

The Role of Profit and Cash Flow in Predicting Financial Distress: Evidence from Food and Beverage Companies Listed on the Indonesia Stock Exchange

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ABSTRACT: In today's highly competitive business environment, companies must strengthen their management to remain competitive. When a company fails to anticipate future developments through effective management, poor decisions can trigger a serious operational crisis and ultimately lead to bankruptcy. Before going bankrupt, a company typically passes through a stage of financial distress: a severe financial crisis marked by persistent losses, a breakdown in funding, and an inability to meet debt obligations. This study examines the role of two key financial indicators, profit and cash flow, in predicting corporate financial distress. The sample consists of food and beverage companies listed on the Indonesia Stock Exchange during 2020–2023. The empirical results show that profit and cash flow differ markedly in their predictive power: profitability has a significant predictive effect on financial distress, whereas the effect of cash flow does not reach statistical significance. These findings provide empirical evidence for the design of early-warning mechanisms for corporate financial risk.

KEYWORDS: Financial Distress, Corporate Profit, Cash Flow, Financial Management, Corporate Bankruptcy, Financial Analysis, Financial Environment

I. INTRODUCTION

Driven by globalization and digitalization, business competition around the world has become increasingly intense. In such a competitive market, companies must continually strengthen their management foundations to maintain an advantage. A company that fails to meet its development targets through better management will inevitably face the risk of business contraction, which may ultimately lead to bankruptcy. The earliest signs of bankruptcy often appear in the form of financial distress. According to Nailufar et al. (2018), financial distress is a broad concept whose typical manifestations include a company's inability to repay its debts on time and liabilities that far exceed its income—conditions that can push a company to the brink of bankruptcy.

Against this background, this study focuses on profit and cash flow ratio analysis and examines its power to predict financial distress. The specific objectives are: (1) to test the role of profit in predicting financial distress; (2) to test the ability of cash flow to provide early warning of financial distress; and (3) to analyze the joint effect of profit and cash flow on financial distress. To this end, the study uses food and beverage companies listed on the Indonesia Stock Exchange (IDX) as its sample.

This study builds on and extends prior research in this field. Although the literature on financial distress is extensive, prediction models built around the combination of profit and cash flow still warrant further investigation. Whereas earlier studies have mostly relied on a wide range of variables, this study focuses on financial statement analysis (the income statement, balance sheet, and cash flow statement) and measures two dimensions—a profit ratio and an operating cash flow ratio—using panel data on IDX-listed food and beverage companies for 2020–2023 to systematically test their power to predict financial distress. The findings offer theoretical support for the early warning of corporate financial risk and practical guidance for the decisions of investors and creditors.

II. LITERATURE REVIEW

In 2007, most countries in the world were affected by the global financial crisis. The crisis began in the United States and then spread to the financial systems of other countries. Europe was among the regions hit hardest, and the crisis had a negative impact on the European economy. The main catalyst was the end of the U.S. housing bubble of 1998–2007: house prices had grown at double-digit rates every two years until August 2007 and then fell sharply the following month. In the euro area, the weakness in GDP and industrial production peaked in the second quarter of 2008. Output fell by 15% in the United States and by 20% in the

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euro area. European countries could not escape the crisis because the United States was their largest export destination. The crisis pushed many companies into financial distress. Financial distress is a condition in which a company's financial position deteriorates before bankruptcy or liquidation (Platt & Platt, 2002). To overcome or minimize the risk of bankruptcy, management must monitor the company's financial condition through financial statement analysis (Ramadhani & Lukviarman, 2009). Financial statement analysis is an important tool for obtaining information about a company's financial condition in order to predict financial distress, and it relies on two main tools: financial ratio analysis and cash flow analysis (Palepu et al., 2004).

Indonesia experienced a monetary crisis in 1997. The crisis began with the depreciation of the rupiah against the U.S. dollar and extended to the liquidation of banks. Investor confidence declined, Indonesian companies faced numerous financial problems, and many fell into financial distress. More recently, financial distress among Indonesian listed companies emerged with the rise in oil prices in 2005 and the subprime mortgage crisis in 2008 (Pranowo et al., 2010). In 2005, the Indonesian government reduced its subsidies on domestic fuel prices, which raised production costs and ultimately reduced corporate profitability. Many companies listed on the IDX were delisted because of severe losses and cash shortages. The same phenomenon occurred in 2008, when the global financial crisis swept across the world and business activity in international markets contracted. Any company may encounter financial distress, particularly when the national economy is in crisis. To overcome financial distress, management must take appropriate measures in managing the company's finances, and financial distress can therefore be anticipated through financial statement analysis.

Atmini and Wuryana (2005) examined the role of profit and cash flow in predicting financial distress among IDX-listed companies producing textile mill products, apparel, and other textile products. That study used twenty-one variables: net sales, inventory turnover, company status, company size, number of employees, current ratio, acid-test ratio, days of receivables, total revenue, operating expenses, administrative expenses, wage expenses, profit margin, return on assets, total asset turnover, net fixed asset turnover, net fixed assets, average age of fixed assets, total debt to total assets, long-term debt to total assets, and equity to total assets. It found that the profit model was more effective than the cash flow model in predicting financial distress. Sari et al. (2018) used logistic regression to predict financial distress among listed companies and found that financial ratios derived from income statement, balance sheet, and cash flow statement information had higher predictive power. Handaru (2016), studying manufacturing companies listed on the IDX, found that profitability and liquidity ratios had no effect on financial distress, whereas leverage did.

A. Definition and Measurement of Financial Distress

Financial distress is a crisis that a company experiences before bankruptcy (Cahyaningrum & Antikasari, 2017). It is also defined as a company's inability to pay financial obligations that have fallen due (Beaver et al., 2011): the company cannot settle its debts, its liabilities exceed its income, and it may subsequently go bankrupt. Whether a company is in financial distress can be assessed from several perspectives. Hofer (1980) states that financial distress occurs in companies with negative net income. According to Gentry et al. (1990), a company is in financial distress when its cash inflows are lower than its cash outflows. Brigham et al. (1999) note that financial distress arises when a company is unable to meet its obligations, and Almilial and Kristijadi (2003) argue that financial distress occurs when a company's profitability declines.

Dubois (2016) classifies corporate financial distress into the following types:

- 1) **Economic failure:** a situation in which the company's revenue cannot cover its costs, i.e., cash flow is smaller than liabilities or profit is lower than working capital.
- 2) **Business failure:** the company fails to achieve its financial objectives. This type of distress may originate in various departments, such as marketing, production, or finance itself.
- 3) **Technical insolvency:** financial distress that arises when a company fails to pay its short-term liabilities (such as trade payables, monthly bills, and employee wages). Technical insolvency is temporary and can be resolved within one year.
- 4) **Bankruptcy insolvency:** arises when the company remains unable to pay its short-term liabilities, which in turn impairs its ability to pay its long-term liabilities.
- 5) **Legal bankruptcy:** bankruptcy arising from legal matters, which may result from insolvency or other serious violations and ultimately requires the company to be declared bankrupt in court.

Kordestani et al. (2011) argue that the causes of bankruptcy are diverse and that most companies pass through several stages: latency, shortage of cash, financial distress, and bankruptcy.

- 1) **Latency** is the first stage as a company approaches bankruptcy. Companies in this stage typically experience a decline in return on assets, i.e., the profit or income generated from the use of the assets they own.

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- 2) **Shortage of cash** is the second stage, following latency. At this stage the company does not have enough cash to repay its short-term debts, even though it may still earn considerable profit.
- 3) **Financial distress** is the stage immediately before bankruptcy. The company is experiencing financial difficulties, and if the situation persists it will face bankruptcy.
- 4) **Bankruptcy** is the final stage, in which the company cannot find the necessary solutions and ultimately goes bankrupt.

B. Profit and Financial Health

Profit is a core indicator of a company's operating performance. The capital structure theory of Modigliani and Miller (1958) highlights the key role of profit in assessing firm value and operating efficiency. A large body of research supports a positive relationship between profit and a company's financial health. For example, the profitability measures included in Altman's (1968) Z-score model are widely regarded as important predictors of financial distress. However, profit can be influenced by accounting policies and practices and may not fully reflect a company's cash flow and actual debt-paying ability.

C. Cash Flow and Financial Health

Cash flow is a key indicator of a company's liquidity and solvency. Studies such as Fazzari et al. (1988) emphasize the important role of cash flow in investment and operating activities. Compared with profit, cash flow directly reflects how cash circulates within a company, which gives it particular importance in predicting financial distress. Beaver (1966) showed that the ratio of cash flow to total debt is more reliable than traditional indicators such as profit in predicting bankruptcy risk.

D. Research on the Indonesian Food and Beverage Industry

As an emerging market economy, Indonesia has a food and beverage industry with distinct regional characteristics and considerable market complexity. Existing studies focus mainly on the industry's macroeconomic impact, its competitive landscape, and improvements in operating efficiency; few have systematically examined the prediction of financial distress in this industry. This study seeks to fill that gap by empirically testing the predictive usefulness of profit and cash flow in this specific market setting.

III. HYPOTHESIS DEVELOPMENT

A. Profit and Financial Distress

One use of profit is to determine a company's ability to distribute dividends to investors, since net profit serves as the basis for dividend payments. If a company earns little net profit or incurs a loss, investors will not receive dividends. If this happens repeatedly, investors will withdraw their investment because they perceive the company to be in financial distress, and this can lead to the company's bankruptcy. McCue (1991) found that the profit model predicted financial distress better than the cash flow model, and Atmini and Wuryana (2005) likewise concluded that the profit model was more effective in predicting financial distress. Hence, the following hypothesis is proposed:

H1: Profit has a significant effect on financial distress.

B. Cash Flow and Financial Distress

The cash flow statement is an integral part of the financial statements, and using it together with the other statements provides a more accurate assessment of the sources and uses of cash across all of a company's activities. Cash flow therefore provides information about a company's structure and financial performance. Sayari and Mugan (2013) state that cash flow models are more effective in providing early warning of bankruptcy at the financial distress stage. Hence, the following hypothesis is proposed:

H2: Cash flow has a significant effect on financial distress.

C. Profit, Cash Flow, and Financial Distress

Financial distress is a condition in which a company's finances are in crisis, and it occurs before bankruptcy. According to Atmini and Wuryana (2005), financial distress is a broad concept that covers several situations in which a company faces financial difficulties. Tirapat and Nittayagasetwat (1999) show that a company is in financial distress when it ceases operations and plans a restructuring. To prevent bankruptcy, management must monitor the company's financial condition through financial statement analysis, in which the income statement and the cash flow statement play an important role in evaluating performance. The greater the profit a company earns over a period, the larger the dividends it can pay to investors. If its profit is negative, however, the company incurs a loss, and if this persists, the company will encounter financial distress. Whitaker (1999) states that a company that records negative net operating profit over a certain period is experiencing financial distress.

The cash flow statement shows the changes in cash and cash equivalents on the balance sheet from the beginning to the end of an accounting period, whereas the income statement measures the company's profitability over a period. A sound evaluation of company performance should therefore consider not only the company's ability to generate profit but also its ability to generate

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operating cash flow. A company that is profitable but runs a cash flow deficit shows signs of financial distress, as does a company with positive cash flow but negative profit. Hence, the following hypothesis is proposed:

H3: Profit and cash flow jointly affect financial distress.

IV. RESEARCH METHOD, RESULTS, AND ANALYSIS

A. Sample Selection and Data Sources

This study uses data on food and beverage companies listed on the IDX for 2020–2023. According to the data source, 20 food and beverage companies were listed on the IDX. The study uses the companies' annual financial statements, including the statement of financial position, the income statement, and the cash flow statement. The data are secondary data obtained from the IDX website (www.idx.co.id) and were processed using StataSE. The sampling criteria were as follows: (1) the company is a food and beverage company listed on the IDX; (2) the company published financial statements continuously over 2020–2023; (3) companies with positive profit are classified in the non-distressed group and those with negative profit in the distressed group; (4) companies with positive cash flow are classified in the non-distressed group and those with negative cash flow in the distressed group; (5) companies with negative earnings per share are classified in the distressed group and those with positive earnings per share in the non-distressed group; and (6) companies without complete financial statement data are excluded from the sample.

Eighteen companies met the sampling criteria, yielding 72 firm-year observations (18 companies × 4 years). The sample companies are listed in Table I.

TABLE I: SAMPLE OF FOOD AND BEVERAGE COMPANIES

No.	Company Name	Ticker
1	Tiga Pilar Sejahtera Food Tbk	AISA
2	Tri Banyan Tirta Tbk	ALTO
3	Campina Ice Cream Industry Tbk	CAMP
4	Wilmar Cahaya Indonesia Tbk	CEKA
5	Sariguna Primatirta Tbk	CLEO
6	Delta Djakarta Tbk	DLTA
7	Garudafood Putra Putri Jaya Tbk	GOOD
8	Buyung Poetra Sembada Tbk	HOKI
9	Indofood CBP Sukses Makmur Tbk	ICBP
10	Indofood Sukses Makmur Tbk	INDF
11	Multi Bintang Indonesia Tbk	MLBI
12	Mayora Indah Tbk	MYOR
13	Pratama Abadi Nusa Industri Tbk	PANI
14	Prima Cakrawala Abadi Tbk	PCAR
15	Nippon Indosari Corpindo Tbk	ROTI
16	Sekar Bumi Tbk	SKBM
17	Sekar Laut Tbk	SKLT
18	Ultrajaya Milk Industry and Trading Company Tbk	ULTJ

Source: Indonesia Stock Exchange (www.idx.co.id)

B. Variable Definitions and Model Specification

1) Variable Definitions: Dependent variable (financial distress). A dependent variable is a variable that is influenced by the independent variables (Sugiyono, 2014). The dependent variable in this study is financial distress (Y), which is measured by earnings per share (EPS). EPS is the net profit earned in a reporting period divided by the total number of shares outstanding, i.e., earnings after tax divided by the number of shares outstanding. For the purpose of classifying companies, a value of 1 indicates that a company is experiencing financial distress (negative EPS) and a value of 0 indicates that it is not. Financial distress conditions are observed over 2020–2023.

Independent variables (profit and cash flow). Independent variables are variables that cause changes in the dependent variable (Sugiyono, 2014). The independent variables in this study are profit (X_1) and cash flow (X_2). Profit is measured by return on assets (ROA), which shows the profit generated from the company's total assets and is calculated as net profit divided by total assets.

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Cash flow is measured by the ratio of operating cash flow to total debt (OCF/TD). This ratio shows the ability of the company's operating cash flow to cover all of its obligations, including both current and long-term liabilities.

2) *Model Specification*: According to Gujarati and Porter (2009), a multiple linear regression model expresses the functional relationship between a dependent variable and several independent variables, and it can be estimated using ordinary least squares (OLS). In this study, multiple linear regression is used to determine the effect of profit and cash flow on financial distress. The hypotheses are tested using the t-test and the F-test; a significance value below 0.05 indicates that the X variable has a significant effect on the Y variable. The multiple linear regression model used to predict the effect of profit and cash flow on financial distress is:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2$$

where Y is financial distress, α is the constant, β_1 and β_2 are the regression coefficients, X_1 is profit, and X_2 is cash flow.

C. Descriptive Statistics

1) *Descriptive Statistics of Profit, Cash Flow, and Earnings per Share*: Table II presents the descriptive statistics for profit, cash flow, and EPS of the sample IDX-listed food and beverage companies for 2020–2023.

TABLE II: DESCRIPTIVE STATISTICS OF PROFIT, CASH FLOW, AND EARNINGS PER SHARE

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Return on assets (ROA)	72	-2.64	0.61	0.0564	0.34975
Operating cash flow to total debt (OCF/TD)	72	-1.26	1.74	0.3606	0.55328
Earnings per share (EPS)	72	-1,626.26	996.77	124.8561	303.97942

Source: Indonesia Stock Exchange (processed data)

As shown in Table II, across the 18 food and beverage companies over the four-year period 2020–2023, the profit ratio (ROA) has a mean of 0.0564, a maximum of 0.61, a minimum of -2.64, and a standard deviation of 0.34975, indicating that the profitability of IDX-listed food and beverage companies fluctuated considerably. The cash flow ratio has a mean of 0.3606, a maximum of 1.74, a minimum of -1.26, and a standard deviation of 0.55328, indicating that the companies' cash flows also fluctuated considerably. EPS has a mean of 124.8561, a maximum of 996.77, a minimum of -1,626.26, and a standard deviation of 303.97942. These results show that the sharp increases and decreases in profit and cash flow were accompanied by unstable EPS, which likewise rose and fell sharply among IDX-listed food and beverage companies during 2020–2023.

2) *Annual Descriptive Statistics of Profit and Cash Flow*: The ROA values in Table III show a mean of 0.0564 for the full sample. By year, the mean was -0.0589 in 2020, rising to 0.0789 in 2021 and 0.1261 in 2022, before falling to 0.0794 in 2023. The mean ratio of operating cash flow to total debt was 0.3606: 0.2444 in 2020, rising to 0.3361 in 2021 and 0.4944 in 2022, and then falling to 0.3672 in 2023.

The profit ratio ranges from a minimum of -2.64 to a maximum of 0.61. By year, the maximum and minimum were 0.53 and -2.64 in 2020, 0.42 and -0.07 in 2021, 0.61 and -0.08 in 2022, and 0.60 and -0.15 in 2023.

TABLE III: ANNUAL DESCRIPTIVE STATISTICS OF PROFIT AND CASH FLOW

Variable	Year	N	Minimum	Maximum	Mean	Std. Deviation
ROA	2020	18	-2.64	0.53	-0.0589	0.65615
	2021	18	-0.07	0.42	0.0789	0.11271
	2022	18	-0.08	0.61	0.1261	0.16201
	2023	18	-0.15	0.60	0.0794	0.14526
	Total	72	-2.64	0.61	0.0564	0.34975
OCF/TD	2020	18	-1.14	1.74	0.2444	0.59708
	2021	18	-1.26	1.49	0.3361	0.62375
	2022	18	-0.31	1.73	0.4944	0.55128
	2023	18	-0.10	1.62	0.3672	0.44171
	Total	72	-1.26	1.74	0.3606	0.55328

Source: Indonesia Stock Exchange (processed data)

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The cash flow ratio ranges from a minimum of -1.26 to a maximum of 1.74. By year, the maximum and minimum were 1.74 and -1.14 in 2020, 1.49 and -1.26 in 2021, 1.73 and -0.31 in 2022, and 1.62 and -0.10 in 2023.

The data show that the companies' profit and cash flow grew rapidly in 2022 and then declined in 2023.

Table IV compares the profit and cash flow ratios of companies that experienced financial distress with those of companies that did not.

TABLE IV: PROFIT AND CASH FLOW BY FINANCIAL DISTRESS STATUS

<i>Variable</i>	<i>Status</i>	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
Profit (ROA)	Distressed	10	-2.64	-0.01	-0.3130	0.81877
	Non-distressed	62	0.00	0.61	0.1160	0.13227
	Total	72	-2.64	0.61	0.0564	0.34975
Cash flow (OCF/TD)	Distressed	9	-1.26	-0.05	-0.3833	0.47405
	Non-distressed	63	0.00	1.74	0.4668	0.47933
	Total	72	-1.26	1.74	0.3606	0.55328

Source: Indonesia Stock Exchange (processed data)

As Table IV shows, during 2020–2023, 10 firm-year observations were classified as financially distressed based on the profit ratio. Their mean profit ratio was -0.3130, with a minimum of -2.64 and a maximum of -0.01. The remaining 62 observations were not in financial distress; their mean profit ratio was 0.1160, with a minimum of 0.00 and a maximum of 0.61. These data show that the profit ratio of financially distressed companies is lower than that of non-distressed companies.

Based on the cash flow ratio, 9 firm-year observations were classified as financially distressed. Their mean cash flow ratio was -0.3833, with a minimum of -1.26 and a maximum of -0.05. The remaining 63 observations were not in financial distress; their mean cash flow ratio was 0.4668, with a minimum of 0.00 and a maximum of 1.74. These data show that non-distressed companies have a higher cash flow ratio than financially distressed companies.

D. Multiple Linear Regression Results and Analysis

- 1) *Regression Model of the Effect of Profit and Cash Flow on Financial Distress:* Table V presents the results of the multiple linear regression analysis.

TABLE V: MULTIPLE LINEAR REGRESSION RESULTS (T-TEST)

<i>Model 1</i>	<i>B</i>	<i>Std. Error</i>	<i>Beta</i>	<i>t</i>	<i>Sig.</i>
(Constant)	67.846	27.581		2.460	0.016
ROA	651.087	67.335	0.749	9.669	0.000
OCF/TD	56.290	42.565	0.102	1.322	0.190

Note: B = unstandardized coefficient; Beta = standardized coefficient. Dependent variable: EPS. Source: Indonesia Stock Exchange (processed data).

Based on these results, the estimated multiple linear regression equation is:

$$Y = 67.846 + 651.087X_1 + 56.290X_2$$

The constant of 67.846 indicates that EPS is 67.846 when both profit and cash flow are zero. The ROA coefficient of 651.087 indicates that a one-unit increase in profit (X_1) increases EPS by 651.087, holding cash flow constant. The coefficient of the operating cash flow ratio is 56.290, indicating that a one-unit increase in cash flow (X_2) increases EPS by 56.290, holding profit constant.

The coefficient of determination (R^2) indicates how well the independent variables explain the dependent variable, as shown in Table VI.

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TABLE VI: COEFFICIENT OF DETERMINATION

Model	R	R ²	Adjusted R ²	Std. Error of the Estimate
1	0.773 ^a	0.598	0.586	195.48846

Note: a. Predictors: (Constant), OCF/TD, ROA. Source: Indonesia Stock Exchange (processed data).

As Table VI shows, $R = 0.773$ indicates a strong correlation between the independent variables (X) and the dependent variable (Y). $R^2 = 0.598$ means that the X variables explain 59.8% of the variation in Y.

2) *Hypothesis Testing*: The t-test is a statistical test used to test the hypothesis that there is no significant difference between two sample means drawn randomly from the same population (Sudijono, 2010). Decisions are made based on the significance values in the coefficients table, at a 95% confidence level, i.e., a 5% significance level ($\alpha = 0.05$). If $t_{\text{count}} > t_{\text{table}}$ and the significance value is < 0.05 , the independent variable has a significant effect on the dependent variable. If $t_{\text{count}} < t_{\text{table}}$ and the significance value is > 0.05 , the independent variable has no significant effect on the dependent variable (Ghozali, 2016).

The t-test results in Table V show that ROA has a t_{count} of 9.669 with a significance value of 0.000. Since $t_{\text{count}} (9.669) > t_{\text{table}} (2.131)$ and $0.000 < 0.05$, profit has a significant effect on financial distress. H1 is therefore accepted.

The operating cash flow ratio has a t_{count} of 1.322 with a significance value of 0.190. Since $t_{\text{count}} (1.322) < t_{\text{table}} (2.131)$ and $0.190 > 0.05$, cash flow has no significant effect on financial distress. H2 is therefore rejected.

The F-test examines whether the independent variables jointly affect the dependent variable. If $F_{\text{count}} > F_{\text{table}}$ and the significance value is < 0.05 , the independent variables jointly affect the dependent variable. Conversely, if $F_{\text{count}} < F_{\text{table}}$ and the significance value is > 0.05 , the independent variables do not jointly affect the dependent variable (Ghozali, 2016).

TABLE VII: MULTIPLE LINEAR REGRESSION RESULTS (F-TEST)

Model 1	Sum of Squares	df	Mean Square	F	Sig.
Regression	3,923,761.763	2	1,961,880.882	51.337	0.000 ^b
Residual	2,636,885.881	69	38,215.737		
Total	6,560,647.645	71			

Note: a. Dependent variable: EPS. b. Predictors: (Constant), OCF/TD, ROA. Source: Indonesia Stock Exchange (processed data).

As Table VII shows, F_{count} is 51.337 and F_{table} is 3.68. Since $F_{\text{count}} (51.337) > F_{\text{table}} (3.68)$ and the significance value of 0.000 is < 0.05 , the X variables jointly affect the Y variable. H3 is therefore accepted: profit and cash flow jointly affect financial distress. Based on the F-test, using profit and cash flow together is useful for predicting financial distress. As shown in Table IV, companies experiencing financial distress have negative profit and cash flow, which indicates problems in their financial management; if this situation persists, it may lead to bankruptcy. As supplementary information, cash flow is regarded as carrying complex financial statement information, because the cash flow statement comprises cash flows from operating, investing, and financing activities. The operating cash flow section is similar in nature to the income statement, so both provide detailed information about the operating activities carried out by the company.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

Using food and beverage companies listed on the IDX during 2020–2023, this study examined the role of profit and cash flow in predicting financial distress. The findings are as follows: (1) the profit and cash flow of IDX-listed food and beverage companies fluctuated substantially during 2020–2023; (2) profit has a significant effect on financial distress; (3) cash flow has no significant effect on financial distress; and (4) profit and cash flow jointly affect financial distress.

B. Implications and Recommendations

Based on these conclusions, the following recommendations are made. (1) This study covers only food and beverage companies listed on the IDX; future research should retest the model on companies in other sectors to obtain more robust results. (2) The R^2 of 59.8% indicates that profit and cash flow explain part of the variation in financial distress, while the remaining 40.2% is attributable to other factors; future research could therefore include other predictors, such as the current ratio, company size, total revenue, return on investment, and net profit margin. (3) The financial distress prediction in this study covers only one year

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ahead and does not provide an overview of companies' financial condition over a longer period, so the results are less detailed. Extending the observation period to several years may yield better results.

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