

ABSTRACT

This research aims to test the effect of financial ratios to financial distress at a manufacturing company listed on Indonesia Stock Exchange (IDX) in period 2008-2013. This research is a replication with modification of the research Baimwera and Muriuki (2014) which proposed that only growth and profitability ratio that affect financial distress. Researcher employed six independent variables that could be expected to affect the occurrence of financial distress. The sixth variables are the Earnings Before Interest and Tax (EBITTA), Working Capital to Total Assets (WCTA), Market Value of Equity to Book Value of Total Liability (MVTL), Retained Earnings to Total Assets (RETA), Sales to Total Assets (SATA), and Cash Flows from Operating to Total Assets (CFOTA). Data were tested at one year and two years prior to the occurrence of financial distress.

The data used in this research are secondary data which obtained from the Indonesian Capital Market Directory (ICMD). Probability sampling method is used to select the sample of firms that have the status of financial distress. Simple random is used to select the firm which has the negative Earning per Share (EPS) for two consecutive years in 2010 and 2013. The criteria produces 66 companies as research samples, divided into 33 companies with financial distress, 33 companies of non financial distress, and 599 total observations.

The results showed that only the ratio of “Earnings Before Interest and Tax to Total Asset” (EBITTA) that affect both financial distress on one or two years before financial distress. The results of data analysis using logistic regression yield prediction accuracy of 69.4% on the year before financial distress and 54.2% in the two years before the financial distress.

Keyword: Financial Distress, financial ratios, earning per share, logistic regression