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# Predicting Financial Distress through Financial Ratios: The Mediating Effect of Profitability

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**ABSTRACT**

This study examines the determinants of financial distress in construction companies during the period of escalating financial pressures from Q1 2021 to Q2 2025, focusing on the influence of the CR, DAR, and company size on financial distress, with ROA serving as an intervening variable representing profitability. A quantitative approach was applied using panel data from six construction firms publicly traded on the IDX, selected through purposive sampling. Panel data regression is used to test direct effects, and the Sobel method is applied to assess the mediating impact of ROA. The study results indicate that, individually, CR, DAR, and company size have an influence on ROA but are not significant. However, they collectively exhibit a significant impact when tested simultaneously. In the context of financial distress, the empirical results reveal that CR and company size positively and significantly impact financial distress. At the same time, DAR has a significant negative impact, and ROA also shows a positive and meaningful impact. Collectively, CR, DAR, company size, and ROA significantly affect the degree of financial distress. Such outcomes indicate that management must comprehensively monitor liquidity, leverage, firm size, and profitability to anticipate and minimize financial distress risks.

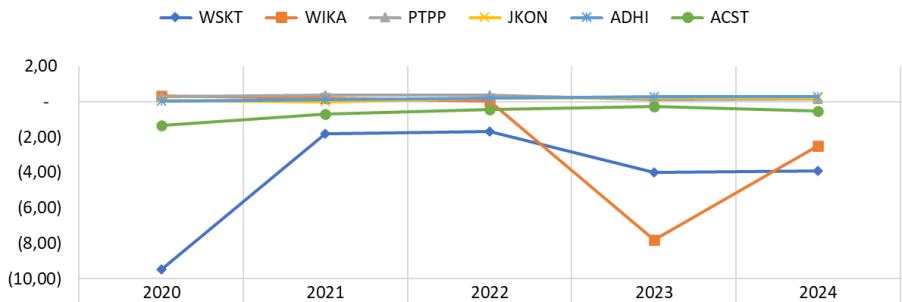
**ABSTRAK**

Studi ini bertujuan untuk meneliti faktor-faktor penentu kesulitan keuangan pada perusahaan konstruksi selama periode peningkatan tekanan keuangan dari Q1 2021 hingga Q2 2025, dengan fokus pada pengaruh CR, DAR, dan ukuran perusahaan terhadap kesulitan keuangan, dengan ROA sebagai variabel intervening yang mewakili profitabilitas. Pendekatan kuantitatif diterapkan menggunakan data panel dari enam perusahaan konstruksi yang terdaftar di IDX, yang dipilih melalui metodologi pengambilan sampel bertujuan. Regresi data panel digunakan untuk menguji efek langsung, dan metode Sobel diterapkan untuk menilai dampak mediasi ROA. Hasil studi menunjukkan bahwa, secara individual, CR, DAR, dan ukuran perusahaan memiliki pengaruh terhadap ROA tetapi tidak signifikan, meskipun secara kolektif menunjukkan dampak yang signifikan

ketika diuji secara simultan. Dalam konteks kesulitan keuangan, hasil empiris mengungkapkan bahwa CR dan ukuran perusahaan berdampak positif dan signifikan terhadap kesulitan keuangan, sedangkan DAR memiliki dampak negatif yang signifikan, dan ROA juga menunjukkan dampak positif dan bermakna. Secara kolektif, CR, DAR, ukuran perusahaan, dan ROA secara signifikan memengaruhi tingkat kesulitan keuangan. Hasil tersebut menunjukkan bahwa manajemen harus memantau secara komprehensif elemen-elemen likuiditas, leverage, ukuran perusahaan, dan profitabilitas untuk mengantisipasi dan meminimalkan potensi risiko kesulitan keuangan.

## INTRODUCTION

The construction sector significantly contributes to Indonesia's economic growth by facilitating infrastructure development, enhancing connectivity, and boosting productivity efficiency, all of which are stimulated by investments from public and private sectors. However, in recent years, this sector has faced significant challenges, both external and internal. External factors include rising global inflation, higher interest rates, and exchange rate volatility. Meanwhile, internal challenges include a surge in material costs and budget allocation restrictions.




| | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| WSKT | (9,50) | (1,84) | (1,67) | (4,02) | (3,91) |
| WIKA | 0,32 | 0,21 | 0,01 | (7,82) | (2,51) |
| PTPP | 0,27 | 0,36 | 0,37 | 0,13 | 0,13 |
| JKON | 0,05 | (0,04) | 0,20 | 0,24 | 0,19 |
| ADHI | 0,02 | 0,09 | 0,18 | 0,29 | 0,28 |
| ACST | (1,34) | (0,69) | (0,45) | (0,28) | (0,54) |

**Source:** www.idx.co.id (data processed, 2025)

**Figure 1.** Profit (Loss) Report for the Current Year for the 2020-2025 Period (in trillions)

Figure 1 presents the financial reports of six construction firms registered on the Indonesia Stock Exchange. Most of these companies experienced a decline in profitability. Several state-owned construction entities, including Waskita Karya (WSKT) and Wijaya Karya (WIKA), have even recorded repeated losses, while PTPP and Adhi Karya (ADHI) have only been able to post relatively small profits. This situation indicates financial distress, which is financial pressure that has the potential to develop into bankruptcy if not addressed immediately (Goh, 2023).

**Table 1.** Data Recapitulation

| No | Code | Issuer Name | Periode | CR | DAR | Company | Financial | ROA |
|---|---|---|---|---|---|---|---|---|
| | | | | (X) | (X) | Size (X) | Distress (X) | (%) |
| 1 | JKON | PT. Jaya Konstruksi | 2025Q1 | 2,21 | 0,25 | 29,08 | -0,13 | 6,60 |
| | | | 2025Q2 | 2,34 | 0,24 | 29,05 | -0,38 | 6,93 |
| 2 | WSKT | PT. Wakista Karya | 2025Q1 | 0,86 | 0,91 | 31,94 | -1,83 | -0,87 |
| | | | 2025Q2 | 1,06 | 0,93 | 31,93 | -3,24 | -0,58 |
| 3 | WIKA | PT. Wika Karya | 2025Q1 | 1,55 | 0,82 | 31,74 | -1,28 | 1,06 |
| | | | 2025Q2 | 1,56 | 0,83 | 31,71 | -2,89 | 0,70 |

**Source:** www.idx.co.id (data processed, 2025)

Based on Table 1, the phenomenon that occurred at PT Jaya Kontruksi was that CR increased by 0,13 times, but there was a growth in the level of corporate financial distress by 0,25 times. On the other hand, ROA increased by 0,33%. The increase in CR and ROA at PT Jaya Konstruksi indicates an improvement in liquidity and profitability, but the level of corporate financial distress has increased. This indicates that improved financial performance has not directly reduced the firm's financial pressure. This phenomenon is consistent with the findings of Asyifa et al., (2023); Abdullah & Pramono (2024); Sudaryo et al., ( 2021); and Yusuf et al., (2022) who stated that the CR affects financial distress. However, the condition of increasing financial distress despite improved liquidity also supports the findings of Maulana & Suharti (2022), who state that the CR does not always have a significant effect on financial distress. This difference in results indicates that he relationship between liquidity and financial distress is not direct but can be influenced by other factors, such as profitability.

The phenomenon that occurred at PT Wakista Karya was that DAR increased by 0,02 times, associated with a 1.41-fold increase in financial distress. Although there was an increase in ROA of 0,29%, which indicated an increase in asset efficiency, the firm’s financial pressure continued to worsen. The increase in DAR at PT Waskita Karya reflects a growing dependence on debt, accompanied by a growth in the level of financial distress, despite an improvement in ROA. This situation indicates that the improvement in asset efficiency has not been sufficient to offset the financial pressure caused by high debt burdens, consistent with Abdullah & Pramono (2024) and Maulana & Suharti (2022) that DAR affects financial distress. This differs from Indriyanto & Izzati (2022) and Sariroh (2021) suggests that DAR exerts no influence on financial difficulties.

The phenomenon that occurred at PT. Wika Karya was that company size decreased by 0,03 times, associated with a 1.61-fold increase in financial distress. In line with a decrease in ROA of 0,36%, this phenomenon indicates that a decrease in company size contributes to weakened profitability and increased financial hardship. This condition shows that Company Size ffects financial distress both directly and indirectly, but also has an indirect effect through a decrease in profitability, thus supporting the role of ROA

as a mediating variable in explaining the relationship between Company Size and financial distress. These findings are consistent with those of Maulana & Suharti (2022) found that company size affects financial hardship.This differs from Indriyanto & Izzati (2022) and Maulana & Suharti (2022) found that company size does not affect financial vulnerability.

In the construction sector, financial ratios such as liquidity, leverage, and firm size may only impact financial hardship through the firm's capacity to generate profits. High liquidity or large asset size does not necessarily reduce financial pressure if firms fail to convert these resources into effective profitability. Therefore, profitability, measured by ROA, is positioned as an intervening variable to explain the transmission mechanism between financial ratios and financial distress. This research posits ROA as an intervening variable to elucidate the indirect nexus between financial ratios and financial distress, thereby potentially augmenting the scholarly literature in this domain. Consequently, the present study endeavors to assess the influence of CR, DAR, and company size on ROA; quantify the impact of these three metrics alongside ROA on financial distress; and examine the mediating function of ROA within construction firms listed on the IDX.

## LITERATURE REVIEW

### Financial Distress

Goh (2023:21) defines financial instability as a condition characterized by an organization's financial stability is severely compromised. Consistent with this perspective, Fahmi (2018) conceptualizes financial distress as a phase of financial decline that precedes business failure or liquidation, arising when a firm's operating cash flows are insufficient to meet its short-term financial obligations, including accrued interest payments. This theoretical perspective indicates that financial distress arises from weaknesses in liquidity, capital structure, and profitability, which are reflected through financial ratios such as the CR, DAR, and ROA, as well as firm-specific characteristics including company size.

Studies on economic hardship emphasize that a company's economic pressure is influenced by various internal and external factors (Yusuf et al., 2022; Abdullah & Pramono, 2024*;* Asyifa et al., 2023; and Sudaryo et al., 2021). how a diminution in liquidity has a profound influence on the extent of fiscal hardship. Abdullah & Pramono (2024) and Maulana & Suharti (2022) shows that more debt than assets means less financial flexibility for the company, which results in more financial difficulties. Maulana & Suharti (2022) show that large companies have more resources and operational efficiency, so that the relationship between firm size and financial hardship moves towards improved financial conditions as the company size increases. These findings indicate that low liquidity, high leverage, and small company size are significant determinants of financial distress.

**Return On Asset**

Profitability is an essential indicator of a firm's financial performance and its ability to maintain business continuity. As stated by Thian (2022:111), Return on Assets reflects a firms's ability to utilize its assets efficiently to produce net earnings. similiary Hery (2018:193), ROA is a financial performance indicator used to measure the amount of profitability derived from each unit of assets capital invested in a company's total assets. Profitability has a significant role in Intervening the relationship between various financial ratios and the overall financial condition of a company (Abdullah & Pramono, 2024; Yusuf et al., 2022; Indriyanto & Izzati, 2022; and Asyifa et al., 2023). The level of financial hardship experienced by companies increases as a result of their declining ability to generate profits. Maulana & Suharti (2022) show that high ROA does not always reflect more stable conditions if it comes from non-operating profits, a decline in assets, or is not proportional to debt burdens. Consequently, the extent of fiscal hardship is shaped by profitability. However, despite a substantial return on assets (ROA), it does not invariably diminish the vulnerability to fiscal distress unless it is bolstered by persistent corporate earnings and the enterprise's aptitude to satisfy its debt liabilities.

**Current Ratio**

As stated by Kasmir (2019:134), the CR is a liquidity ratio that measures a firm's ability to settle its immediate liabilities that are due in the near term when they become payable. Similarly, Thian (2022:58) defines the current ratio as an indicator used to assess a firm's capacity to meet its immediate liabilities by utilizing its available current assets. Liquidity is considered as one of the important components in assessing an entity's ability to maintain its financial stability. Asyifa et al., (2023); Abdullah & Pramono (2024); Sudaryo et al., ( 2021); and Yusuf et al., (2022) demonstrate that modifications in liquidity have a substantial relationship with financial pressure. Maulana & Suharti (2022) show that liquidity does not always have an impact on the level of financial difficulty. The disparities in the findings of these investigations furnish a conceptual foundation for the imperative of supplementary scrutiny to ascertain how liquidity concurrently influences profitability and fiscal strain.

**Debt to Asset Ratio**

The Debt to Asset Ratio measures the degree to which a firm relies on debt to finance its total assets. As stated by Thian (2022:78), this ratio indicates the contribution of liabilities to asset financing. Kasmir (2019:98) further explains that DAR serves as a solvency indicator used by creditors to review a firm's financial risk and borrowing capacity. A business entity's financial condition is greatly controlled by its financing structure, which is indicated by the leverage ratio. Abdullah & Pramono (2024) and Maulana & Suharti (2022) show that changes in leverage are strongly associated with the

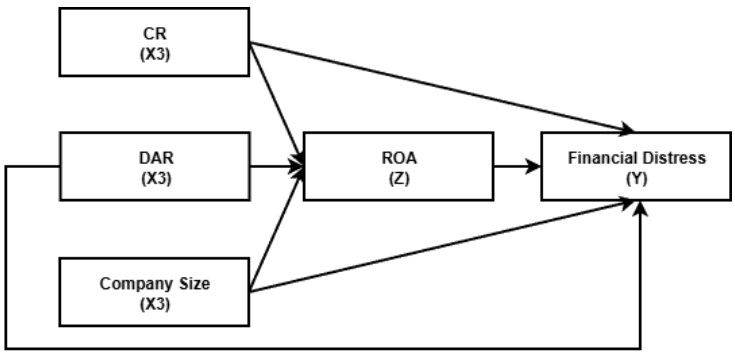
level of financial hardship risk. High debt burdens can increase financial pressure. Indriyanto & Izzati (2022) show that DAR may not affect financial distress because debt burdens can be managed well through stable cash flows and long-term debt structures. The disparate outcomes of investigations into the impact of leverage on fiscal difficulties suggest an ambiguity regarding the circumstances that render leverage either material or immaterial. Further research is needed to analyze the role of cash flow stability, debt structure, and risk management quality in moderating this relationship.

**Company Size**

According to Hery (2018:97), Company size is an indicator used to describe the overall scale of a firm. Meanwhile, according to Brigham & Houston (2018:83), Company size reflects the relative magnitude of a company's operations. A business's ability to cope with financial pressures is influenced by its size. Maulana & Suharti (2022) show that a company's capacity to survive in uncertain financial situations is determined by its size. Indriyanto & Izzati (2022) show that company size is not always significantly impact financial pressure. Differing results from various studies suggest that firm size can influence financial performance through indirect channels, including operational efficiency and profitability. These findings provide an opportunity to consider this theory.

**Research Model**

This research framework was formulated to elucidate the influence of CR, DAR, and Company Size impact Financial Distress, with ROA serving as an intervening construct.




**Source**: Data Processed, 2025

**Figure 2.** Research Model

**METHOD**

This study employs quantitative methodologies through the utilization of descriptive and verificatory approaches. The target population encompasses all construction firms registered on the IDX during the timeframe covering Q1 2021 to Q2 2025. This interval was selected since quarterly data furnishes a more comprehensive

insight into the firm's financial position compared to yearly statements, thereby capturing short-term financial fluctuations.

The investigation employed purposive sampling with the ensuing prerequisites: construction firms registered with the IDX from Q1 2021 to Q2 2025, possessing comprehensive financial statements that encompass all pertinent research variables, and regularly disseminating quarterly financial reports throughout the period. The study sample comprised comprehensive quarterly financial disclosures from six construction firms, specifically: PT Wakista Karya Tbk, PT Jaya Konstruksi Manggala Pratama Tbk, PT Adhi Karya Tbk, PT Wika Karya Tbk, PT Ascet Indonusa Tbk, and PT Pembangunan Perumahan Tbk. Eviews 12 software is used to perform analysis and perform panel data regression.

## RESULT AND DISCUSSION

### Result

**Tabel 2.** Descriptive Statistics

| Statistics | CR | DAR | SIZE | ROA | FD |
|---|---|---|---|---|---|
| Mean | 1.318924 | 0.707158 | 30.76854 | -1.671998 | 0.875571 |
| Median | 1.177986 | 0.749432 | 31.47372 | 0.041457 | 1.015527 |
| Maximum | 2.338707 | 1.050127 | 32.29011 | 5.500403 | 6.930414 |
| Minimum | 0.685200 | 0.093594 | 28.37819 | -27.97282 | -6.831236 |
| Std. Deviation | 0.401039 | 0.206534 | 1.412891 | 4.727151 | 2.882444 |
| Skewness | 0.878073 | -1.131350 | -0.626686 | -3.108851 | -0.108427 |
| Kurtosis | 2.759896 | 3.338520 | 1.602851 | 14.73870 | 3.300851 |
| Jarque–Bera | 14.13764 | 23.55484 | 15.85336 | 794.0563 | 0.618916 |
| Probability | 0.000851 | 0.000008 | 0.000361 | 0.000000 | 0.733844 |
| Sum | 142.4437 | 76.37303 | 3323.003 | -180.5757 | 94.56162 |
| Sum Sq. Dev. | 17.20909 | 4.564235 | 213.6000 | 2391.017 | 889.0078 |
| Observations | 108 | 108 | 108 | 108 | 108 |

**Sumber**: Eviews 12 Output Results

Based on Table 1, Financial distress manifested a mean value of 0.87 and a standard deviation of 2.88, revealing pronounced fluctuations among the examined firms, with values ranging from –6.83 to 6.93. Meanwhile, ROA recorded a mean value of -1.67% and a standard deviation of 4.72%, spanning from -27.97% to 5.50%; this signifies that, collectively, enterprises typically incur deficits, accompanied by substantial variations in profitability metrics. CR ranged from 0.68 to 2.33 (average 1.31; standard deviation 0.40), reflecting a relatively moderate ability to meet short-term obligations with moderate variation between companies. DAR ranged from 0.09 to 1.05 (average 0.70; standard deviation 0.20), indicating that the capital structure was dominated by debt, resulting in a relatively high level of corporate leverage. The company size within the sample ranged from 28.37 to 32.29, with a standard deviation of 1.41 and a mean value of 30.76. This indicates that the sample predominantly consisted of medium to large enterprises, exhibiting minimal variation in size.

**Equation 1 (X → Z)**

**Table 3.** Fixed Effect Model (X → Z)

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -268.4226 | 141.7715 | -1.893346 | 0.0612 |
| CR | 0.783388 | 1.465556 | 0.534533 | 0.5942 |
| DAR | -0.042534 | 3.674074 | -0.011577 | 0.9908 |
| SIZE | 8.636984 | 4.608567 | 1.874115 | 0.0639 |
| Effects Specification | | | | |
| Cross-section fixed effects (dummy variables) | | | | |
| R-squared | 0.422294 | Mean dependent var | | -1.671998 |
| Adjusted R-squared | 0.375610 | S.D. dependent var | | 4.727151 |
| S.E. of regression | 3.735316 | Akaike info criterion | | 5.553197 |
| Sum squared resid | 1381.306 | Schwarz criterion | | 5.776708 |
| Log likelihood | -290.8726 | Hannan–Quinn criterion | | 5.643823 |
| F-statistic | 9.045918 | Durbin–Watson stat | | 1.900770 |
| Prob(F-statistic) | 0.000000 | | | |

**Source**: Eviews 12 Output Results

Chow's test results, F test, and Chi-square statistics, both produced a value of 0.00 (<0.05), indicating that FEM is the most relevant. And the results of the Hausman test, with a random prob. of 0.01 (<0.05), suggest that the FEM is the most pertinent. This result aligns with the conclusions drawn from the Chow and Hausman tests, which similarly identify the FEM as the optimal specification. Normality test results, the Jarque-Bera prob. value obtained is 509.68 (> alpha 0.5), indicating that the data distribution is normal. Based on the multicollinearity test, the CR variable values obtained were -0.70 and -0.32 (>0.8), indicating that the data was free from multicollinearity. Therefore, the regression model used was suitable for further analysis.

**Equation 2 (X and Z → Y)**

**Table 4.** Fixed Effect Model (X and Z → Y)

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -25.55608 | 2.720660 | -9.393337 | 0.0000 |
| CR | 3.015531 | 0.339761 | 8.875454 | 0.0000 |
| DAR | -8.235375 | 0.779032 | -10.57130 | 0.0000 |
| SIZE | 0.927456 | 0.094156 | 9.850211 | 0.0000 |
| ROA | 0.154518 | 0.023661 | 6.530380 | 0.0000 |

| | | | |
|---|---|---|---|
| R-squared | 0.888011 | Mean dependent var | 0.875571 |
| Adjusted R-squared | 0.883662 | S.D. dependent var | 2.882444 |
| S.E. of regression | 0.983153 | Akaike info criterion | 2.849086 |
| Sum squared resid | 99.55876 | Schwarz criterion | 2.973259 |
| Log likelihood | -148.8507 | Hannan–Quinn criterion | 2.899434 |
| F-statistic | 204.1841 | Durbin–Watson stat | 1.109315 |
| Prob(F-statistic) | 0.000000 | | |

**Source**: Eviews 12 Output Results

Chow's test results, F test, and Chi-square statistics, both produced a value of 0.00 (<0.05), indicating that FEM is the most relevant. And Hausman tests, with a random prob. value of 0.00 (<0.05), suggest that the FEM is the most pertinent. This result aligns

with the conclusions drawn from the Chow and Hausman tests, which similarly identify the FEM as the optimal specification. Normality test result, the Jarque-Bera prob. value obtained is 272.98 (> alpha 0.5), indicating that the data distribution is normal. Based on the multicollinearity test, the CR variable values obtained were -0.70, -0.32, and 0.24 (>0.8), indicating that the data was free from multicollinearity. Therefore, the regression model used was suitable for further analysis.

Based on Table 5, return on assets can mediate the indirect effect of DAR and company size on financial distress.

**Table 5.** Results of Indirect Effect Test (ROA Mediation)

| No | Influence | t-count | t-table | Description |
|---|---|---|---|---|
| 1 | CR on Financial Distress through ROA as an intervening variable | 0,52 | 0,63 | CR does not have a significant impact on financial distress through ROA as an intervening variable. |
| 2 | DAR on Financial Distress through ROA as an intervening variable | 1,08 | 0,63 | DAR has a negative and significant impact on financial distress through ROA as an intervening variable. |
| 3 | Company Size on Financial Distress through ROA as an Intervening Variable | 1,75 | 0,63 | Company size has a positive and significant impact on financial distress through ROA as an intervening variable. |

**Source:** Data processed in 2025

## Discussion

### The Effect of Current Ratio on Return on Assets

The findings of the analysis show, CR exerts an impact on ROA, although the effect is not statistically significant, demonstrated by a test statistic of 0.53 and an alpha threshold of 0.59 (> 0.05). This is in line with Thian (2022) view, which emphasizes that a high CR may reflect an accumulation of unproductive current assets, thereby not always contributing to increased profits. Although CR plays a role in indicating a firm's ability to meet its short-term liabilities, its effectiveness in driving profitability remains limited. In terms of directionality, this supports the research of Oktaviani et al., (2022): Angela & Nuryani (2021); and Asyifa et al., (2023) that CR affects ROA, although its contribution is inconsistent or weak in the context of construction companies. This differs from Widiyanti & Syarif (2025) who state that CR does not affect ROA.

### The Effect of Debt to Asset Ratio on Return on Assets

The findings of the analysis show, DAR similarly exerts an impact on ROA, but the effect is not statistically significant, reflected in a t-score of -0.01 and a probability level of 0.99 (> 0.05). The empirical results suggest that a company's leverage level does not always contribute to increased profitability. In terms of directionality, this supports the research of Saputra et al., (2025) and Branido et al., (2021) the DAR ratio can affect ROA. Although there is an influence, the impact of the DAR on profitability is

inconsistent and tends to be weak. This may occur because construction companies are able to manage their debt burden through government project support or financing restructuring, so that the influence of leverage on profitability becomes unstable and relatively limited.

**The Effect of Company Size on Return on Assets**

The findings of the analysis show, company size shows an impact on ROA, although it is not statistically significant, presenting a t-statistic of 1.87 and an alpha threshold of 0.06 (> 0.05). These findings indicate that company size is not always contribute consistently to increased profitability. In terms of directionality, this supports the research of Ayuningrum et al., (2025), who state that company size affects ROA. Although the effect is not statistically significant, companies with large assets still face limitations in utilizing their assets to produce revenue. This is due to high project costs and cash flow instability, resulting in weak and inconsistent effectiveness of company size in increasing profitability.

**The Effect of Current Ratio on Financial Distress**

The findings of the analysis show, CR exhibits beneficial and statistically significant impact on financial distress, with a t-value of 13.20 and a significance level of 0.00 (<0.05). These findings indicate that a company's liquidity level plays an important role in determining its financial distress. These observations corroborate the findings of Asyifa et al., (2023); Abdullah & Pramono (2024); Stepani & Nugroho (2023); Sudaryo et al., ( 2021); and Yusuf et al., (2022) hat CR affects financial distress. In the context of the construction sector in Indonesia, companies with high CR tend to be better able to maintain project cash flow, making them more resistant to financial hardship. Thus, this study reinforces the evidence that liquidity is a crucial factor in explaining financial distress, especially in companies with large project loads and high working capital requirements.

**The Effect of Debt to Asset Ratio on Financial Distress**

The findings of the analysis show, DAR demonstrates a negative and substantial bearing on financial distress, as evidenced by a t-value of -9.73 and Sig = 0.00 (<0.05). This finding implies that higher leverage is associated with a decreased probability of financial distress among the sampled firms. Although financial theory generally suggests that high leverage increases financial risk, the negative relationship found in this study reflects the specific characteristics of Indonesian construction companies, particularly state-owned enterprises, which often benefit from government support and flexible financing arrangements. These findings are in line with Abdullah & Pramono (2024);

Wangsih et al., (2021) and Maulana & Suharti (2022) that DAR affects financial difficulties.

**The Effect of Company Size on Financial Distress**

The findings of the analysis show, company size is confirmed to exert a beneficial and substantial bearing on financial distress, supported by a t-value of 3.36 and Sig = 0.00 (<0.05). This finding suggests that firm size plays an important role in influencing the level of financial distress experienced by companies. Larger firms generally possess stronger asset bases, better access to external financing, and greater operational flexibility, which enable them to manage financial pressures more effectively. Consequently, firm size can serve as a stabilizing factor that reduces vulnerability to financial difficulties. The results are in accordance with Maulana & Suharti (2022), Putri et al., (2024) and Prastyatini & Novikasari (2023) found that company size affects financial distress.

**The Effect of Return on Asset on Financial Distress**

The findings of the analysis show, ROA similarly shows a beneficial and substantial bearing on financial distress, with a t-value of 5.24 and Sig = 0.00 (<0.05). This finding suggests that higher profitability enhances a company ability to manage financial liabilities and reduces the likelihood of experiencing financial difficulties. Companies with higher ROA are generally more efficient in utilizing their assets to generate earnings, thereby strengthening internal financing capacity, and improving financial resilience. Consequently, profitability plays a key role in reducing financial difficulties, particularly in capital-intensive sectors such as construction, where operational efficiency and earnings stability are essential for sustaining long-term projects. These findings are in line with Abdullah & Pramono (2024); Efendi et al.,(2023); (Silanno & Loupatty (2021); Yusuf et al., (2022); Indriyanto & Izzati (2022); (Rahandri et al., 2025) and Asyifa et al., (2023) Indicates that ROA exerts an influence on financial difficulties.

**The effect of Return on Assets as an intervening variable**

The results of the indirect effect test indicate that ROA plays a varying mediating role in the relationship between financial ratios and financial difficulities. First, the indirect impact of the CR on financial distress through ROA is not significant, as reflected by a t-value of 0.52, which is below the critical value. This finding suggests that liquidity does not indirectly influence financial distress through profitability. Although higher liquidity is generally expected to enhance operational flexibility, in the context of construction companies, excessive current assets may not necessarily translate into improved profitability due to the long-term nature of projects and delayed cash

realization. Consequently, ROA is unable to intervening the relationship between liquidity and financial difficulties. This finding is not in line with Maulidya et al., (2023) profitability can moderate the effect of liquidity on financial distress.

In contrast, the results show that DAR has a negative and significant indirect impact on financial distress through ROA. This finding indicates that leverage influences financial distress by affecting profitability. This finding is in line with Gultom & Hasyim (2025) that ROA is able to mediate the impact of DAR on Financial Distress. When debt is utilized effectively to finance productive assets and ongoing projects, it can enhance asset returns and improve profitability, eading to a lower risk of financial distress. This phenomenon is particularly relevant in the Indonesian construction sector, where companies especially state-owned enterprises often rely on long-term debt financing supported by government guarantees and restructuring mechanisms. Therefore, ROA serves as an important channel through which leverage contributes to financial stability.

Furthermore, company size is found to have a positive and significant indirect effect on financial distress through ROA. This result implies that larger firms tend to achieve higher profitability due to economies of scale, better access to capital, and stronger market positions, which subsequently influences their financial distress condition. Larger construction firms generally have greater capacity to manage operational risks and optimize asset utilization, enabling ROA to function as an effective mediating variable. Overall, these findings highlight the crucial role of profitability in transmitting the effects of leverage and firm size on financial difficulties, while liquidity alone is insufficient to influence distress through profitability.

**The Simultaneous Effect of Current Ratio, Debt to Asset Ratio, and Company Size on Return on Assets**

Based on statistical tests, the F-statistic value of 9.04 with a significance level of 0.00 (<0.05) indicates that the CR, DAR, and company size collectively have a significant effect on ROA. These results confirm that the overall regression model is statistically suitable and relevant for explaining variations in profitability. The combined significance of these variables indicates that liquidity, leverage, and company scale collectively play an important role in shaping a company's capability to generate return, although the individual impact of each variable may vary, as shown by the partial t-test results. This observation is in agreement with Widyakto et al., (2022) study that liquidity, leverage, and company size affect return on assets.

**The Simultaneous Effect of Current Ratio, Debt to Asset Ratio, Company Size, and Return on Assets on Financial Distress**

Based on statistical tests, the F-statistic value of 664.68 with a significance level of 0.00 (<0.05) indicates that CR, DAR, Company Size, and Return on Assets jointly

have a significant effect on financial distress. This result confirms that the aggregate regression model demonstrates statistically valid and that liquidity, leverage, firm size, and profitability collectively play a crucial role in influincing a firm's financial difficulties condition. The strong joint significance suggests that financial difficulties is not driven by a single factor, but rather by the interaction of multiple financial characteristics.

## CONCLUSSION

This study shows that individually, CR, DAR, and company size do not have a statistically substantial impact on ROA. Nonetheless, when tested simultaneously, these three variables are proven to be able to explain variations in ROA significantly, although with moderate explanatory power. Moreover, CR and firm size were identified to exert beneficial and statistically significant effect on financial distress, whereas DAR demonstrated a negative and substantial bearing on financial distress, and ROA had a substantial and beneficial impact on financial distress . Overall, the combined effect of CR, DAR, firm size, and ROA substantially accounted for the variability in financial distress. Concerning the indirect effects, CR did not display a significant mediating role on financial distress via ROA, while DAR mediated negatively and firm size mediated positively on financial distress through ROA.

Theoretically, these results deepen our understanding of the internal determinants of financial distress in the construction sector by highlighting the mediating role of profitability (ROA). Practically, the findings provide a basis for management to more effectively manage liquidity, leverage, and firm size, while optimizing profitability, to minimize the potential for financial difficulties. The limitations related to sample size and the relatively short observation period open avenues for future research to broaden the dataset and incorporate macroeconomic variables, to achieve a more thorough understanding of the dynamics of financial distress within this sector.

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