# The Effect of Cash Flow and Liquidity on Financial Distress (Case Study on the Property and Real Estate Sub-sector Companies Enlisted on Indonesia Stock Exchange Period 2011-2015)

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***ABSTRACT***

*This research was conducted in companies property and real estate sub sector listed on Indonesian Stock Exchange in the period 2011-2015. The phenomenon that occurs is in some companies property and real estate sub sector has experienced financial distress when the company has a cash flow and liquidity are good. This research was purpose to find out how much influence cash flow and liquidity effect to financial distress.*

*The method used in this research is descriptive method verification with quantitative approach. The sampling method in this study using nonprobability sampling with purposive sampling approach. The unit of analysis in this research is 105 the company's annual financial report taken in 2011 - 2015. The data were analyzed using multiple linear regression. Testing the hypothesis in this study using the statistical t-test statistic with SPSS 16.0 for Windows.*

*Results from this study showed that the cash flow significantly influence to financial distress in companies property and real estate sub sector listed on Indonesian Stock Exchange. As well as The results of this study also showed that a liquidity significantly influence financial distress in property and real estate sub sector listed on Indonesian Stock Exchange.*

***Keywords: cash flow, liquidity, financial distress.***

## I. INTRODUCTION

### 1.1 Background to the Study

In recent years, financial condition in Indonesia get rippled. In 1997, Indonesia experienced monetary crisis (Dwijayanti, 2010: 191). Investors trust began to decline and a number of companies were experiencing financial distress (Dwijayanti, 2010:191).

*Financial distress is a condition where a company cannot meet or has difficulty paying off its financial obligations to its creditors, it happens before bankruptcy and after it has experienced loss in years of business (Hapsari, 2012: 104). Bankruptcy prediction model is an anticipation model to prevent financial distress because it can identify and fix the condition before it went critical or bankrupt (Hapsari, 2012: 105).*

*Company performance can be discovered from it financial statement and it can be basic determinant for owner, managers, and investors. Financial ratio analysis is one of methods to analyze financial statement so it can draw a conclusion of company financial condition (Subramanyam and Wild, 2010: 41). So, financial ratio is beneficial for predicting bankruptcy for one to five year before it really happened (Subramanyam and Wild, 2010:42).*

Liquidity ratio is the ability of an entity to meet current liabilities the company by assets leveraging (Triwahyuningtias, 2012). Liquidity is important, so a company need to have assets more than its debt (Ayu, 2015). If a company is having a financial problem, then the company is on illiquid position (Fahmi, 2014: 71).

Financial distress prediction can be analyzed by cash flow, aside of liquidity ratio. FASB also stated that more cash flow in the future, then the stronger a company. In other word, if it

happened otherwise, them the company will be experienced financial distress (Kordestani et al: 2011: 279).

## 1.2 Problem Identification

From the background, there are identified problems as follows:

1. PT Jababeka Tbk (KIJA) had high loss that resulted in financial distress while it has stable income and good measured cash flow.
2. Batavia Air had a bad financial circumstances while the company has ability to meet short-term and long-term obligations and having good measured cash flow.
3. PT Ciputra Development Tbk and PT Sentul City Tbk had financial distress in 2013-2015. *This financial distress caused by cash flow. Cash flow of operation of PT Ciputra Development Tbk and PT Sentul City Tbk was increased but the company had loss.*
4. Liquidity of PT Ciputra Development Tbk and PT Sentul City Tbk was increased but the company had financial distress in 2013-2015.

## 1.3 Research Question

The research questions are:

1. How much the effect of cash flow on financial distress?
2. How much the effect of liquidity on financial distress?

## 1.4 Purpose and Objective

### 1.4.1 Purpose

The purpose of this research is to discover the effect of cash flow and liquidity to predict financial distress.

### 1.4.2 Objective

The objective of this research are:

1. To discover the effect of cash flow on financial distress
2. To discover the effect of liquidity on financial distress

## 1.5 Usefullness of Research

### 1.5.1 Practical Use

The purpose of this research is to discover financial ratio in predicting financial distress so the company can choose the right policy and improve their financial condition.

### 1.5.2 Academic Use

This research result can be reference for further research of cash flow, liquidity and financial distress.

# II. LITERATURE VIEW, FRAMEWORK OF THEORY, AND HYPOTHESES

## 2.1 Literature Review

### 2.1.1 Cash flow

#### 2.1.1.1 Cash Flow Definition

Cash flow is a statement which giving relevant information about income and outcome in certain period by classifying operational activities, payments, and investations (Sofyan Syafri Harahap, 2015:257). According to Toto Prihadi (2013:99), operational cash flow is a company activity to generate profit by selling goods or services.

#### 2.1.1.2 Cash Flow Indicators

Cash flow indicators is the result of operational activity which can generate profit that can be use to meet obligations, company activity, to pay dividents, and to make new investments without using and external source.

$$\frac{Operating\ Cash\ Flow}{Net\ Sales}$$

Source: Toto Prihadi (2013:112)

Notes:
*Operational Cash Flow : Operational cash flow.*
*Net Sales : Net sales.*

### 2.1.2 Liquidity Ratio

#### 2.1.2.1 Liquidity Ratio Definition

According to (Irham Fahmi,2013:59) liquidity is the ability of a company to meet short-term obligations timely.

#### 2.1.2.2 Liqudity Ratio Indicator

Ratio indicator is measured by current ratio (Fahmi, 2014). Current ratio is common measurement which is used for short-term obligations.

According to Irham Fahmi (2014:70) the formula to find the current ratio is:

$$\text{Current Ratio} = \frac{\text{Aktiva Lancar}}{\text{Utang Lancar}} \text{x} 100\%$$

Source: Irham Fahmi (2014:70)

### 2.1.3 *Financial distress*

#### 2.1.3.1 Financial Distress Definition

According to Dermawan (2015:584), financial distress is a situation when operational cash flow is insufficient to meet obligations. According to Fahmi (2014: 93), financial distress is phase of decreasing financial condition before bankruptcy.

#### 2.1.3.2 Financial Distress Indicator

According to Smith, Wright & Huo by Lindrianasari (2010:22), Times Interest Earned Measure or Interest Coverage Ratio can be used for classifying companies that have financial problem. Jhon (2013:171) stated that coverage ratio is company abliity to pay interest measurement tool.

Interest Coverage Ratio Formula is as follows:

$$\textit{Interest Coverage Ratio} = \frac{Earning\ Before\ Tax\ (EBT)}{Interest\ Expense}$$

Source: Irham Fahmi (2014:94)

Notes:
*Earning Before Tax (EBT)* : *Earning Before Tax.*
*Interest Expense* : Interest expense on current period which shows outcome on financial statement.

## 2.2 Framework Of Theory

### 2.2.1 The Effect of Cash Flow on Financial Distress

According to Martani (2012:145),

If a company's cash flow is low, then creditor will lose their interest in credit. If this condition happen again and again, creditor will not be convinced to the company because it has financial distress.

Radiansyah (2013) show that operational cash flow has effect on predicting financial distress. Wahyuningtyas (2010) stated that the higher ratio calculated from the cash flow statement, the lower the probability of failure or financial distress.

### 2.2.2 The Effect of Liquidity Ratio on Financial Distress

According to Syafri (2015:301), liquidity is company's ability to meet short-term obligations. If a company can meet their short-term obligation, then the potency of financial distress is low.

Qaiser and Abdullah (2015) show that liquidity that use Current Ratio show company's ability to meet current liabilities.

## 2.3 Hypothesis

Based on the framework of theory described above, the author draw hypothesis of this research:

H1: Cash Flow affects Financial Distress.
H2: Liquidity affects Financial Distress.

# III. RESEARCH METHOD

## 3.1 Used Research Method

The research method used in this research is descriptive method and verificative method with quantitative approach. The result of research then processed and analyzed to draw conclusion. The research analyze the numerical data (number) by using research method which reveal significant relationship between the variables studied, resulting in a conclusion that will clarify the object of the study..

In this research, the object of research are cash flow, liquidity and *financial distress* on Property Company and *Real Estate* Sub Sector Company enlisted in Indonesia Stock Exchange period 2011-2015. The unit of analysis of this study is the Indonesia Stock Exchange.

## 3.2 Variable Operationalization

According to Sugiyono (2014, p.58), the operational variable is everything defined by the researcher to be studied so that the retrieved information about it, then conclude.

To analyze the effect of cash flow and liquidity to *financial distress*, the operationalization of variables is required to understand the relationship between each variable. Cash flow ($X_1$) is independent variable for *financial distress* (Y). Liquidity ratio ($X_2$) is independent variable for *financial distress* (Y). So the variables of this study are:

- Cash flow ($X_1$)
- Liquidity ($X_2$)
- *Financial distress (Y).*

## 3.3 Data Source

This study used secondary data obtained indirectly or through intermediaries. The data used are annual financial statements of Property and *Real Estate* Sub Sector Companies enlisted on Indonesia Stock Exchange period 2011-2015 period. It categorized as quantitative data. Using secondary data the researcher obtained data or related information about cash flow, liquidity and *financial distress*. The data is obtained from the Indonesia Stock Exchange.

## 3.1 Data Collection Method

According to Sugiyono (2012: 62) data collection techniques is the most important phase in a study, because the main purpose of research is to get data.

The data collection techniques used in this study are:

1. Library Research
2. Field Studies.

### 3.4 Population, Sample, and Place and Date of Research

#### 3.4.1. Population

According to Sugiyono (2010: 80), the population is the generalization of the object or the subject, which have certain qualities and characteristics set by the researchers studied and then conclude. Based on the description, the population used by the researcher are 235 financial statements of Property and *Real Estate* Sub Sector Company enlisted in Indonesia Stock Exchange.

#### 3.4.2. Sample

#### 3.4.2.1 Sampling Technique

According Sugiyono (2012: 81), sample is

"Part of the number and characteristics possessed by population. If population is large and researcher are unlikely to study the population (for example due to limited funds, manpower and time), researcher can use sample taken from that population. "

The sampling technique used in this research is by using *nonprobability sampling*. *Nonprobability sampling* technique used by researcher in this research that is by using *purposive sampling*. Sugiyono (2012: 85) explained that *purposive sampling* is a sample determination technique with certain considerations.

Sample researched by researcher are Annual Financial Reports of Property and *Real Estate* Companies enlisted in Indonesia Stock Exchange during period of 5 years from 2011-2015 from 21 companies. So the amount of sample are 105 (5 x 21) annual financial statements. Criteria of sampling:

1. Financial Statements of Property and Real Estate Sub Sectors Companies researched are listed on the Indonesia Stock Exchange consistently from 2011-2015.
2. Financial Statements of Property and Real Estate Sub Sectors Companie which earned profit down for 2 consecutive years.
3. Financial Statements of Property and Real Estate Sub Sectors Companie which has *current ratio* rose for 2 consecutive years.

#### 3.4.3. Place and Time of Research

The data ofresearch entitled "The Effect of Cash Flow and Liquidity on*Financial Distress*" are financial reports. The research location is in Indonesia Stock Exchange Bandung Regional Office on Jl. PH. H. Mustofa No.33, Neglasari, Cibeunying Kaler, Bandung City, West Java 40124 Tel. (022) 20524208. The time of the research began in January 2017 until August 2017.

### 3.5 Data Collection Method

According to Sugiyono (2012: 62) data collection techniques is the most important phase in a study, because the main purpose of research is to get data.

The data collection techniques used in this study are:

1. Library Research
2. Field Studies.

### 3.6 Data Testing Method

#### A. Classic Assumption Test

According to Imam Ghozali (2011: 57), classical assumption test used to get good regression model, away from data deviation consisting of normality test, multicolinearity test, heteroscedasticity test and autocorrelation test. The results obtained is a regression equation that has properties Best Linear Unbiased Estimator (BLUE).

The classical assumptions of regression that must be met first before using multiple linear regression analysis as instrument to analyze the influence of variables studied consist are:

**1. Normality Test**

According to Imam Ghozali (2011: 160), normality test aims to test whether in the regression model, the dependent variable and the independent variable both have a

normal distribution or near normal. Basic decision-making can be done based on probability (*Asymtotic Significance*), which are:

a. If the probability is >0.05 then the distribution of the population is normal.
b. If the probability is <0.05 then the population is not normally distributed.

Visual test can also be done with normal Probability Plots image method in SPSS program. With the following basic decision-making:

a. If the data spread around the diagonal line and follows the direction of the diagonal line, it can be concluded that the regression model meets the assumption of normality.
b. If the data spreads afar from the diagonal line and does not follow the direction of the diagonal line, it can be concluded that the regression model does not meet the assumption of normality.

**2. Test Heteroscedasticity**

According to Imam Ghozali (2011: 139), basic analysis to determine whether or not heteroskedastisitas with scatterplot namely:

a. If there are certain patterns, such as dots that form a certain pattern, which is regular (wavy, widened, then narrowed), then indicates there is heteroscedasticity.
b. If there is no clear pattern, and the points spread above and below the zero on the Y axis, there is no heteroscedasticit.

**3. Multicolinearity Test**

According to Imam Ghozali (2011: 110), multicollonearity test aims to test whether the regression model found a correlation between independent variable. A good regression model should not be correlated among independent variables. If independent variables are mutually correlated, then these variables are not orthogonal. The orthogonal variable is an independent variable whose correlation value among the independent variables equals zero.

**4. Autocorrelation Test**

A good regression equation is one that has no autocorrelation problem, if there is an autocorrelation then the equation is not good or not feasible to use prediction. Measurement in determining whether or not there is an autocorrelation problem is by using the Durbin-Watson test (DW) under the following conditions:

- There is a positive autocorrelation, if the DW value is below -2 (DW <-2)
- No autocorrelation occurs, if the DW value is between -2 and 2 or -2 <DW < 2
- There is a negative autocorrelation, if the DW value is above 2 or DW> 2

**B. Statistic analysis**

**1. Multiple Regression Analysis**

Multiple linear regression analysis used by researcher with intention to know the relation of cash flow and liquidity to *financial distress*. Then Sugiyono (2012: 261) explained the form of equations of multiple linear regression is as follows:

$$Y = \alpha \quad \beta_1 X_1 \quad \beta_2 X_2 \quad \varepsilon$$

Source: Sugiyono (2012: 261)

Notes:

Y = dependent variable Y (*Financial Distress*)
a = number constant
$b_1$, $b_2$ = line direction coefficient
$X_1$ = free variable $X_1$ (Cash Flow)
$X_2$ = free variable $X_2$ (Liquidity)
e = residual variable (error rate)

**2. Analysis** of **Correlation Coefficient**

According to Sujana in Umi Narimawati (2011: 49), correlation testing used to determine whether or not the relationship between variables x and y, using Pearson correlation coefficient approach with the formula:

$$r = \frac{n \sum XY - (\sum X)(\sum Y)}{\sqrt{\{n \sum X^2 - (\sum X^2)\}\{n \sum Y^2 - (\sum Y)^2\}}}$$

Source: Jonathan Sarwono (2011: 89)

The magnitude of the correlation coefficient is $-1 \leq r \leq 1$:

a. If (-) there is a negative relationship.
b. If (+) means there is a positive relationship.

Interpretation of correlation coefficient values:

a. If r = -1 or close to -1, then the relationship between the two variables is strong and has the opposite relationship (if X goes up then Y goes down or vice versa).
b. If r = 1 or close to 1, then a strong relationship between the variables X and Y and the relationship is unidirectional.

**3. Analysis of Coefficient of Determination**

According to Imam Ghozali (2011: 97), the coefficient of determination ($R_2$) is a measurement instrument to measure the ability of the model in explaining the variation of the dependent variable and the coefficient of determination is between 0 to 1. If the larger $R^2$ (close to 1), the better the result for the regression model and the closer to 0 then the independent variable cannot explain the dependent variable.

$$Kd = r^2 \times 100\%$$

Source: Umi Narimawati (2010: 50)

Notes:

Kd = Determination Coefficient
$r^2$ = Correlation Coefficient

## IV. RESULT AND DISCUSSION

### 4.1 Research Results

#### 4.1.1 Descriptive Analysis Results

##### 4.1.1.1 Description of Cash Flow

The highest operating cash flow value of 2,298 obtained by Pikko Land Development Tbk (RODA) in 2012. While for the lowest operating cash flow value of -1.538 obtained Goa Makassar Tourism Development Tbk (GMTD) in 2013. Then the average ROA of property and real estate subsector companies enlisted on the Indonesia Stock Exchange during 2011-2015 is 0.3086.

##### 4.1.1.2 Description of Liquidity

The highest Current Ratio (CR) value of 9.07 was obtained by Sentul City Tbk (BKSL) in 2011. As for the lowest CR value of 0.24 obtained Vivatex Wheel Tbk (RDTX) in 2013. Then the average CR of property and real estate subsector companies enlisted on the Indonesia Stock Exchange during 2011-2015 is 2,118.

#### 4.1.1.3 Description of *Financial Distress*

The highest ICR value was 1151,84 obtained by Jaya Real Property Tbk (JRPT) (GIIA) in 2012. As for the lowest ICR value of -97.69 obtained Bekasi Fajar Industrial Tbk (BEST) in 2014. Then the average ICR of property and real estate subsector companies enlisted on the Indonesia Stock Exchange during 2011-2015 is 73.008.

### 4.1.2 Results of Verificative Analysis

#### 4.1.2.1 Classic Assumption Test

Before begin the hypothesis testing using multiple linear regression analysis, there are several assumptions that must be fulfilled in order so the conclusion of the regression is not biased, such as normality test, multicolinearity test, heteroscedasticity test and autocorrelation test. To strengthen the result of regression obtained by testing the classical assumption of regression, the results obtained are as follows:

1. **Normality Test Result**
   The probability value seen from the Asymp Sig. value is 0.106 and the value is greater than 0.05, then it is in accordance with the test criteria, so it can be concluded that the residual in the regression model is normally distributed, so that the model has fulfilled one of the requirements for regression testing.
2. **Multicollinearity Test Result**
   Based on the VIF values obtained there is no strong correlation between the free variables. It can be seen from the scale of *tolerance* (α) and *variance inflation factor* (VIF) if using alpha / tolerance = 10% or 0.10 then VIF = 10. From result of VIF output count from both variables is 1,583, smaller than 10 and all free variable *tolerance* has value of 0,632 = 63,2% bigger than 10%, hence can be concluded there is no multicollinearity between variable of cash flow and liquidity.
3. **Heteroscedasticity Test Results**
   In the scatterplot*chart*, it can be seen that the points spread randomly and spread both above and below 0 on the Y axis. It can be concluded that there is no heteroscedasticity in the regression model, so that the regression model is feasible to predict *financial distress* based on independent variable of cash flow and liquidity.
4. **Autocorrelation Test Results**
   Obtained Durbin-Watson (DW) statistic value = 1.983, greater than -2. The DW value of the static output is 1.983, between -2 and 2, or -2 <1,983 < 2, then it can be concluded that there is no autocorrelation in the regression equation.

#### 4.1.2.2 Multilinear Regression Analysis

The result of the obtained regression coefficient can be written in the form of equation which describes the relationship of X and Y data used are as follows:

$Y = 1{,}314 \quad 24{,}446\ X_1 \quad 7{,}210\ X_2$

Notes:

Y = Financial distress

$X_1$ = Cash Flow

$X_2$ = Liquidity

#### 4.1.2.3 The Effect of Cash Flow on Financial Distress

**a. Correlation Analysis of Cash Flow on *Financial Distress***

Relationship between Cash Flow and *Financial Distress* when Liquidity is unchanged is 0.511, meaning that Cash Flow has moderate relationship with *Financial Distress*. This can be seen from the correlation value is between 0.40 to 0.599 which categorized as moderate. Positive relationship means, every increase of operating Cash Flow Ratio then it will increase *Interest Coverage Ratio* and vice versa. When the Ratio of Operating Cash Flow is higher then it will minimize the possibility of *Financial Distress,* because if the Cash Flow Ratio of Operation is higher, *Interest Coverage Ratio* will also be higher and the possibility of *Financial Distress* will decrease.

**b. Determination Analysis of Cash Flow on *Financial Distress***

The coefficient of determination (Kd) shows the effect of cash flow to *financial distress* obtained by using the following formula:

$Kd = (0.511)^2 \times 100\%$

$= 26.11\%$

Based on the calculation, it is seen that the effect of Cash Flow variable to *Financial Distress* is 26.11%, while the rest of 73.89% is the influence given by other factors not examined in this study such as efficiency ratio, profitability ratio , growth ratio, market ratio and other factors beyond financial ratios such as economic conditions (economic growth, unemployment rate, inflation and others).

**c. Partial Hypothesis Test (Test t) Cash Flow on *Financial Distress***

From *SPSS output* at table 4.9 obtained value for Cash Flow (X1) as measured by Operational Cash Flow Ratio of 3,031. With a significant level (α) of 5%, and degrees of freedom (df) = 102, then the value obtained t table is 1.986. So it can be concluded t count> t table (3,031> 1,986) and it can be concluded that H0 is rejected and H1 is accepted. This result is also indicated by the significance value of the statistical test for the Cash Flow variable of 0.003, meaning the error to say there is an effect on *Financial Distress* is only 0.3% or means less than the acceptable error rate of 5% so it can be decided to reject H0. Cash Flow affects Financial Distress Conclusion.

#### 4.1.2.4 The Effect of Liquidity Ratio on Financial Distress

**a. Correlation Analysis of Liquity on *Financial Distress***

Relationship between Liquidity and *Financial Distress* when Cash Flow unchanged is 0.521, meaning that Liquidity has moderate relationship with *Financial Distress*. This can be seen from the correlation value is between 0.40 to 0.599 which categorized as moderate. Positive relationship means, every increase of Current Ratio will increase Interest Coverage Ratio and vice versa. If the Current Ratio is higher then it will minimize the possibility of Financial Distress, because if the Current Ratio is higher, Interest Coverage Ratio will also increasing and the possibility of Financial Distress will decrease.

**b. Determination Analysis of Liquidity on *Financial Distress***

The coefficient of determination (Kd) shows the effect of liquidity to *financial distress* obtained by using the following formula:

Kd = (0.521) 2 x 100%

$= 278.14\%$

Based on the calculation, it is seen that the effect of Liquidity variable to *Financial Distress* is 27,14%, while the rest of 72.86% is the influence given by other factors not examined in this study such as efficiency ratio, profitability ratio , growth ratio, market ratio and other factors beyond financial ratios such as economic conditions (economic growth, unemployment rate, inflation and others).

**c. Partial Hypothesis Test (Test t) Cash Flow on *Financial Distress***

From *SPSS output* in table 4.11 obtained the value of thitung for Liquidity (X2) measured with *Current Ratio* of 3.281. With a significant level (α) of 5%, and degrees of freedom (df) = 102, then the value obtained t table is 1.986. So it can be concluded t count> t table (3,281> 1,986) and it can be concluded that H0 is rejected and H1 is accepted. This result is also indicated by the significance value of the statistical test for the Liquidity variable of 0.001%, meaning the error to say there is an effect on *Financial Distress* is only 0.1% or less than the acceptable error rate of 5% so it can be decided to reject H0. The conclusion is, Liquidity affects Financial Distress Conclusion.

## 4.2 Discussion

### 4.2.1 The Effect of Cash Flow on Financial Distress

Based on the results of research that has been done, the obtained value of correlation between Cash Flow and *Financial Distress* when Liquidity does not change is equal to 0,511. It means Cash Flow has moderate relationship with *Financial Distress*. This can be seen from the

correlation value is between 0.40 to 0.599 which categorized as moderate. Positive relationship means, every increase of operating Cash Flow Ratio then it will increase Interest Coverage Ratio and vice versa.

Then percentage of influence of Cash Flow on *Financial Distress* is 26,11%. From the result, the effect of Cash Flow using the Operational Cash Flow Ratio on *Financial Distress* using indicator *Interest Coverage Ratio* is less dominant. This means that there are other factors of 73.89% that may affect *Financial Distress* such as efficiency ratio, profitability ratio, growth ratio, market ratio and other factors beyond financial ratios such as economic conditions (economic growth, unemployment rate, inflation, other).

These conditions prove and answer the phenomenon of PT Ciputra Development Tbk and PT Sentul City Tbk during the period of 2013-2015 indicated experiencing *Financial Distress* . However, the Cash Flow value measured by Operational Cash Flow Ratio experienced a positive value.

This study also provides empirical evidence that Cash Flow has significant effect on *Financial Distress*. This is in accordance with the results of research conducted by Yulian (2010) and Kordestani *et al*. (2011), which shows Cash Flow has significant effect on *Financial Distress*.

### 4.2.2 The Effect of Liquidity Ratio on Financial Distress

Based on the results of research that has been done, the obtained value of correlation between Liquidity and Financial Distress when Cash Flow does not change is equal to 0,521. It means Liquidity has moderate relationship with Financial Distress. This can be seen from the correlation value is between 0.40 to 0.599 which categorized as moderate. Positive relationship means, every increase of Current Ratio then it will increase Interest Coverage Ratio and vice versa.

Then percentage of influence of Liquidity on *Financial Distress* is 27,14%. From the result, the effect of Liquidity using the Current Ratio indicator on Financial Distress using indicator Interest Coverage Ratio is less dominant. This means that there are other factors of 72,86% that may affect *Financial Distress* such as efficiency ratio, profitability ratio, growth ratio, market ratio and other factors beyond financial ratios such as economic conditions (economic growth, unemployment rate, inflation, etc.).

This condition proves and responds to the phenomenon occurred in PT Ciputra Development Tbk and PT Sentul City Tbk in 2013-2015, which has increasing Liquidity, but the company still shows potential of *financial distress*.

This study also provides empirical evidence that Liquidity has significant effect on *Financial Distress*. This is in accordance with the results of research conducted by Qaiser and Abdullah (2015), Arif and Wahyu (2014), Ayu and Lely (2015), and Atika, et al. (2011), which shows Liquidity has significant effect on *Financial Distress*.

## V. CONCLUSION AND ADVICE

### 5.1. Conclusion

Based on the background, phenomenon, framework of theory, research result and discussion about Cash Flow and Liquidity to *Financial Distress*, then at the end of this research, the author draws the following conclusion:

1. Cash Flow affects Financial Distress. There is moderate positive relationship between the subjects, it means every increase of operating Cash Flow Ratio then it will increase Interest Coverage Ratio and vice versa.
2. Liquidity affects Financial Distress. There is moderate positive relationship between the subjects, it means every increase of Current Ratio then it will increase Interest Coverage Ratio and vice versa.

### 5.2. Advice

Conclusion based on the above, the authors provide advice as follows:

1. Practical Advice

The Property and Real Estate Sub Sectors Companies enlisted on the Indonesia Stock Exchange should increase their assets by increasing cash returns, accounts receivable and

inventory, and is also pressing its obligations by reducing all forms of loans to outside parties in order that the liquidity of the company maintained stability. he Property and Real Estate Sub Sectors Companies enlisted on the Indonesia Stock Exchange should also control over the current influx of funds out of the company by way of observing the balance between the purchase either by credit or cash and expenses either by credit or cash, so that the company's operating cash flow is always good.

Whereas for those investors who are investing or will start a new investment in he Property and Real Estate Sub Sectors Companies enlisted on the Indonesia Stock Exchange, is expected to be more careful in making investment decisions. Investors need to consider cash flow and liquidity of the company in investing capital into companies that could not potentially generate optimal profit.

2. Academic Advice

For the next researcher and accounting science development is expected to add or use other financial variables that are able to predict Financial Distress in this study were considered able to provide research results that more accurate again, as the ratio of efficiency, profitability ratios, the ratio of the growth, the ratio of the market and other financial ratios as well as factors beyond financial ratios such as the economic conditions (economic growth, unemployment, inflation etc.). In addition, for the researchers expected that subsequent data samples taken not only from the Property and Real Estate Sub Sectors Companies enlisted on the Indonesia Stock Exchange, but expanded on the company's other sectors.

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**ATTACHMENT**

**Table 3. 1**
**Variable Operationalization**

| Variable | Concept | Indicator | Scale |
|---|---|---|---|
| **Cash Flow ($X_1$)** | Operating cash flow is operational activity which can generate profit from selling items and services.<br><br>Toto Prihadi (2013:99) | Operating Cash Flow Ratio = $\frac{Operating\ Cash\ Flow}{Net\ Sales}$<br><br>Toto Prihadi (2013:112) | Ratio |
| **Liquidity ($X_2$)** | Liquidity is the ability of a company to meet short-term obligations timely.<br><br>Irham Fahmi (2014:69) | Current Ratio = $\frac{\text{Current Asset}}{\text{Current Liability}} x100\%$<br><br>Irham Fahmi (2014:70) | Ratio |
| **Financial Distress (Y)** | Interest Coverage Ratio is ratio for measuring the ability of company in meet the interest payments so as to avoid bankruptcy.<br><br>John dan James (2013:171) | $\text{Interest Coverage Ratio} = \frac{\text{Earning Before Tax (EBT)}}{\text{Interest Expense}}$<br><br>John and James (2013:171) | Ratio |

**Table 3.5**
**Guidelines for Interpretation of Correlation Coefficients**

| Interval Coefficients | Level of Relationship |
|---|---|
| 0,00 – 0,199 | Very Low |
| 0,20 – 0,399 | Low |
| 0,40 – 0,599 | Medium |
| 0,60 – 0,799 | Strong |
| 0,80 – 1,000 | Very Strong |

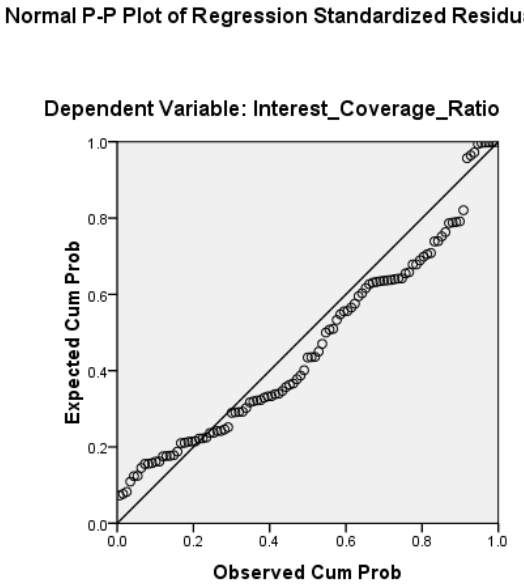
(Source: Sugiyono, 2011:184)

**Table 4.4**
**Kolmogorov-Smirnov Test Results**

**One-Sample Kolmogorov-Smirnov Test**

| | | Unstandardized Residual |
|---|---|---|
| N | | 105 |
| Normal Parameters[a] | Mean | .0000000 |
| | Std. Deviation | .98576214 |
| Most Extreme Differences | Absolute | .118 |
| | Positive | .118 |
| | Negative | -.086 |
| Kolmogorov-Smirnov Z | | 1.212 |
| Asymp. Sig. (2-tailed) | | .106 |

a. Test distribution is Normal.



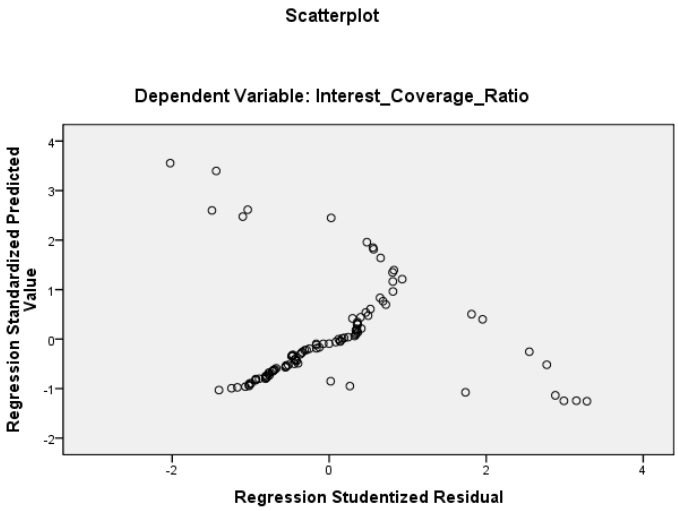

**Picture 4.4**
**Graph of Normality**

**Table 4.5**
**Assaying Result of Multicollinearity Assumption**

**Coefficients[a]**

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | Current_Ratio | .632 | 1.583 |
| | Rasio_Arus_Kas_Operasi | .632 | 1.583 |

a. Dependent Variable: Interest_Coverage_Ratio




**Picture 4.5**
**Scatterplot chart**

**Table 4.6**

**Test Results Autocorrelation Assumptions**

**Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .576[a] | .332 | .319 | 24.4279327 | 1.983 |

a. Predictors: (Constant), Rasio_Arus_Kas_Operasi, Current_Ratio

b. Dependent Variable: Interest_Coverage_Ratio

**Table 4.5**
**Assaying Result of Multicollinearity Assumption**

**Coefficients[a]**

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | Current_Ratio | .632 | 1.583 |
| | Rasio_Arus_Kas_Operasi | .632 | 1.583 |

a. Dependent Variable: Interest_Coverage_Ratio

**Table 4.7**
**Results of Multiple Linear Regression Analysis**

**Coefficients[a]**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| 1 (Constant) | 1.314 | 4.119 | | .319 | .750 |
| Rasio_Arus_Kas_Operasi | 24.446 | 8.066 | .309 | 3.031 | .003 |
| Current_Ratio | 7.210 | 2.198 | .334 | 3.281 | .001 |

a. Dependent Variable: Interest_Coverage_Ratio

**Table 4.8**
**Pearson Correlation Results Cash Flow with Financial Distress**

**Correlations**

| | | Rasio_Arus_Kas_Operasi | Interest_Coverage_Ratio |
|---|---|---|---|
| Rasio_Arus_Kas_Operasi | Pearson Correlation | 1 | .511** |
| | Sig. (2-tailed) | | .000 |
| | N | 105 | 105 |
| Interest_Coverage_Ratio | Pearson Correlation | .511** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 105 | 105 |

**. Correlation is significant at the 0.01 level (2-tailed).

**Table 4.10**
**Results of Pearson Liquidity Correlation with Financial Distress**

**Correlations**

| | | Current_Ratio | Interest_Coverage_Ratio |
|---|---|---|---|
| Current_Ratio | Pearson Correlation | 1 | .521** |
| | Sig. (2-tailed) | | .000 |
| | N | 105 | 105 |
| Interest_Coverage_Ratio | Pearson Correlation | .521** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 105 | 105 |

**. Correlation is significant at the 0.01 level (2-tailed).