ABSTRACT

The alarming decline of Indonesia's economy and the possibility of a financial crisis have resulted in the need for policies to prevent greater economic losses. A proper analysis of the company's condition and performance is needed by analyzing financial statements to create a high-accuracy financial distress prediction model. However, until now there has been no accurate and appropriate prediction of company conditions in Indonesia. Therefore, this study aims to create a prediction model through financial ratio analysis.

The variables used in this study are financial distress as the dependent variable and 20 financial ratios as independent variables. The number of samples in this study were 2593 samples obtained from 660 non-financial companies listed on the Indonesia Stock Exchange during the period 2015-2023. The data used in this study is secondary data selected using purposive sampling method, which is taken through Bloomberg Terminal using equity screening function (EQS) and the company's annual report. The analysis technique used to test the hypothesis or make a prediction model is probit regression using the SPSS For Windows Version 26.0 application, namely by processing descriptive analysis data, and probit regression analysis.

The results showed that there are eight financial ratios that significantly affect financial distress and are formed into a prediction model, namely return on assets, working capital to total assets, quick ratio, cash to total assets, debt to total assets ratio, inventory to sales, retained earnings to total assets, net income for the last two years (dummy variable), comparison of total liabilities and total assets (dummy variable) and earnings before interest and taxes to total assets with a cut-off value of -1,32711. The resulting model shows an accuracy level of 93% of the number of observations that have been classified.

Keywords: financial distress, financial ratios, prediction model, probit regression