



The Effect of Current Ratio and Debt to Equity Ratio on Financial Distress in the Media and Entertainment Subsector

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ABSTRACT

The goal of this study was to assess the influence of the current ratio and debt to equity ratio on financial hardship. A quantitative approach was taken in the research process. The population in this study were 18 media and entertainment subsector companies registered on the Indonesia Stock Exchange for the 2017-2023 timeframe, utilizing a purposive sampling technique in sample selection and obtained 3 companies as samples. Descriptive statistical tests, panel data regression models, classical assumption tests, hypothesis tests, and coefficients of determination employing data processing tools Eviews 12 are examples of data analysis approaches. The results of this study reveal that concurrently the current ratio and debt to equity ratio have no effect on financial hardship.

INTRODUCTION

There is a favorable tendency in the growth of Indonesia's media and entertainment industry subsector. The Central Statistics Agency (BPS) reports that this industry is still undergoing substantial changes. The BPS data highlights three important points: first, the creative economy sector, which includes media and entertainment, is expanding quickly. For instance, in 2017, the field of visual communication design expanded by 8.14%. Second, there has been a notable rise in consumption of digital content. According to research, nine out of ten Indonesian respondents use digital devices to access entertainment content like games, music, and video streaming. Third, the media and entertainment industry has seen a rise in revenue, especially from the quickly expanding video game and e-sports sectors.

Media Nusantara Citra Tbk (MNC), which offers a variety of platforms, including television, digital media, and streaming services, as well as several well-known television channels (RCTI, MNCTV, GTV), is one of the companies in the media and entertainment sub-sector. MNC has emerged as a pioneer in digital innovation and media diversification. Second, one of the biggest media companies in Indonesia is Surya Citra Media Tbk (SCMA), which is the owner of the television networks SCTV and Indosiar. SCMA is renowned for its well-liked TV shows and aggressive local content strategy. Third, Global Mediacom Tbk, a key participant in technology-based entertainment media, is a member of the MNC Group and specializes in digital media services and content distribution. Fourth, Intermedia Capital Tbk, a prominent player in the media sector with an emphasis on entertainment and family content, controls the ANTV television station under the auspices of Visi Media Asia. Fifth, Visi Media Asia Tbk, a prominent news and entertainment media company in Indonesia, is the owner of the TV One television channel, ANTV. The sixth is Mahaka Media Tbk, which is well-known for its portfolio of digital, radio, and print media.

Mahaka Media has also grown to be a significant force in the country's media landscape, especially because to its radio network and publications like Republika. Seventh, Tempo Intimedia Tbk, a prominent example of print media with an emphasis on news and investigative journalism, is well-known for its Tempo magazine. Lastly, MD Pictures Tbk is a significant participant in the Indonesian film industry, creating a number of well-liked local films. It is well-known for its film and content development.

While SCMA has grown to become a dominant force in Indonesia's television and entertainment industries, MNC Group is one of the leaders due to its coverage in a variety of media sectors, including radio, television, and digital streaming services. Some of the honors won by MNC Group are; In 2024, MNC Group earned the Entertainment and Film Media award at the Bisnis Indonesia honors, which acknowledged MNC Group's performance in the Indonesian entertainment sector. At the 2022 Indonesia Best Corporate Secretary Awards, which honored corporate governance management in the broadcasting industry, MNC Group also took home the Best Corporate Secretary in Broadcasting Industry title.

Additionally, SCMA frequently receives the Panasonic Gobel Awards for exceptional television shows on SCTV and Indosiar, including those in the drama, music, and talent hunt categories. Additionally, SCMA has been recognized for producing high-caliber entertainment content in Asia with honors from the Asian Academy Creative honors. Because MNC Group has been able to sustain its appeal through wide diversification of media and entertainment sectors, it can be considered a pioneer SCMA is one of the more stable and has a larger frequency of stock transactions, despite the fact that its shares occasionally fluctuate.

2022 will be a pivotal year for the media and entertainment sector. In contrast to the 10.6% growth rate in 2021, when the economy and industry were recuperating from the start of the COVID-19 epidemic, total industry revenue grew 5.4% in 2022 to \$2.32 trillion. As a result, investors have been drawn to the expansion of media and entertainment. Investors think the media and entertainment subsector has a bright future because of its changing patterns, which will produce excellent work. Since the main objective is to generate profits for business sustainability, this is meant to ensure that organizations maintain their competitiveness and increase their market share. But not all media and entertainment businesses make money; some see a decline in income or even a loss.

Financial and economic failure are the reasons why a corporation cannot continue to operate. A company's cost of capital surpassing its historical cost of investment or an imbalance between revenue and expenses can both lead to economic failure. Financial failure, on the other hand, is when a business has more assets than liabilities but is unable to pay its debts when they become due. Financial difficulties brought on by this circumstance can result in bankruptcy. Financial ratios, which are visible in a company's reported financial accounts, are one element affecting financial distress. According to Hutabarat (2021), financial hardship can be understood as a stage of financial collapse that occurs before bankruptcy or liquidation.

The first phase of a financial crisis that a business goes through before filing for bankruptcy is known as financial hardship. Financial obligations, especially short-term ones that show the company's level of liquidity and solvency, are typically difficult to fulfill. Financial difficulties can strike a business at any time. This is typically brought on by bad financial circumstances, which make it hard for the business to fund its operations and prevent it from surviving for a while. Hendrayanti (2024).

The Altman Z-Score model, which was first presented in 1968, is one method of predicting a company's bankruptcy utilizing a very well-known and innovative model. Both creditors who will lend money and investors who will invest their cash need to know about financial difficulties. Companies in financial trouble are unwilling to conduct business with outside parties. By examining the company's financial ratios, financial reports can serve as a foundation for information regarding a company's state of financial crisis. A company's level of financial hardship can be predicted and understood through the use of financial ratio analysis.

The liquidity ratio, or current ratio, and the solvency/leverage ratio, or debt to equity ratio, are the financial ratios used in this study. Fahmi (2017: 121) states that the current ratio is a widely used indicator of a company's short-term solvency, or its capacity to pay off debt as it becomes due. The Debt to Equity Ratio is the second financial ratio utilized in this research. A financial ratio called the debt to equity ratio compares a company's total debt (liabilities) to its total equity to determine how leveraged it is. The debt to equity ratio gives a general idea of how much a business is financed more by debt than by stock from shareholders. The debt to equity ratio is a measure used to evaluate debt with equity, according to Kasmir (2019). All debt, including current debt, is compared to all equity to determine this ratio.

The current ratio and debt to equity ratio jointly affect financial distress, according to Nugraha and Nursito (2021) and Mitha Christina Ginting (2017). However, neither the current ratio nor the debt to equity ratio partially influence financial distress, according to Nugraha and Nursito (2021), and neither the current ratio nor the debt to equity ratio partially influence financial distress, according to Mitha Christina Ginting (2017). The author carried out a study titled "The Effect of Current Ratio and Debt to Equity Ratio on Financial Distress in the Media and Entertainment Subsector" that was listed on the Indonesia Stock Exchange for the 2017–2023 Period based on the following description.

LITERATURE REVIEW

Financial Distress

When a company's finances deteriorate to an unhealthy level, it is said to be in financial distress. When a business cannot make enough money to pay its debts, it is said to be in financial difficulty. Financial difficulty can be viewed as a phase of financial decline that precedes bankruptcy or liquidity, according to Hutabarat (2021). Liquidity challenges, which might be a sign of impending insolvency, are financial difficulties. A corporation may be about to enter a period of financial crisis if it has trouble fulfilling its obligations. Bankruptcy may ensue if these financial issues are not resolved right away. There are four types of financial distress: very high (Category A), high (Category B), moderate or typical (Category C), and low (Category D).

The credit strength computation suggested by the Altman Z-Score model yields the Altman Z-Score. Working capital, retained earnings, earnings before interest and taxes (EBIT), market value of equity, sales, and total assets and liabilities are just a few of the financial factors that this model considers. Public manufacturing enterprises can use the standard Altman Z-Score methodology, which was created by NYU Stern professor Edward Altman. With his Z-Score, Altman is regarded as a pioneer in the field of bankruptcy theory. An indication for gauging a company's risk of bankruptcy is the Altman Z-Score model.

$Z\text{-Score} = 3.25 + 6.56A + 3.26B + 6.72C + 1.05D$ is the formula employed.
A is equal to the sum of current assets minus current liabilities.

B is equal to total assets minus retained earnings.

C = EBIT ÷ total assets

D is equal to the market value of equity less all liabilities.

H1: From 2017 to 2023, the Media & Entertainment subsector's financial distress is influenced by both the current ratio and the debt to equity ratio.

Current Ratio

A financial ratio called the current ratio is used to assess how well a business can use its current assets to pay its short-term debts. The current ratio shows how much of a company's current assets can be used to cover its upcoming current liabilities. The current ratio, according to Kasmir (2019), is a ratio used to assess a business's capacity to settle short-term obligations or debts that are due right away after full collection. A company with a high current ratio does not always ensure that it will be able to pay its matured debts because the distribution or proportion of current assets is unfavorable. For instance, if the amount of inventory is relatively high in relation to the anticipated level of future sales, the inventory turnover rate is low, indicating either overinvestment in the inventory or the presence of a sizable and challenging-to-collect receivables balance. The formula for the current ratio is:

$$\text{Current Ratio} = \frac{\text{Aset Lancar}}{\text{Kewajiban Lancar}} \times 100\%$$

From this formula, the current ratio number must be > 1, because it can suggest that the corporation has adequate current assets to meet its short-term liabilities.

H2: For the years 2017–2023, there is a relationship between the current ratio and financial distress in the media and entertainment subsector.

Debt to Equity Ratio

A financial ratio called the debt-to-equity ratio compares a company's total debt (liabilities) to its total equity to determine how leveraged it is. An overview of how much of a business is financed by debt as opposed to shareholder equity is given by the debt-to-equity ratio. The debt-to-equity ratio is used to evaluate debt to equity, according to Kasmir (2019). This ratio is calculated by comparing all debt, including current liabilities, with total equity. Higher DER ratios are less profitable for banks (creditors) since they raise the possibility of business failure. The formula is as follows:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Utang}}{\text{Total Ekuitas}} \times 100\%$$

All of the company's obligations and liabilities, including short-term loans to creditors and trade payables, are included in the total debt. On the other hand, total equity refers to the complete amount of capital held by shareholders, including retained earnings and capital contributed by owners.

H3: For the years 2017–2023, there is a relationship between the debt to equity ratio and financial distress in the media and entertainment subsector.

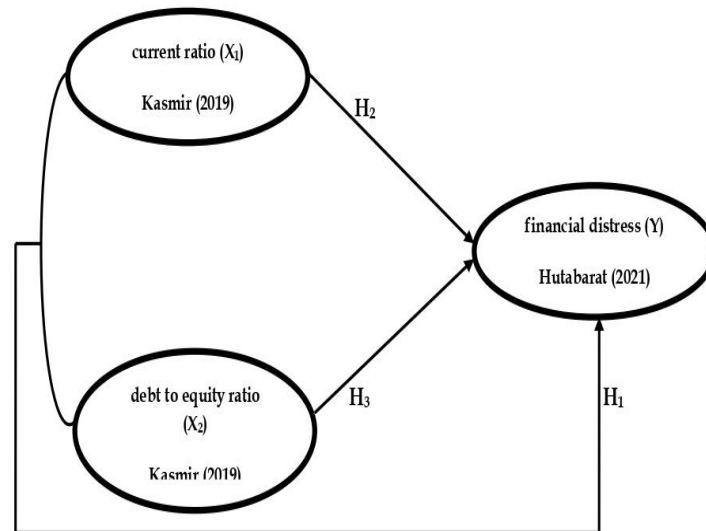


Figure 1. Conceptual Framework

METHODOLOGY

This study adopts a quantitative method approach. Companies in the media and entertainment subsector that are listed on the Indonesia Stock Exchange between 2017 and 2023 make up the population. Three businesses were chosen using purposive selection in accordance with the researcher's sample criteria. Data collection was accomplished by internet observation by accessing www.idx.co.id, the websites of the sample companies, prior research journal websites, and news stories connected to the subsector.

Eviews 12 and Microsoft Excel 2019 were utilized in data analysis methods. The following statistical tests were performed:

1. Characteristic statistics
2. Panel data regression

The actions that need to be done are:

- a. Estimate the model using the random effects, fixed effects, and common effects models prior to:
 - b. Choosing a regression model using the Lagrange multiplier, Hausman, and Chow tests.
3. Traditional assumption testing
This comprises heteroscedasticity, autocorrelation, multicollinearity, and normality testing.
 4. Concurrent (F-test) and partial (t-test) hypothesis testing.
 5. Determination coefficient.

RESEARCH RESULT

Descriptive Statistical Analysis

Table 1. Descriptive Statistics Result

	CR	DER	ZSCORE
Mean	3.785863	1.701293	9.033260
Median	3.118002	1.246210	8.594076
Maximum	11.56115	12.21912	19.78421
Minimum	0.272667	-3.562918	4.187829
Std. Dev.	3.189275	3.138818	3.527750
Skewness	0.791452	1.661803	1.268448
Kurtosis	2.872126	7.597880	5.092519
Jarque-Bera	2.206693	28.16350	9.462665
Probability	0.331759	0.000001	0.008815
Sum	79.50312	35.72716	189.6985
Sum Sq. Dev.	203.4295	197.0436	248.9004
Observations	21	21	21

Source: Eviews 12 Output (Processed data)

Three businesses with a seven-year observation period had an average Z-Score of 9.033260. The average Z-Score is greater than the standard deviation of 3.527750, suggesting that the sample data is widely distributed and fluctuates much. The greatest Z-Score is 19.78421, while the lowest is 4.187829. The current ratio has an average value of 3.785863. The highest value is 11.56115. and the lowest is 0.272667; the present ratio's standard deviation is 3.189275, showing unstable liquidity and impeding the expansion of the business. The debt to equity ratio's average value is 1.701293, its greatest value is 12.21912, and its lowest value is -3.562918. Its standard deviation is 3.138818, which shows the company's unstable finances and inconsistent debt repayment capacity.

Determination of Panel Data Regression

Chow Test

Table 2. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.327843	(2,16)	0.0315
Cross-section Chi-square	9.080795	2	0.0107

The table shows that H0 is rejected, while H1 is accepted. This decision is driven by the lower cross-section chi-square value of $0.0107 < 0.05$. Therefore, the Fixed Effects Model (FEM) is used.

Hausman test

Table 3. Hausman Test Results

Test Summary	Chi-Sq.		
	Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.655686	2	0.0132

The table indicates that since the Random Cross-section Prob. value of $0.0132 < 0.05$, H_0 is rejected and H_1 is accepted. Consequently, the Fixed Effect Model (FEM) is the technique employed for the Hausman Test.

Lagrange Multiplier Test

Table 4. Lagrange Multiplier Test Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	2.552768 (0.1101)	0.050457 (0.8223)	2.603225 (0.1066)

The Cross-section probability value of $0.1101 > 0.05$ in the table indicates that H_0 is accepted and H_1 is rejected. Consequently, the Common Effect Model (CEM), which is in between the Random Effect Model (REM) and the Common Effect Model (CEM), is the appropriate model for the Lagrange Multiplier Test. The Fixed Effect Model (FEM), which produced the highest selection frequency among the three testing techniques, was deemed the best option for hypothesis testing.

Panel Data Regression Model Estimation Testing

Fixed Effect Model

Table 5. Fixed Effect Model Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.618241	1.510129	5.706956	0.0001
X1	0.213740	0.363517	0.587980	0.5674
X2	-0.231690	0.204512	-1.132893	0.2794

The Fixed Effect Model (FEM) displays a constant value of 8.618241 in the preceding table. Additionally, the coefficient value is -0.231690 for the Debt to Equity Ratio variable and 0.213740 for the Current Ratio variable. As a result, the regression equation can be written like this:

$$\text{Financial distress Z-Score} = 8.618241 + 0.213740 (\text{CR}) - |0.231690| (\text{DER})$$

Classical Assumption Test
Multicollinearity Test

Table 6. Multicollinearity Test Results

	CR_X1	DER_X2
CR X1	1.000000	0.008173
DER X2	0.008173	1.000000

Each independent variable in the aforementioned table, including the current ratio and the debt to equity ratio, has a correlation coefficient of 0.008173. This shows that the correlation coefficient for each independent variable is less than 0.90 ($0.008173 < 0.90$). Therefore, the conclusion is that there is no multicollinearity between the independent variables.

Heteroscedasticity Test

Table 7. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.651587	0.775931	3.417298	0.0031
X1	0.005125	0.149604	0.034257	0.9730
X2	-0.091345	0.152009	-0.600922	0.5554

According to the preceding table, heteroscedasticity is not present. Every variable has a level value greater than 0.05, which makes this clear. The probability value of the current ratio is $0.9730 > 0.05$. In a similar vein, the probability of the Debt to Equity Ratio, which is 0.5554, is likewise greater than 0.05. Thus, it may be concluded that the regression model does not exhibit heteroscedasticity.

Hypothesis Testing

Table 8. Hypothesis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.759736	1.350965	7.224270	0.0000
X1	-0.045341	0.309850	-0.146331	0.8855
X2	-0.326118	0.214265	-1.522035	0.1475
Effects Specification				
Cross-section fixed (dummy variables)				
Root MSE	2.586480	R-squared	0.435568	
Mean dependent var	9.033260	Adjusted R-squared	0.294459	
S.D. dependent var	3.527750	S.E. of regression	2.963185	
Akaike info criterion	5.214663	Sum squared resid	140.4875	
Schwarz criterion	5.463359	Log likelihood	-49.75396	
Hannan-Quinn criter.	5.268637	F-statistic	3.086764	
Durbin-Watson stat	1.969922	Prob(F-statistic)	0.046197	

Simultaneous Test (F Test)

According to the following table, H_0 is approved and H_a is denied because the probability value is $0.046197 < 0.05$ and the F_{count} value is 3.086764, which is less than F_{table} 3.55. In conclusion, financial difficulty is unaffected by the current ratio and the debt to equity ratio taken combined.

Partial Test (t-Test)

a. Current Ratio's Impact on Financial Distress

According to the aforementioned table, the calculated t value $< t$ table, i.e., $-0.146331 < 1.73406$, and the current ratio has a significant level more than the confidence level (α), with a value of $0.8855 > 0.05$. As a result, H_0 is accepted and H_a is refused, suggesting that financial distress is unaffected by the current ratio.

b. Debt to Equity Ratio's Impact on Financial Distress

According to the preceding table, the Debt to Equity Ratio has a calculated t value $< t$ table, i.e., $-1.522035 < 1.73406$, and a significant level greater than the confidence level (α), with a value of $0.1475 > 0.05$. As a result, H_0 is rejected while H_a is approved, suggesting that financial distress is unaffected by the debt to equity ratio.

Coefficient of Determination (R^2) Test

The Adjusted R-Squared value of 0.294459 is the coefficient of determination employed, according to the preceding table. This shows that just 29.44% of financial difficulty is caused by the current ratio and debt-to-equity ratio (a modest contribution), with other factors that were not looked at contributing the other 70.56%.

DISCUSSION

According to research by Nugraha and Nursito (2021) and Mitha Christina Ginting (2017), the partial findings of the debt-to-equity ratio and current ratio tests revealed no impact on financial distress. Contrary to studies by Nugraha and Nursito (2021) and Mitha Christina Ginting (2017), the simultaneous findings of the current ratio and debt-to-equity ratio test revealed no impact on financial distress.

According to the definition given above, outcomes from hypothesis tests can vary even when the same variables are used. Variations in sample size, significance levels, measurement mistakes, random error in data collecting, variations in testing techniques or procedures, and variations in the use of data processing software are all factors that contribute to this. Moreover, variations in test results may also be caused by intrinsic variance in the data.

CONCLUSIONS AND RECOMMENDATIONS

1. The following conclusions can be made in light of the research findings:

Financial difficulty is unaffected by the current ratio and debt-to-equity ratio taken together. The current ratio and debt-to-equity ratio only account for 29.44% of financial distress, according to the adjusted R^2

(coefficient of determination) value of 29.44%. Other factors that were not looked at account for the remaining 70.56%.

2. Financial difficulty is mostly unaffected by the current ratio.
3. Financial difficulty is largely unaffected by the debt-to-equity ratio.
- 4.

ADVANCED RESEARCH

Among the limitations of this study are:

1. The study used exclusively quantitative approaches, with one dependent variable – financial distress – and two independent variables – the current ratio and the debt-to-equity ratio.

2. Companies with comprehensive annual financial report data for the 2017–2023 period, with a maximum IPO date of 2016, were included in the sample selection criteria. As a result, only three businesses satisfied these requirements.

The researcher suggests the following in light of the previously described research limitations:

To get more detailed results, future researchers should employ a qualitative and/or mixed methodologies approach. To meet the minimal data requirement for panel data regression, they should extend the time period, increase the sample size, and add independent variables in order to carry out this study using the same methodology.

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