



## The Influence of Debt to Asset Ratio and Return on Equity on Financial Distress Telecommunication Subsector Companies Listed on the Indonesian Stock Exchange Year 2014 - 2023

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### ABSTRACT

Using the Altman Z-Score bankruptcy prediction method, this study seeks to ascertain how financial hardship is impacted by the debt-to-asset ratio and return on equity. An associative descriptive method with a quantitative approach is the research methodology employed. The study's population consisted of 21 infrastructure businesses in the telecommunications subsector that were listed on the Indonesia Stock Exchange between 2014 and 2023. Purposive sampling was used to choose the study's sample, which included six telecommunications subsector organizations across a ten-year observation period, yielding 60 sample data. Panel data regression analysis with the E-Views 12 program is utilized for hypothesis testing in this study, with a 5% confidence level.

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## INTRODUCTION

Technology breakthroughs that have transformed human communication and affected a number of industries, including communications, transportation, and business, are responsible for the telecommunications subsector's explosive growth and significant impact on the global economy. Both people and businesses have been greatly impacted by the growth of communication from text messaging to sophisticated chat systems. To support operations and customer happiness, businesses must invest in communication services. Services like social media, e-financial services, the internet, and telephones have transformed our interactions and are now essential in today's world. In order to provide more sophisticated and crucial communications infrastructure and technology, telecommunications businesses are crucial.

The phrase "digital economy" has spread from urban to rural areas in Indonesia due to the country's telecommunications industry's rapid development (Badan Pusat Statistik, 2020). PT Telkom is Indonesia's first telecommunications business. A State-Owned Enterprise (SOE), PT Telkom Indonesia (Persero) Tbk (Telkom) operates telecommunications networks and provides information and communication technology (ICT) services in Indonesia. The Government of the Republic of Indonesia owns 52.09% of Telkom, with the general public controlling the remaining 47.91%. The Dutch colonists founded PT Telkom as a private company in 1882 to provide postal and telegraph services. The Telecommunication General Company (PERUMTEL), which arranges both domestic and international telecommunication services, replaced the State Telecommunication Company in 1974.

Separate from PERUMTEL, Indonesia formed PT Indonesian Satellite Corporation (INDOSAT) in 1980 as a business entity for international telecommunication services. The private sector's involvement in telecommunications implementation is outlined in Law No. 3 / 1989 concerning Telecommunications, which was enacted by the Indonesian government in 1989. Based on PP No. 25 / 1991, PERUMTEL changed its name to Persero Telekomunikasi Indonesia in 1991. PT TELKOM Indonesia, Tbk's environment changed as it transitioned from a ministerial to a public firm. Internal reorganization, internal cooperation, and the Initial Public Offering (IPO) were among the significant changes that took place in 1995 (PT. Telkom Indonesia (Persero) Tbk, n.d.).

This industry has grown quickly since the government gave the private sector the chance to set up telecommunications networks and services. Companies are now competing more fiercely to provide the finest service due to the proliferation of different telecoms service packages. Three primary trends – the development of social networks, the rise in mobile phone usage, and the growing consumer bargaining power – define this competition. According to Article 10 Paragraph 1 of Law No. 36 of 1999, the telecommunications sector is moving away from monopoly status and toward free competition, which fundamentally alters the industry's structure and affects telecommunications companies' sales both directly and indirectly (Syarifuddin, 2015).

Only businesses that had initial public offerings (IPOs) prior to 2014–2023 were included in this study. In order to sustain long-term performance and financial stability, businesses must constantly assess their policies and strategies in light of the competitive nature of the telecommunications sector. The firms under investigation are PT XL Axiata Tbk, PT Smartfren Telecom Tbk, PT Indosat Tbk, First Media Tbk, PT Link Net Tbk, and PT Telkom Indonesia (Persero) Tbk, all of which are listed on the Indonesia Stock Exchange.

According to the Central Bureau of Statistics (2023) Indonesia's ICT development shows positive developments and tends to increase in the last ten years, although in 2016 it decreased and had the lowest ICT Development Index value. In terms of position, Indonesia's ICT development is classified as moderate as indicated by the ICT Development Index value which is in the range of 5 on a scale of 10. Based on the description above, various policies still need to be implemented to achieve optimal ICT development.

The increase in communication technology that is increasingly sophisticated along with the times has led to increased demand for telecommunications devices to support human information and communication needs. Ramadhania (2018) states that this can be seen from the increase in cellular telephone subscribers in Indonesia and the increasingly clear role of telecommunications industry players. This development attracts investors because the telecommunications subsector is considered promising in the future, considering that companies continue to present the latest communication technology products. The general strategy carried out by companies, according to Ramadhania (2018), is to innovate to create more sophisticated and comfortable products and market these products widely in order to compete, survive, and gain profits for business sustainability. However, in reality, not all telecommunications companies are able to generate profits, some even experience a continuous decline in profits or losses, which is one indicator of bankruptcy.

According to Hutabarat (2021), financial distress is a stage of decline in financial condition that occurs before bankruptcy or liquidation, which is generally characterized by liquidity difficulties. If the company is unable to fulfill its obligations, it indicates that the company is entering a period of financial distress, and if not handled immediately, it can lead to bankruptcy. Therefore, information about financial distress is very important for management in order to predict and minimize the potential for bankruptcy early on by identifying these conditions at an early stage (Mughtar, Rahmidani, & Siwi, 2016). One of the most widely recognized bankruptcy prediction models is the Altman Z-Score (1968). This information is also important for investors and creditors, because external parties tend to avoid companies that are experiencing financial distress. According to Widhiari and Aryani Merkusiwati (2015), financial statements and financial ratio analysis can be used to determine the condition of financial distress, so that companies can take corrective action. In this study, the financial ratios used to analyze financial distress conditions are solvency/leverage ratios (Debt Asset Ratio) and profitability ratios (Return On Equity).

The Debt to Asset Ratio, as defined by Kasmir (2021: 158), is a ratio that indicates the proportion of assets financed by debt by comparing the entire amount of debt to the total assets of the organization. A higher ratio indicates a greater amount of funding through debt, as well as a higher risk of loss and debt load for the business. On the other hand, a decline in this percentage indicates that the business is using less debt. Furthermore, return on equity, which Hery (2018: 194) defines as a ratio that illustrates the contribution of equity to net income, is another financial ratio utilized in this study. This ratio calculates the amount of net profit made for every rupiah invested in the company's stock.

Habil and Nur Laily's (2023) research findings, which indicate that the debt-to-asset ratio and return on equity have a significant positive impact on financial distress, are another source of motivation for this study in addition to the previously mentioned description. Meanwhile, research by Rihadatul Aisy, M. Nuruddin Subhan, and Dewi Kurniawati (2024) indicates that neither the debt-to-asset ratio nor return on equity have any beneficial effects on financial distress.

## IMPLEMENTATION AND METHODS

### *Financial Management*

Planning, analyzing, and controlling financial activities – all of which are often handled by financial managers – are all part of the process of managing financial activities or activities inside an organization, according to Sa'adah (2020). Careful planning is necessary for financial management to avoid future issues. In the meantime, "financial management is management of financial functions, namely how to obtain funds (rising of funds) and how to use funds (allocation of funds)," claim Astawinetu & Handini (2020: 2).

### *Financial Distress*

In Triswidjanti (2017), Platt and Platt describe financial distress as a period of deterioration preceding insolvency or liquidation. When an organization is having trouble paying off its debt, it is said to be in financial distress. Hutabarat (2021) asserts that financial distress can be viewed as a phase of deteriorating financial circumstances preceding bankruptcy or liquidation. Additionally, if financial troubles arise, they may be a liquidity issue that signals the start of bankruptcy. If the business is experiencing trouble meeting its responsibilities, it may be beginning to have financial challenges. If these issues are not resolved right once, the business may go bankrupt. The definition given above leads one to the conclusion that financial distress is a state in which a business is having financial problems, as evidenced by its inability to pay its debts, which may be the first sign of bankruptcy.

### *Debt to Asset Ratio*

One element of the leverage or solvency ratio is the debt to asset ratio. "Debt to Asset Ratio is a debt ratio used to measure the ratio between total debt and total assets," Kasmir (2021, p. In other words, the proportion of the company's assets that are financed by debt or the extent to which asset management is impacted by debt.

"Debt To Asset Ratio is a ratio used to measure how much of a company's assets are financed by debt or how much debt a company has an effect on asset financing," Hery (2016) explained. This ratio compares total known assets to

current and long-term debt. This ratio demonstrates that a portion of the company's total assets are financed by debt. Actually, there is a potential to make a sizable profit if the company's calculations show a high solvency ratio, but there is also a risk of suffering larger losses.

It should be noted that the size of the ratio is significantly influenced by the company's debts as well as its assets (equity). According to some of the expert opinions above, the Debt to Asset ratio (DAR) is a financial metric that is used to evaluate the proportion of a company's assets that are financed by debt or the extent to which debt affects asset management.

### **Return On Equity**

Return on equity, according to Cashmere (2021: 206), is a statistic that compares total equity to profit after taxes. This ratio illustrates a business's ability to generate revenue from its own capital.

"Return on equity is a ratio that illustrates the extent to which equity contributes to the creation of net income," Hery (2018) said. To put it another way, this ratio is utilized to calculate the amount of net profit that will be made for every rupiah of funds that make up total equity.

A higher return on equity enhances a company's financial performance since the growth in net profit is more than the increase in equity, and vice versa.

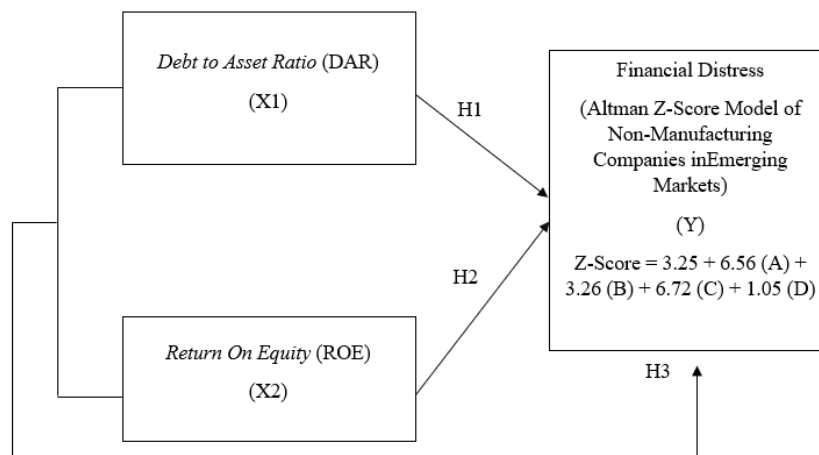


Figure 1. Conceptual Framework

## **METHODS**

### **Research Type**

The approach used in this study is quantitative research. Sugiyono (2019) states that "quantitative research is a research method based on the philosophy of positivism, used to research on certain populations or samples, data collection using research instruments, to test predetermined hypotheses through quantitative/statistical data analysis." The objective of quantitative research approaches is to examine the relationship between variables. Determining if the independent variable affects the dependent variable is the aim of this study.

**Operational Variables**  
**Variable Dependency**  
**Financial Difficulties**

It is a period of deterioration that comes before liquidation or bankruptcy. When an organization is having trouble paying off its debt, it is said to be in financial distress. Triswidjanti (2017) cites Platt and Platt.

**Independent Variable**  
**Debt to Asset Ratio**

Is a ratio used to assess debt with assets. This ratio is sought by measuring the ratio between total debt and total assets According to Kasmir (2021: 159)

$$DAR = \frac{\text{Total Liabilities}}{\text{Total Asset}} \times 100\%$$

**Return on Equity**

Is a ratio that compares profit after tax with total equity. This ratio shows the ability of a company to generate profit or profit on its own capital. According to Cashmere (2021: 206)

$$ROE = \frac{\text{Earning After Interest and Tax}}{\text{Equity}} \times 100\%$$

**Population And Sample**

The study's population consists of the telecommunications subsector infrastructure companies registered on the Indonesia Stock Exchange between 2014 and 2023. The study's population consisted of twenty-one telecom subsector businesses. The following list includes the telecommunications subsector firms listed on the Indonesia Stock Exchange. The sampling process made use of purposeful sampling. The purposive sampling technique selects participants according to predefined criteria or considerations in order to collect samples that are relevant and consistent with the objectives of the study.

**Data Collection Techniques**

A range of methods were employed to collect the data in order to ensure the accuracy and completeness of the information. Information about the company's history, organizational structure, and financial statements from 2014 to 2023 were gathered using the Documentation Study Technique. Library research is searching through books, journals, papers, and other materials relevant to the study's topic in order to collect trustworthy data. To ensure that the material acquired is up to date and in line with the latest developments in the field of study, Internet research is also utilized to locate the most recent information that may not be available in traditional printed sources.

### Data Analysis Techniques

This study's data analysis method is quantitative analysis, which requires a hypothesis test to evaluate the gathered data. E-views 12 and Microsoft Excel 2019 are the relevant applications used to support the analysis and hypothesis testing. Determining the impact of return on equity and the debt-to-asset ratio on financial distress is the goal. Thus, for the years 2014–2023, this study combines cross-sectional data, also known as panel data, with time series data. Descriptive statistical tests, panel data regression analysis, and panel data regression model estimation are all part of the analysis that was done.

## RESULTS AND DISCUSSION

### Descriptive Statistical Analysis

Table 1. Descriptive Statistical Analysis

	FINANCIAL DISTRESSES	DAR	ROE
Mean	4.728808	0.606669	-0.063542
Median	4.095391	0.655250	0.048452
Maximum	12.28307	1.569607	0.842053
Minimum	-3.685996	0.173673	-4.165122
Std. Dev.	3.270610	0.249158	0.723783
Skewness	0.210030	0.992111	-4.428162
Kurtosis	3.672281	5.978289	24.02431
Jarque-Bera	1.571031	32.01835	1301.140
Probability	0.455885	0.000000	0.000000
Sum	283.7285	36.40017	-3.812515
Sum Sq. Dev.	631.1165	3.662706	30.90786
Observations	60	60	60

According to the information at hand, the six organizations' average Z-Score during the course of the ten-year observation period is 4.728808. Financial distress has a maximum Z-score of 12.28307. The lowest number, -3.685996, has a standard deviation of 3.270610. In contrast, the average DAR number is 0.606669. 1.569607 is the highest value possible. The lowest value, 0.173673, has a standard deviation of 0.249158. The average ROE is -0.063542. The lowest value attained is -4.165122, and the highest value attained is 0.842053. Furthermore, ROE's standard deviation is 0.723783.

### Determining Panel Data Regression

Chow test

Table 2. chow test results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.463452	(5,52)	0.0019
Cross-section Chi-square	21.425971	5	0.0007

According to the table, the Chow test results indicate that H0 is rejected and H1 is approved since the Cross-section Chi-Square (p) value is less than  $\alpha = 5\%$ , specifically  $0.0007 < 0.05$ . The Fixed Effect Model (FEM) is therefore the most appropriate model to apply. The test will proceed to the Hausman Test if the Chow test rejects the null hypothesis.

Hausmant Test

Table 3. Hausman test results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	13.737112	2	0.0010

The table indicates that H0 is rejected and H1 is approved since the Hausman Test's Cross-Section Random value is  $0.0010 < \alpha = 0.05$ . Thus, the Fixed Effect Model is the more successful model in comparison to the Random Effect Model.

Langrage Multiplier Test

Table 4. Lagrange Multiplier test results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	3.942866	0.000273	3.943139
	(0.0471)	(0.9868)	(0.0471)

The table results make it evident that H0 is rejected and H1 is accepted, since the Cross-Section probability value in Breusch Pagan is  $0.0471 < 0.05$ . Of the Random Effect Model and the Common Effect Model, the Random Effect Model is the most appropriate for the Lagrange Multiplier Test.

The best and most popular model to test the hypothesis is the one that is selected the most often out of the three approaches, according to the test results above. Therefore, the Fixed Effect Model (FEM) was selected since it is a better model to utilize in this investigation than the Random Effect or Common Effect.

**Panel Data Regression Estimation Test  
Fixed Effect Model Testing results**

Table 5. Random Effect Model Testing results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.812450	0.616246	15.92295	0.0000
DAR	-8.314723	0.972785	-8.547343	0.0000
ROE	0.641930	0.284233	2.258466	0.0281

Based on the information in the table, the Fixed Effect Model (FEM) shows a constant value of 9.812450. Furthermore, the regression coefficient value for the DAR variable is  $|-8.314723|$ , whereas the ROE variable's is 0.641930. Consequently, the regression equation can be expressed as follows: The Z-score for financial distress is  $9.812450 + |-8.314723| (\text{DAR}) + 0.641930 (\text{ROE})$ .

**Classic Assumption Test  
Normality Test Results**

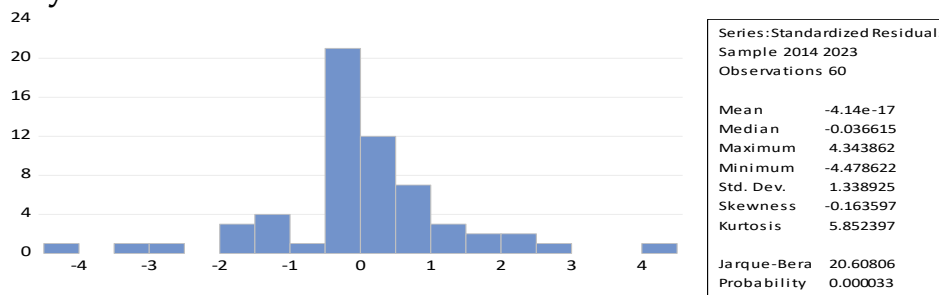


Figure 2. Normality Test Result

The image's data normality test results clearly show that the Jarque-Bera value is 20.60806 with a 0.000033 probability. Since the probability value is less than 0.05, it is possible to infer from the results that the data in this study is not regularly distributed.

**Multicollinearity Test Results**

Table 6. Multicollinearity Test

	DAR	ROE
DAR	1.000000	-0.240545
ROE	-0.240545	1.000000

The Debt To Equity Ratio variable with Return On Equity has a value of  $-0.240545 < 9.00$ , according to the multicollinearity test results in the table. Thus, it can be said that the regression model of this study does not contain multicollinearity among the independent variables.

**Autocorrelation Test Results**

Table 7. Autocorrelation Test

F-statistic	8.977894	Prob. F(2,55)	0.0004
Obs*R-squared	14.76713	Prob. Chi-Square(2)	0.0006

Based on the table above, the Chi-Square Prob. value is  $0.0006 < 0.05$ , so there is an autocorrelation problem.

**Heteroscedasticity Test Results**

Table 8. Heteroskedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.117966	0.355890	5.951176	0.0000
DAR	-1.737444	0.549467	-3.162054	0.0025
ROE	-0.635049	0.189151	-3.357372	0.0014

Heteroscedasticity is evident from the data processing results in the preceding table. The probability value for each variable, which is more than 0.05, indicates this. The debt-to-asset ratio has a  $0.0025 < 0.05$  probability. The regression model exhibits heteroscedasticity, as evidenced by the probability of Return on Equity of 0.0014.

**Hypothesis Testing**

**Simultaneous Test (F Test)**

Table 9. Results of F Test, T Test and Coefficient of Determination

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.812450	0.616246	15.92295	0.0000
DAR	-8.314723	0.972785	-8.547343	0.0000
ROE	0.641930	0.284233	2.258466	0.0281
Effects Specification				
Cross-section fixed (dummy variables)				
Root MSE	1.327720	R-squared		0.832407
Mean dependent var	4.728808	Adjusted R-squared		0.809847
S.D. dependent var	3.270610	S.E. of regression		1.426200
Akaike info criterion	3.671470	Sum squared resid		105.7704
Schwarz criterion	3.950716	Log likelihood		102.1441
Hannan-Quinn criter.	3.780699	F-statistic		36.89661
Durbin-Watson stat	1.070068	Prob(F-statistic)		0.000000

The results of the F test (simultaneous test) in the table show that the probability values of the Debt To Asset Ratio and Return On Equity on Financial Distress are both less than the significance level of  $0.000000 < 0.05$ . Additionally, the F-count result of 36.89661 is greater than the F-table = 3.16, meaning that  $36.89661 > 3.16$  with  $df_1 = 2$  and  $df_2 = 60 - 2 - 1 = 57$  at a significance level of 5%, meaning that  $H_0$  is rejected and  $H_a$  is accepted. Thus, it can be concluded that financial distress is significantly influenced by both the debt-to-asset ratio and return on equity.

#### **Partial Test (T Test)**

Based on the results of the T test (partial test) in the table, it can be seen the partial relationship of the influence of the independent variable with the dependent variable, namely:

##### **a. The Effect of Debt To Asset Ratio on Financial Distress**

The table data processing findings show that the dependent variable, Financial Distress, is significantly impacted by the independent variable, the Debt To Asset Ratio. The estimated t value  $>$  t table, specifically  $|-8.547343| > 2.00247$  and  $df = 60 - 3 = 57$  with a significance of 5%, indicates that  $H_0$  is rejected and  $H_a$  is accepted. The probability value projected with the ratio gives a significant result of 0.0000, which signifies  $< 0.05$ .

##### **b. The Effect of Return On Equity on Financial Distress**

The independent variable, Return On Equity, has a significant impact on the dependent variable, Financial Distress, according to the calculated t value  $>$  t table, which is  $2.258466 > 2.00247$  and  $df = 60 - 3 = 57$  with a significance level of 5%. The probability value projected using Return On Equity has a significance result of 0.0281, or less than 0.05, according to the table data processing results.

#### **Coefficient of Determination**

The Determination Test Coefficient is used to adjust several model parameters when presenting the dependent variable. The study's results in the Table indicate that the revised R square is 0.809847. This suggests that return on equity and the debt to asset ratio account for 80.9% of financial difficulty, with other factors not included by this study model accounting for the remaining 19.1%.

## **DISCUSSION**

### **1. The Effect of Debt To Asset Ratio and Return On Equity Simultaneously on Financial Distress**

The findings of hypothesis testing on these variables indicate that the Debt To Asset Ratio and Return On Equity factors have a simultaneous effect on Financial Distress. The F-count value of 36.89661 is more than the F-table value of 3.16, which illustrates this ( $36.89661 > 3.16$ ). Furthermore, a probability value less than 0.05 ( $0.0000 < 0.05$ ) supports this hypothesis, indicating that  $H_0$  is rejected and  $H_1$  is accepted. Therefore, it can be said that both the debt-to-asset ratio and return on equity have a significant effect on financial distress at the same time. possessing a 0.809847 Adjusted R-Squared value.

This shows that the percentage of the influence of Debt To Asset Ratio and Return On Equity on Financial Distress is 80.9%, while the remaining 19.1% is influenced by other variables not examined in this study.

## **2. The Effect of Debt To Asset Ratio on Financial Distress**

The results of a Fixed Effect Model (FEM) test using Eviews 12 showed that the debt-to-asset ratio's t-count value was  $|-8.547343|$  and its t-table value was 2.00247. It is clear from the probability value of 0.0000 2.00247 that H0 is rejected and H2 is accepted, suggesting that the Debt To Asset Ratio has a significant and somewhat partial influence on Financial Distress.

The findings of this study are consistent with studies by Habil & Nur Laily (2023) and Mutiara Muhtar & Andi Aswan (2017), which found that the debt-to-asset ratio significantly reduces financial distress.

## **3. The Effect of Return On Equity on Financial Distress.**

According to the findings of the Fixed Effect Model (FEM) study's statistical analysis utilizing Eviews 12, the Return on Equity's t-count value is 2.258466, and its t-table value is 2.00247. With a probability value of 0.0281 2.00247), H0 is rejected and H3 is accepted. This indicates that, in part, return on equity has a big impact on financial difficulty.

The findings of this study are consistent with research by Nastiti Rizky Shiyammurti & Adde Syamsiyyah Az-Zahra (2023) and Habil & Nur Laily (2023), which found that Return on Equity significantly and favorably affects Financial Distress.

## **CONCLUSIONS AND RECOMMENDATIONS**

Financial hardship is significantly influenced by both the debt-to-asset ratio and return on equity at the same time. This is demonstrated by the fact that the F-count number, 36.89661, is more than the F-table, 3.16, and the probability value, 0.0000, is below the significance level of 0.05. Therefore, it can be said that Ha1 is accepted while Ho1 is rejected. The determination coefficient is 80.9%, with other factors not included in this study influencing the remaining 19.1%.

Debt-to-asset ratio is a significant determinant of financial hardship. This is confirmed by the significance value of 0.0000, which indicates that it is less than 0.05, and the t-count value of  $|-8.547343| > 2.00247$ . Therefore, it can be said that Ha2 is accepted and Ho2 is rejected.

Financial strain is significantly impacted by return on equity. This is supported by the significance value of 0.0281, which indicates that it is less than 0.05, and the fact that the t-count value is more than the t-table,  $2.258466 > 2.00247$ . Therefore, it can be said that Ha3 is accepted while Ho3 is rejected.

## **FURTHER STUDY**

### **Research Limitations**

1. This study only uses telecommunications sub-sector companies listed on the Indonesia Stock Exchange (IDX).
2. This study only uses 6 companies with a period of 10 years.
3. This study only uses 2 independent variables, namely Debt To Asset Ratio and Return On Equity.
4. This study only uses the Altman Z-Score method, whereas there are many other methods that can be used and also have significance on financial distress.

## SUGGESTIONS

1. It is expected that further research can add and test different independent variables that are suspected of having an influence on the occurrence of financial distress that have not been used in this study, as well as conducting research on other sub-sector companies listed on the Indonesia Stock Exchange (IDX) so as to produce more relevant research.
2. It is expected that this research can be a consideration for the company's management in making decisions to manage financial risks and avoid financial distress. By paying more attention to financial ratios, especially Debt Asset Ratio and Return On Equity, the company's management can take corrective steps or create new policies to improve its performance.

It is expected that from this research, investors can use it as a consideration in making decisions when investing, in making considerations investors can pay attention to the high and low Debt Asset Ratio and Return On Equity in related companies, especially in telecommunications sub-sector companies listed on the Indonesia Stock Exchange (IDX). Investors must be selective in choosing a company to invest their capital in order to get maximum results.

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