



# The analysis of liquidity and profitability ratios to assess financial distress potential in the balken wood business in Piabung Village

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Article Info	ABSTRACT
<p><b>Article history:</b></p> <p>Received Aug 4, 2025 Revised Oct 3, 2025 Accepted Nov 28, 2025</p> <hr/> <p><b>Keywords:</b></p> <p>Financial Distress; Liquidity Ratio; MSMES; Profitability Ratio; Receivables Turnover.</p>	<p>This study aims to analyse liquidity and profitability ratios in assessing the potential for financial distress in the balken wood business in Piabung Village. The main urgency faced by the business is the slow turnover of receivables, which disrupts cash flow and threatens business continuity. This research employs a qualitative descriptive approach using a case study method. Data collection techniques include basic financial documentation and semi-structured interviews with three key informants: the business owner and two administrative staff. Data analysis is conducted using Miles and Huberman's interactive model, which involves data reduction, data display, and conclusion drawing. The results show that the business lacks an understanding of the importance of financial ratios and does not maintain formal financial statements. The business's cash flow heavily depends on receivable payments, so delays from customers result in difficulties meeting obligations to third parties, including banks. Nevertheless, the business manages to remain profitable by minimizing operational costs and adjusting production volume. The main strategies to address financial distress include accelerating receivable collection, maintaining communication with banks, and implementing strict cash management. The findings highlight the importance of improving financial literacy and adopting simple bookkeeping systems to help small businesses manage finances and anticipate financial distress more effectively.</p> <p><i>This is an open access article under the CC BY-NC license.</i></p>



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## 1. INTRODUCTION

Operational sustainability and the well-being of human resources are critical aspects that must be considered in any business. Generally, individually-run enterprises aim to maximize profits by optimizing cost efficiency while maintaining long-term business stability. In the face of increasingly competitive business environments, micro-enterprises are required to continually innovate and develop their operations. To assess the quality of a micro-enterprise, two main aspects can serve as key indicators: financial performance and non-financial performance. These two aspects reflect the extent to which a micro-enterprise has implemented effective management principles in its business operations (Pantjahningsih, 2019).

Omega and Mardiana (2020), state that in developing a business, additional capital from funding institutions is highly necessary. Such additional capital serves as a means to expand and enhance the business. Financial institutions, such as banks, provide loan facilities for entrepreneurs who seek to grow their businesses. Based on the researcher's observations, the Balken timber business applied for a loan of IDR 50,000,000 from Bank BRI to recover its financial condition, which was experiencing financial distress. The loan was expected to help the business resume smooth operations. As the business developed, various challenges and obstacles began to emerge, requiring careful planning particularly in the areas of operations, finance, and product marketing. In addition, the increasing consumer demand, both in terms of quantity and product variety, has encouraged the business to continuously innovate and compete with similar enterprises in order to meet market needs. This situation has intensified competition among businesses producing similar goods (Sawitri et al., 2022).

The Balken timber business is a micro-enterprise engaged in wood processing, producing various products such as boards, panels, and beams (*kasou*) for residential construction purposes. The business is located in Piabung Village, Padang Cermin Sub-district, Pesawaran Regency, Lampung Province. It has been operating since 1999, making 2024 its 25th year of operation. To date, the timber products from Balken have been marketed not only within the Padang Cermin area but also beyond Lampung Province, including shipments to Tanjung Priuk, Kalibaru, North Jakarta. However, in 2024, the Balken timber business began experiencing a condition of financial distress.

The financial distress faced by the Balken timber business is primarily caused by a significant number of unpaid timber shipments to external parties in Kalibaru, North Jakarta. This situation arose because several suppliers took delivery of timber products without making timely payments, often exceeding the agreed payment deadlines. This has placed considerable financial pressure on the business owner. This study is expected to provide an evaluation of past performance as a foundation for improving future performance, while also building trust and reliability among the owner, employees, and external stakeholders involved in the business. In addition, this study examines financial ratios, specifically liquidity ratios and profitability ratios, to assess the potential financial distress experienced by the Balken wood business using financial statement data from 2024-2025. The research was conducted from December 2024 to April 2025, with the research subjects being the owner, treasurer, and secretary of the Balken wood business, which operates in the timber sector and is located in Piabung Village, Padang Cermin District, Pesawaran Regency, Lampung Province.

Several previous studies have shown relevance to the issues addressed in this research. A study conducted by Rosid (2022) found that both profitability and liquidity have a positive effect on financial distress. Similar findings were reported by Kautzar et al. (2024), who stated that these two variables positively influence financial distress, meaning that higher profitability and liquidity levels may, paradoxically, be associated with increased financial distress risk. On the contrary, a study by Ratuella et al. (2022) found that profitability and liquidity have a negative effect on financial distress, suggesting that an increase in these ratios reduces the likelihood of financial distress. This is supported by Azis et al. (2024), who concluded that the higher the profitability and liquidity, the lower the company's risk of experiencing financial distress. Meanwhile, Trisakti (2025) reaffirmed earlier findings by showing that profitability and liquidity have a positive relationship with financial distress.

Based on this research, the researcher chose Balken's timber business as the object of study compared to other MSMEs because it addresses a topic that has not been widely discussed previously and produces findings that have not been explored before. In addition, this study examines the influence of liquidity and profitability ratios on financial distress while also identifying the challenges faced by micro enterprises in rural areas, which have so far received limited attention in previous studies. Based on the above background, the researcher is interested in conducting a study entitled "An Analysis of Liquidity and Profitability Ratios to Assess the Potential for Financial Distress in the Kayu Balken Business in Piabung Village."

## 2. RESEARCH METHOD

This study employs a qualitative method with a case study approach. According to Sugiyono (2019), qualitative research emphasizes meaning, understanding, and in-depth explanation of social phenomena. Meanwhile, Sakaran and Bougie (2018) state that the case study approach focuses on the in-depth collection of information about a particular subject, such as an individual, group, organization, event, or specific activity. The case study aims to gain a comprehensive and contextual understanding of the phenomenon under investigation. This approach was chosen because the researcher seeks to obtain an in-depth understanding of the financial condition of the Kayu Balken business in Piabung Village, particularly in relation to the analysis of liquidity and profitability ratios to identify the potential for financial distress resulting from slow receivables turnover. This study explores how delayed payments by customers impact the business's cash flow and operational continuity.

This research was conducted from December 2024 to April 2025, and the object of the study is the owner and employees of the Kayu Balken business, which operates in the timber industry and is located in Piabung Village, Padang Cermin Subdistrict, Pesawaran Regency, Lampung Province. The Kayu Balken business is a sole proprietorship that has been operating since 1999. According to Sugiyono (2018), the subjects of qualitative research are referred to as informants. Based on the Kamus Besar Bahasa Indonesia (Indonesian Dictionary), an informant is a person who can provide relevant information. In this study, the researcher selected three key informants: the owner of the Kayu Balken business, the financial officer responsible for bookkeeping, and the secretary. These informants were chosen to provide information relevant to the research objectives. The business owner, in particular, possesses full control and insight into the overall business operations, while the bookkeeper contributes essential financial data related to the enterprise's financial activities.

The data sources in this study consist of primary data. According to Sugiyono (2017:104), primary data refers to data obtained directly from research subjects. This study utilizes primary data collected directly by the researcher through interviews with the key informants: the business owner, the financial officer, and the secretary. In addition, the study also uses secondary data. According to Sugiyono (2018), secondary data refers to data not obtained directly from informants but from other sources or pre-existing documents. The secondary data used in this study were drawn from the financial documents of the Kayu Balken business covering the period from December 2024 to March 2025. These documents include timber purchase reports and timber sales reports, which support the analysis conducted in this research.

Data collection can be carried out from various sources and through multiple methods. To obtain the necessary data and information for this research, the researcher employed the following data collection techniques:

- a) Interviews, according to Moleong (2018) and Sugiyono (2019), interviews can be conducted using a semi-structured approach, which involves a flexible set of guiding questions to allow deeper exploration of financial conditions and receivables-related challenges. In this study, the researcher conducted in-depth semi-structured interviews with key informants, namely the business owner, the treasurer, and the secretary.
- b) Observation, according to Purba et al. (2021), observation is a data collection activity that involves carefully and attentively observing a phenomenon, which can later be used as data to help explain the phenomenon under study. In this research, the observed object was the Kayu Balken business.
- c) Documentation, Purba et al. (2021) explain that documentation involves collecting data by recording past events. The documentation used in this study includes financial records, the business profile, and financial documents prepared by the Kayu Balken business in 2024. These documents were analyzed to calculate financial ratios such as the current ratio, net profit margin, and receivables turnover.

According to Miles and Huberman (1994), data analysis is conducted directly during the interview process. This analysis is simultaneous, meaning it is carried out concurrently with data

collection. The process is interactive and continuous throughout the data gathering phase. Active interaction includes probing questions directed at informants to obtain more valid data. The analysis process consists of three main stages. First, data reduction, which involves simplifying, selecting, and organizing raw data obtained from interviews. Second, data display, where the reduced data is arranged in the form of narratives or thematic tables to facilitate better understanding. Third, conclusion drawing and verification, which involves interpreting the meaning of the data that has been comprehensively analyzed. In addition, documentation and codification were also carried out by recording interviews (with the informants' consent) and assigning thematic codes to ease the analytical process.

### 3. RESULTS AND DISCUSSIONS

#### Causes of Financial Distress in the Balken Wood Business

Based on interviews and available documentation, it was found that the Balken wood business experienced a period of financial distress from December 2024 to April 2025. This condition was primarily caused by delayed receivable payments from a business partner in Jakarta (Tanjung Priok), amounting to IDR 73,071,000. In addition, declining sales from the Jakarta-based buyer further exacerbated the situation. These factors placed pressure on the company's liquidity and slowed the turnover of working capital. According to Harahap (2019), a slow receivables turnover ratio indicates liquidity risk and the potential for decreased profitability due to disrupted operating cash flows.

Based on the results of observations and interviews conducted by the researcher, the Balken timber business falls under Category D or low-level financial distress. This category indicates that the business is experiencing only temporary financial pressure caused by various external and internal factors, as well as less-than-optimal managerial decisions. This condition is short-term in nature and is generally manageable, for example, by utilizing existing financial reserves or accessing funds that have been allocated to handle similar situations. In the case of the Balken timber business, when facing financial distress, the owner applied for a loan of IDR 50,000,000 from Bank BRI to restore the company's financial condition. It is expected that this step will help the business resume smooth operations.

The phenomenon of micro-enterprises, such as the Kayu Balken business, often experiences financial distress not due to uncollectible receivables (bad debts), but rather due to the slow collection process or the lengthy receivables turnover cycle. Although the company still holds the right to collect these receivables, delayed cash inflows adversely affect the business's ability to meet its short-term operational needs. This condition disrupts liquidity and may lead to a financial crisis if not addressed promptly. According to Hery (2021:220), slow receivables turnover can be a major cause of disrupted cash flow, even when a company reports accounting profits. In this context, profit does not necessarily equate to available cash. Therefore, the use of financial ratios is essential to analyze a company's financial condition effectively. Kasmir (2020) defines receivables as claims held by a company against external parties (customers) resulting from the credit sale of goods or services. In micro-enterprise systems, receivables that are not collected promptly can impede the smooth flow of cash. Unlike bad debts, which refer to the permanent loss of assets, slow-turnover receivables are still collectible but extend beyond the normal collection period, thus creating liquidity difficulties.

Receivables turnover measures a company's efficiency in managing and collecting receivables. This ratio is calculated by comparing net credit sales to average receivables. The lower the receivables turnover ratio, the slower the company is in collecting payments from its customers. This delay can hinder the purchase of raw materials, payment of wages, and fulfillment of other obligations, ultimately increasing the risk of financial distress. The formula used to calculate the receivables turnover ratio is as follows:

$$\text{Receivable Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Receivable}}$$

$$\text{Average Receivable} = \frac{\text{Beginning} + \text{Ending Receivable}}{2}$$

This ratio reflects management's efficiency in managing accounts receivable. The higher the receivables turnover ratio, the faster the cash inflow from receivables. Conversely, if the receivables turnover is slow, the company will face liquidity constraints due to funds being tied up in outstanding invoices.

Despite facing financial distress and delayed payments from a buyer in Tanjung Priok, Jakarta, the Balken wood business has managed to continue its operations and even develop its business. This was achieved by purchasing raw materials only when funds became available from customer payments, thereby avoiding the accumulation of debt to suppliers. Additionally, the business sustained its operations through a working capital loan application of IDR 50,000,000 from a bank. The company demonstrated its ability to meet its loan obligations without default by prioritizing the use of the first incoming funds from customers to pay bank installments. This approach aligns with Ross et al. (2022), who assert that prioritizing debt repayment helps maintain the trust of financial institutions and mitigates legal risks from banks. Although the Balken wood business is undergoing financial distress, it has managed to maintain profitability by implementing cost-saving measures, such as temporarily reducing its workforce during periods of low demand and avoiding further credit sales. According to Fahmi (2021), a company's ability to maintain profitability during difficult times reflects strong managerial flexibility and adaptability, even in the absence of formal accounting records.

#### **Financial Literacy on Liquidity and Profitability Ratios to Assess the Potential for Financial Distress**

The assessment of financial distress conditions can be conducted through the analysis of a company's financial ratios. Financial ratios are the result of a series of business activities compiled based on specific accounting methods and procedures, accompanied by explanations aimed at presenting relevant and useful information for both internal and external users of financial statements. In addition to serving as a source of information on a company's financial condition, financial ratios also function as tools to forecast future financial performance. Furthermore, financial ratios can be utilized to identify potential bankruptcy risks and assess the sustainability of a business, thereby making them essential instruments in the decision-making processes of both management and company owners (Hidayat et al., 2021).

According to Andriansyah (2018), financial ratios are one of the essential instruments for analyzing a company's condition. In general, financial ratios can be classified into five categories: liquidity, leverage, profitability, activity, and capital growth. According to Andre & Taqwa (2014), ratios such as profitability, liquidity, leverage, activity, and capital growth are considered the most significant and commonly used indicators in predicting a company's potential for financial distress. In this study, two types of financial ratios are employed as analytical tools: liquidity ratios and profitability ratios (Sariroh, n.d.).

Yuliani & Anggaradana (2021) explain that liquidity ratios are indicators used to measure a company's ability to meet its short-term obligations. In other words, these ratios aim to assess the extent to which a company can repay its short-term debts in a timely manner and finance its operational activities. The lower a company's liquidity level, the greater the risk of experiencing financial distress.

According to Rahma (2020), profitability ratios are indicators used to measure a company's ability to generate profits and serve as tools to evaluate management's effectiveness in utilizing the company's assets optimally. Fahmi (2020:140) adds that profitability ratios reflect how well management is able to run the company efficiently, as indicated by the level of profit achieved. This ratio evaluates a company's ability to generate profit, both in relation to its sales volume and the returns from its investments. A higher profitability ratio indicates stronger company performance in generating earnings, reflecting successful resource management and the effectiveness of the business strategies implemented.

Financial distress refers to a condition that can be influenced by various factors, one of which is liquidity. Liquidity reflects a company's ability to meet its short-term obligations as they become due. According to Septiani and Dana (2019) as well as Nugroho et al. (2018), companies with low liquidity levels face a higher risk of experiencing financial distress due to their inability to fulfill such obligations. In addition, profitability ratios can also be used to predict a company's financial condition. Profitability ratios indicate a company's ability to generate profits and serve as a tool for assessing management's effectiveness in optimizing the use of company assets (Rahma, 2020).

Based on the results of the interviews, the researcher concluded that the informants did not yet have a good and in-depth understanding of financial ratios such as the current ratio, cash ratio, net profit margin, and accounts receivable turnover ratio. This lack of knowledge regarding financial ratios indicates a low level of accounting literacy, which is the main reason financial statements are not utilized as a basis for decision-making. However, according to the researcher, the Balken wood business considers the use of simple financial recordkeeping to be sufficient, without applying more advanced financial ratio analysis. In fact, Fitriani (2021) states that financial ratios such as the current ratio, quick ratio, and net profit margin are essential tools for assessing the financial health of small and medium enterprises.

Furthermore, it was found that although the Balken wood business was experiencing financial pressure (financial distress) due to the slow turnover of receivables from out-of-town customers—particularly from Kalibaru, Jakarta—the business was still able to generate profits and fulfill its obligations, including repaying a loan of IDR 50,000,000 from BRI Bank. This was achieved through several strategic measures, such as maintaining stable revenue from ongoing sales, postponing large-volume timber purchases when cash was unavailable, prioritizing monthly bank loan repayments over other expenditures, accelerating receivables collection through intensive communication with the customer in Kalibaru, Jakarta, and maintaining a good relationship with the bank to obtain leniency in the payment schedule in the event of delays.

The business consistently delivers timber to various regions, and although payments are often delayed, some customers continue to make gradual repayments, which ensures short-term cash flow availability. Through this approach, the business remains capable of generating profit despite being in a state of financial distress. Technically, this indicates that the Balken wood business is experiencing a “cash flow problem” but has not yet encountered severe operational failure. This suggests that the business falls under the category of mild financial distress (Category D), where the financial disruption is temporary and manageable through appropriate financial strategies.

#### 4. CONCLUSION

The Balken wood business experienced a period of financial distress from December 2024 to April 2025. This condition was caused by delayed receivable payments from a customer in Kalibaru, Jakarta. Despite the potential financial distress resulting from the slow collection of receivables from this customer, the business remained capable of sustaining its operations, generating profit, and fulfilling its financial obligations to the bank.

The owner and manager of the Balken wood business are advised to enhance their knowledge and understanding of basic financial ratios such as the current ratio, cash ratio, and net profit margin. This is essential to enable the business actors to evaluate and anticipate potential financial distress independently. It is also recommended that the business begin implementing a more formal and structured system of financial recording and reporting—at a minimum, using Microsoft Excel—to support regular calculation of financial indicators. In doing so, the company's financial condition can be monitored and managed in a timely and effective manner.

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