a decrease in profits, weak operating cash flows, an increase in the amount of debt, and the company's inability to meet short-term and long-term obligations. Financial distress is one of the important indicators that need to be considered because it can affect the sustainability of the company's business. According to Altman (2018), financial distress can be predicted using the Modified Altman Z-Score model which is considered more suitable for use in non-manufacturing companies, including property and real estate companies. This model uses a combination of multiple financial ratios to measure a company's health level. The lower the company's Z-Score, the more likely it is that the company will experience financial distress.

2.3. Financial Statement Analysis

Financial statement analysis is the process of evaluating a company's financial statements to determine the condition and performance of the company in a certain period (Kasmir, 2019). This analysis is carried out by comparing the components in the financial statements so that the company's health level, profit-generating ability, and ability to meet its obligations can be determined. According to Astuti (2021), financial statements have an important role for internal and external parties in the economic decision-making process. Investors use financial statements to assess a company's investment prospects, while creditors use it to assess a company's ability to pay its debt obligations. In this study, financial statement analysis was used to measure the ratio of liquidity, profitability, leverage, and operating cash flow as variables that affect financial distress. Therefore, financial statements are the main source of information in detecting potential financial difficulties for companies early.

ISSN [Online]: 2776-6780

2.4. Liquidity Ratio

Liquidity ratio is a ratio used to measure a company's ability to meet its short-term obligations using its current assets (Kasmir, 2019). Liquidity is an important indicator because companies with low liquidity levels have the potential to experience difficulties in fulfilling their operational obligations. In this study, the liquidity ratio was proxied using the Current Ratio (CR). The Current Ratio shows the comparison between the current assets and the company's current liabilities. The higher the value of the Current Ratio, the greater the company's ability to pay off its short-term obligations (Brigham & Houston, 2010). Based on signaling theory, the level of a company's liquidity can be a signal to investors regarding the company's ability to maintain financial stability. Companies with a good level of liquidity tend to have greater ability to meet short-term obligations so that the risk of financial distress is lower (Syuhada et al., 2020). However, in the property and real estate sectors, a Current Ratio that is too high can indicate an accumulation of unsold property inventory, potentially increasing the risk of financial distress (Goh, 2023). Research by Novianti (2024) shows that liquidity has a significant positive effect on financial distress. Based on this description, the research hypothesis is formulated as follows:

H1: Liquidity has a positive effect on financial distress in property and real estate companies.

2.5. Profitability Ratio

The profitability ratio is used to measure a company's ability to generate profits from operational activities and the use of company assets (Kasmir, 2019). This ratio reflects the effectiveness of management in managing the company's resources to make a profit. This study uses Return on Assets (ROA) as a profitability proxy. ROA shows the company's ability to generate net profit from the total assets owned by the company. The higher the ROA value, the more effective the company is in utilizing its assets to generate profits. Based on signaling theory, high profitability gives a positive signal to investors regarding the company's future prospects. Companies with good profit-making capabilities tend to have more stable financial conditions so that they are able to reduce the risk of financial distress (Wulandari & Jaeni, 2021). On the other hand, low profitability can increase the risk of financial difficulties due to a company's declining ability to generate profits. Research by Ananda et al. (2022) found that profitability has a significant negative effect on financial distress. Based on this description, the research hypothesis is formulated as follows:

H2: Profitability has a negative effect on finances distress on property and real estate companies.

2.6. Leverage Ratio

The leverage ratio is a ratio used to measure how much debt is used in a company's capital structure (Kasmir, 2019). This ratio shows the level of dependence of the company on external funding in carrying out its operational activities. In this study, leverage was proxied using the Debt to Asset Ratio (DAR). DAR shows the proportion of the company's total assets financed by debt. The higher the value of DAR, the greater the company's financial risk due to high debt and interest payment obligations (Brigham & Houston, 2010). Based on signaling theory, high leverage can be a negative signal for investors because it indicates a company's high dependence on debt. In the property and real estate sector, the use of high debt increases the company's financial risk due to the large interest burden and debt payment obligations (Goh, 2023). If the company is unable to manage its debt effectively, then the risk of financial distress will increase. Research by Runis et al. (2021) shows that leverage has a significant positive effect on financial distress. Based on this description, the research hypothesis is formulated as follows:

H3: Leverage has a positive effect on financial distress in property and real estate companies.

ISSN [Online]: 2776-6780

2.7. Operating Cash Flow

High leverage can be a negative signal for investors because it indicates a company's high dependence on debt. In the property and real estate sector, the use of high debt increases the company's financial risk due to the large interest burden and debt payment obligations (Goh, 2023). If the company is unable to manage its debt effectively, then the risk of financial distress will increase. Research by Runis et al. (2021) shows that leverage has a significant positive effect on financial distress. Based on this description, the research hypothesis is formulated as follows: Based on signaling theory, high operating cash flow provides a positive signal regarding the company's ability to generate cash from its operational activities. In the property and real estate sector, operating cash flow is important because this industry has a long project cycle and requires large funds in its operations. Companies with stable operating cash flows tend to have a lower risk of financial distress than companies with weak operating cash flows. Research by Awwaliyah et al. (2024) shows that operating cash flow has a significant negative effect on financial distress. Based on this description, the research hypothesis is formulated as follows:

H4: Operating cash flow has a negative effect on financial distress on property and real estate companies.

III. Research Method

This study uses a quantitative approach with a descriptive causality method. The quantitative approach is used because the research aims to test the influence of independent variables on dependent variables through statistically processed numerical data (Sugiyono, 2022). The research was conducted on property and real estate companies listed on the Indonesia Stock Exchange for the period 2020–2024. The selection of this period was based on its ability to capture the financial conditions of companies during and after the COVID-19 pandemic, including the economic disruption, recovery process, and changing business dynamics experienced by the property sector. This period provides a relevant context for examining financial distress because property and real estate companies faced significant challenges related to declining demand, project delays, financing constraints, and fluctuations in cash flow. Therefore, the 2020–2024 period is considered appropriate for assessing the determinants of financial distress under conditions of economic uncertainty and post-pandemic recovery. The data used in this study are secondary data in the form of companies' annual financial statements obtained from the official website of the Indonesia Stock Exchange and the official websites of the respective companies.

Population in this study is all companies in the property and real estate sector listed on the Indonesia Stock Exchange for the 2020–2024 period as many as 92 companies. The sampling technique uses purposive sampling, which is a technique of determining samples based on certain criteria according to the research objectives (Sugiyono, 2022). The criteria for the research sample include: (1) property and real estate companies listed on the Indonesia Stock Exchange for the 2020–2024 period, (2) companies that issue complete financial statements during the research period, and (3) companies that have data according to research needs. Based on these criteria, 40 companies were obtained that qualified as research samples with a total of 200 observation data. Dependent variable in this study is financial distress which is measured using the Altman Z-Score Modified model (Altman, 2018). Meanwhile, independent variables consist of liquidity proxied using Current Ratio (CR), profitability proxied using Return on Assets (ROA), leverage proxied using Debt to Asset Ratio (DAR), and operating cash flow measured using Operating Cash Flow Ratio. The use of these variables is based on the ability of financial ratios to describe the company's health condition and detect potential financial distress (Kasmir, 2019).

The data analysis in this study was conducted using IBM SPSS Statistics version 27. The analysis process began with descriptive statistical analysis to provide an overview of the characteristics of the research variables, including liquidity, profitability, leverage, operating cash flow, and financial distress. Descriptive statistics were used to present information regarding the minimum value, maximum value, mean, and

standard deviation of each variable, thereby facilitating an understanding of the overall condition of the sample companies during the observation period. Prior to hypothesis testing, several classical assumption tests were performed to ensure the validity and reliability of the regression model. The normality test was conducted to determine whether the residual data were normally distributed. The multicollinearity test was employed to identify potential correlations among the independent variables, while the heteroscedasticity test was used to examine the consistency of residual variance. In addition, the autocorrelation test was performed to assess whether there was a correlation between residual values across observations. These tests are essential to ensure that the regression model satisfies the assumptions required for producing unbiased and efficient estimates (Ghozali, 2021).

After the classical assumptions were fulfilled, multiple linear regression analysis was employed to examine the effect of liquidity, profitability, leverage, and operating cash flow on financial distress. This analytical technique was selected because it enables the simultaneous assessment of the influence of several independent variables on a dependent variable and provides a comprehensive understanding of the relationships among the variables examined. Furthermore, hypothesis testing was carried out using both the F-test and the t-test. The F-test was used to determine whether all independent variables jointly influence financial distress, whereas the t-test was applied to evaluate the individual effect of each independent variable. Finally, the coefficient of determination (Adjusted R^2) was utilized to assess the explanatory power of the regression model in explaining variations in financial distress. Through these analytical procedures, the study provides empirical evidence regarding the determinants of financial distress in property and real estate companies listed on the Indonesia Stock Exchange during the 2020–2024 period.

IV. Results and Discussion

4.1. Analysis Result

a. Description Analysis Result

Tabel 1. Descriptive Analysis Result

	N	Minimum	Maximum	Mean	Std. Deviation
Liquidity	200	.02747	10.68837	2.2396488	1.51609425
Profitability	200	-.10731	.11026	.0184575	.03793449
Leverage	200	.07267	.87961	.3705509	.16774239
Operating Cash Flow	200	-.19519	.15625	.0231018	.04679032
Financial_Distress	200	.42186	16.28636	4.7672728	3.10148458

Based on the results of descriptive statistics, the research variables show various conditions in property and real estate companies for the 2020–2024 period. Liquidity has an average of 2.2396488 which indicates that the company is relatively able to meet its short-term obligations. Profitability has an average of 0.0184575 with fairly high data variations between companies. Leverage shows an average of 0.3705509 which indicates that the use of debt is still within reasonable limits. Operating cash flow has an average of 0.0231018 which shows that the ability to generate operating cash tends to be different in each company. Meanwhile, financial distress has an average of 4.7672728 which shows a difference in the level of financial health between companies in the study sample.

b. Normality Test

Tabel 2. Result Normailty Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		194
Normal Parametersa,b	Mean	0

	Std. Deviation		1
Most Extreme Differences	Absolute		.074
	Positive		.074
	Negative		-.048
Kolmogorov-Smirnov Z			1.028
Asymp. Sig. (2-tailed)			.241
Monte Carlo Sig. (2-tailed)	Sig.		.230c
	99% Confidence Interval	Lower Bound	.219
		Upper Bound	.240

The results of the Kolmogorov-Smirnov test after the removal of the outlier showed a Kolmogorov-Smirnov value of 1.028 with an Asymp value. Sig. (2 tailed) worth 0.241. The Monte Carlo Sig. value (2 tailed) of 0.230 shows that the results of both are consistent, which is greater than the threshold of 0.05.

c. Multicollinearity Test

Tabel 3. Result Multicollinearity Test

Coefficients[a]			
Model		**Collinearity Statistics**	
		Tolerance	**VIF**
1	Liquidity	.929	1.077
	Profitability	.650	1.539
	Leverage	.964	1.037
	Operating Cash Flow	.656	1.524
a. Dependent Variable: Financial_Distress			

Based on the above results, all independent variables have a Tolerance value above 0.10 and VIF below 10. These findings indicate that there is no excessive linear relationship between independent variables in the model used. Thus, the regression model in this study meets the classical assumption of multicollinearity and is suitable for use in subsequent analysis.

d. Heteroscedasticity Test

Tabel 4. Result Heteroscedasticity Test

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.247	.137		9.102	<.001
	Liquidity	.013	.197	.047	.645	.520
	Profitability	-.900	.111	-.059	-.815	.416
	Leverage	.618	.374	.012	.165	.869
	Operating Cash Flow	-.186	.199	-.068	-.935	.351
a. Dependent Variable: Financial_Distress						

Referring to the data processing results in the table above with Financial Distress as a dependent variable, all independent variables in the model show a significance level above the threshold of 0.05. Where, Liquidity has a significance value of 0.520, Profitability of 0.416, Leverage of 0.869, and Operating Cash Flow of 0.351. These values indicate that there is no significant relationship between independent variables and residual absolute values. This means that the regression model used is declared free of heteroscedasticity symptoms, which means that the error variance is constant and the homoscedasticity assumption has been met.

GOLDEN RATIO
ISSN [Online]: 2776-6780

e. Autocorrelation Test

Tabel 5. Result Autocorrelation Test

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.890[a]	.792	.787	.91773	2.128
a. Predictors: (Constant), Arus_Kas_Operasi, Leverage, Likuiditas, Profitabilitas					
b. Dependent Variable: Financial_Distress					

Autocorrelation was addressed by applying the Cochrane-Orcutt method, as cited in Ghozali (2018), which involves adding a lag to the residuals to reduce the error relationship between periods. This step aims to adjust the pattern of error relationships that arise, thereby suppressing the influence of autocorrelation. After adjustment, the Durbin-Watson value was 2.128. This value falls within the interval 1.8072 < 2.128 < 2.1928, or dU < DW < 4-dU, indicating that the model does not contain autocorrelation. Therefore, the regression results after applying the Cochrane-Orcutt method meet the classical assumptions and are suitable for further analysis.

f. Multiple Linear Regression Analysis

Tabel 6. Result Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.257	.324		19.287	<.001
	Liquidity	.614	.070	.339	8.711	<.001
	Profitability	22.133	3.366	.306	6.575	<.001
	Leverage	-9.836	.645	-.583	-15.256	<.001
	Operating Cash Flow	3.735	2.758	.063	1.354	.177
a. Dependent Variable: Financial_Distress						

Based on the results of the panel data regression analysis, a constant value of 6.257 was obtained, which shows that when all independent variables are assumed to be constant, the value of financial distress is estimated at 6.257. The liquidity variable proxied using the Current Ratio (CR) has a coefficient of 0.614 with a calculated t-value of 8.711 and a significance below 0.001, thus showing a positive and significant influence on financial distress. The profitability variable measured using Return on Assets (ROA) obtained a coefficient of 22.133 with a t-value of 6.575 and a significance of less than 0.001, which means that profitability has a positive and significant effect on financial distress. Meanwhile, the leverage proxied through the Debt to Assets Ratio (DAR) has a coefficient of −9.836 with a t-value of −15.256 and a significance below 0.001, thus showing a negative and significant influence on financial distress. On the other hand, operating cash flow measured using Operating Cash Flow to Total Assets (OCF/TA) obtained a coefficient of 3.735 with a t-value of 1.354 and a significance of 0.177, thus showing not significant effect on financial distress.

g. Hypothesis Test Result (F-Test)

Tabel 7. Result F Test

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	884.311	4	221.078	130.321	<.001[b]
	Residual	320.622	189	1.696		
	Total	1204.933	193			
a. Dependent Variable: Financial_Distress						

GOLDEN RATIO
ISSN [Online]: 2776-6780

Based on the results of data processing in the table above, an F value of 130.321 was obtained with a significance level of < 0.001. This significance value is below the limit of α = 0.05, so H_0 is subjected. Thus, it can be concluded that liquidity (CR), profitability (ROA), leverage (DAR), and operating cash flow (OCF/TA) simultaneously had a significant effect on financial distress in property and real estate sector companies listed on the Indonesia Stock Exchange during the observation period.

h. Hypothesis Test Result (t-Test)

Tabel 8. Result t Test

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.257	.324		19.287	<.001
	Liquidity	.614	.070	.339	8.711	<.001
	Profitability	22.133	3.366	.306	6.575	<.001
	Leverage	-9.836	.645	-.583	-15.256	<.001
	Operating Cash Flow	3.735	2.758	.063	1.354	.177
a. Dependent Variable: Financial_Distress						

Based on the results of the partial test (t-test), the liquidity variable proxied using the Current Ratio (CR) obtained a calculated t-value of 8.711 with a significance of < 0.001 and a regression coefficient of 0.614, so that liquidity has a positive and significant effect on financial distress. The profitability variable proxied using Return on Assets (ROA) obtained a t-value of 6.575 with a significance of < 0.001 and a regression coefficient of 22.133, so that profitability had a positive and significant effect on financial distress. Meanwhile, the leverage proxied using the Debt to Assets Ratio (DAR) obtained a calculated t-value of −15.256 with a significance of < 0.001 and a regression coefficient of −9.836, so that leverage had a negative and significant effect on financial distress. On the other hand, the operating cash flow variable proxied using Operating Cash Flow to Total Assets (OCF/TA) obtained a t-calculated value of 1.354 with a significance of 0.177 and a regression coefficient of 3.735, so that operating cash flow did not have a significant effect on financial distress.

i. Results of the Coefficient of Determination

Tabel 9. Result Coefficient of Determination

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.857[a]	.734	.728	1.30246422
a. Predictors: (Constant), Arus_Kas_Operasi, Leverage, Likuiditas, Profitabilitas				
b. Dependent Variable: Financial_Distress				

Based on the estimated results displayed in the table, the Adjusted R^2 value was recorded at 0.728 or 72.8%. This figure shows that the combination of liquidity (CR), profitability (ROA), leverage (DAR), and operating cash flow (OCF/TA) variables is simultaneously able to explain the variation in financial distress conditions measured using the Modified Z-Score Altman of 72.8% in companies in the real estate property sector. Meanwhile, the remaining 27.2% were influenced by other factors outside the model that were not covered in the analysis. The Adjusted R^2 value that is close to 1 indicates that the regression model built has a strong and adequate explanatory power in estimating financial distress conditions based on the four predictors used.

ISSN [Online]: 2776-6780

4.2. Discussion

a. The Effect of Liquidity on Financial Distress

Based on the results of the hypothesis test, the liquidity variable proxied using the Current Ratio (CR) showed a positive and significant effect on financial distress in property and real estate companies for the 2020–2024 period. These results show that the higher the company's liquidity level, the potential for financial distress also increases. This condition indicates that the high current assets of property companies do not necessarily reflect healthy financial conditions. In the property and real estate sector, most of the company's current assets are in the form of property inventory and projects under construction that take a relatively long time to convert into cash. As a result, even though the company has a high Current Ratio value, the company still experiences limited liquidity in meeting its short-term obligations. This condition can increase the risk of financial distress because companies have difficulty maintaining operational cash flow stability (Goh, 2023).

The results of this study are in line with the signal theory that states that a company's financial information can be a signal for investors about the company's condition. High liquidity in property companies does not always give a positive signal if the current assets owned are less productive or difficult to disburse into cash. Therefore, investors pay attention not only to the size of the current assets, but also to the quality of the company's current assets. The results of this study are in line with the research of Novianti (2024) which states that liquidity has a significant positive effect on financial distress. However, the results of this study are different from the research of Bukhori et al. (2022) which found that liquidity has a negative effect on financial distress. These differences in results show that the influence of liquidity on financial distress can be influenced by industry characteristics and the company's economic conditions.

b. The Effect of Profitability on Financial Distress

Based on the results of the hypothesis test, profitability proxied using Return on Assets (ROA) shows had a positive and significant effect financial distress in property and real estate companies for the 2020–2024 period. Empirically, these findings demonstrate the specific characteristics of the property industry, where increasing Return on Assets (ROA) does not automatically reduce the risk of financial distress. This phenomenon is closely related to the fundamental nature of the property sector, with its long-term investment cycles, high construction costs, and slow project sales realization. High accounting profits are not always accompanied by proportional cash flows because revenue recognition is highly dependent on project completion, which fluctuates between periods. More importantly, companies with high ROA are often in the expansion phase of large projects, requiring significant external funding, resulting in increased debt burdens and operating costs (Goh, 2023: 89). Accrual-based profitability in this sector has the potential to provide an unrepresentative picture without adequate cash liquidity support. Ultimately, financial statements appear healthy, but the risk of financial distress remains strong (Maulana & Kristanti, 2025).

These findings can be explained through Signaling Theory. This theory posits that financial information, including profitability indicators, serves as a signal from management to external parties to reduce information asymmetry. Theoretically, a high ROA reflects the company's efficient use of assets and its ability to generate profits, which should lower perceived risk and increase investor confidence (Kristanti & Pancawitri, 2024). The results of this study align with those of Maulana & Kristanti (2025), who confirmed that profitability has a positive and significant effect on financial distress. High profitability does not always reflect strong financial health, especially when operating costs and debt burdens increase. This condition strengthens the argument that in highly capital-intensive industries with long operating cycles, profit growth without the support of healthy cash flow actually exacerbates financial stress. In the real estate property sector, this dynamic is even more pronounced because the study period, from the pandemic phase to the economic recovery from 2020 to 2024, was marked by rising construction costs, slowing unit sales, and increased reliance on external funding, creating multiple layers of pressure (Kasmir, 2019). This means that the relationship between profitability and financial distress is contextual and cannot be explained linearly. This

study contributes to the literature on financial distress in the real estate property sector in Indonesia, while emphasizing the importance of balancing profit growth, cash flow management, and a measured capital structure as key to business sustainability.

c. The Effect of Leverage on Financial Distress

Based on the results of the hypothesis test, the leverage proxied using the Debt to Asset Ratio (DAR) shows a negative and significant effect on financial distress in property and real estate companies for the 2020–2024 period. These findings indicate the unique characteristics and specifics of the property industry, where an increase in the Debt-to-Asset Ratio (DAR) is accompanied by a decrease in the risk of financial distress. This phenomenon is closely related to the industry's structure, which relies heavily on external funding as the primary source of project financing (Brigham & Houston, 2010).

Theoretically, this finding can be explained through Signaling Theory. According to this theory, the level of leverage in financial statements serves as a signal to investors, creditors, and stakeholders regarding the company's capital structure and financing policies. Generally, a high DAR is often interpreted as a negative signal because it reflects a reliance on debt and increased financial risk. However, in the context of the real estate property sector, this interpretation must be tailored to the industry's characteristics and cannot be simply generalized. Debt used to finance projects with clear market prospects and high sales value actually signals a positive market signal. This signals management's confidence in the business's prospects and earns the trust of financial institutions in providing external funding. The results of this study also align with several previous studies that noted a negative relationship between leverage and financial distress. Maulana & Kristanti (2025) demonstrated that leverage significantly negatively impacts financial distress in the transportation and logistics sector, explaining that high debt usage can actually reduce the risk of distress if allocated to asset expansion and increased profitability. Wijaya & Suhendah (2023) also demonstrated that debt-based financing, in the consumer cyclical sector, still provides strategic benefits when managed productively and effectively.

d. The Effect of Operating Cash Flow on Financial Distress

Based on the results of the hypothesis test, operating cash flow shows did not have a significant effect on financial distress in property and real estate companies for the 2020–2024 period. This phenomenon is relevant when linked to the operational characteristics of the property sector, which has a long and uneven cash cycle. Unlike the manufacturing or retail sectors, which experience relatively rapid and stable cash inflows, property companies face a significant time lag between project development expenditures and cash receipts from unit sales, which are generally only realized after the project is completed and handed over. (Hery, 2015).

According to Signaling Theory, operating cash flow can essentially be an indicator of a company's capacity to generate cash from core activities. Published financial information serves to minimize or reduce information asymmetries between management and external parties, enabling investors and creditors to make more rational decisions (Guest et al., 2021). Theoretically, positive and stable operating cash flow should be a strong signal of business continuity and negatively correlate with financial distress (Syuhada et al., 2020). However, in the property and real estate sector, the signal quality from OCF/TA is distorted due to inconsistent revenue patterns across periods. During the intensive construction phase, operating cash flow may appear low or negative not due to financial pressure, but rather because cash revenues have not yet been realized. The research findings are consistent with several previous studies that showed the insignificant effect of operating cash flow on financial distress. Ananda et al. (2022) concluded that in the real estate property subsector, operating cash flow does not contribute significantly to explaining financial distress, as the complexity of the information contained within it cannot be represented partially.

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V. Conclusion

The findings indicate that liquidity and profitability have a positive and significant effect on financial distress, while leverage has a negative and significant effect on financial distress. Meanwhile, operating cash flow does not have a significant effect on financial distress. These results suggest that higher liquidity and profitability are associated with changes in the financial distress condition of property and real estate companies. In addition, leverage is found to have a significant inverse relationship with financial distress, indicating that variations in debt utilization may influence the financial condition of firms differently within the property and real estate sector. On the other hand, operating cash flow is not a determining factor in explaining financial distress among the sampled companies. This study contributes to the financial distress literature by providing empirical evidence from property and real estate companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The findings enrich the existing literature regarding the role of internal financial factors in explaining financial distress and provide additional evidence from an industry characterized by high capital intensity and long project cycles.

Furthermore, the study offers insights into the application of the Modified Altman Z-Score model in assessing financial distress risk within the Indonesian property and real estate sector. For investors, the findings highlight the importance of evaluating a company's overall financial performance before making investment decisions. Financial ratios should not be assessed individually but rather in a comprehensive manner to obtain a more accurate understanding of a firm's financial condition and potential financial distress risk. Investors are encouraged to pay particular attention to liquidity, profitability, and leverage indicators when assessing the financial sustainability of property and real estate companies. For company management, maintaining sound financial performance remains essential to strengthening financial resilience and minimizing the likelihood of financial distress. Management should focus on improving the effectiveness of asset utilization, optimizing profitability, and implementing prudent financing policies to maintain a balanced capital structure. In addition, effective cash flow management should continue to be maintained to support operational activities and long-term business sustainability. Future research is recommended to expand the observation period, include companies from different industrial sectors, and incorporate additional variables such as corporate governance, firm size, sales growth, ownership structure, and macroeconomic indicators. These additions may provide a more comprehensive understanding of the determinants of financial distress and enhance the explanatory power of future research models.

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