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Sales Growth Moderates The Effect of Capital Intensity and Earnings Management on Financial Distress

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ABSTRACT

This study examines the effect of Capital Intensity and Earnings Management on Financial Distress with Sales Growth as a moderating variable in industrial sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2023 period. This is interesting because, in the midst of business competition and economic uncertainty, corporate bankruptcy can be measured very well through the level of financial stress. Many companies experience financial distress despite having good levels of fixed asset investment and sales growth. Similar research with moderation models in this industry is very limited, so the findings of this study may provide a new perspective on enterprise risk management. This study uses quantitative methods with secondary data from the financial statements of industrial sector companies listed on the IDX during the 2019-2023 period. The data analysis technique uses moderation regression analysis with purposive sampling method sampling with certain criteria. The results showed that Capital Intensity has no significant effect on Financial Distress, while Earnings Management has a significant positive effect on Financial Distress. Sales Growth cannot moderate the relationship between Capital Intensity and Earnings Management on Financial Distress. the size of investment in fixed assets does not affect the risk of corporate financial distress, while earnings management practices actually increase the risk of financial distress. This emphasizes the importance of transparent and effective financial management rather than focusing only on increasing sales or asset investment.

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Capital Intencity,
Earnings management,
Sales Growth,

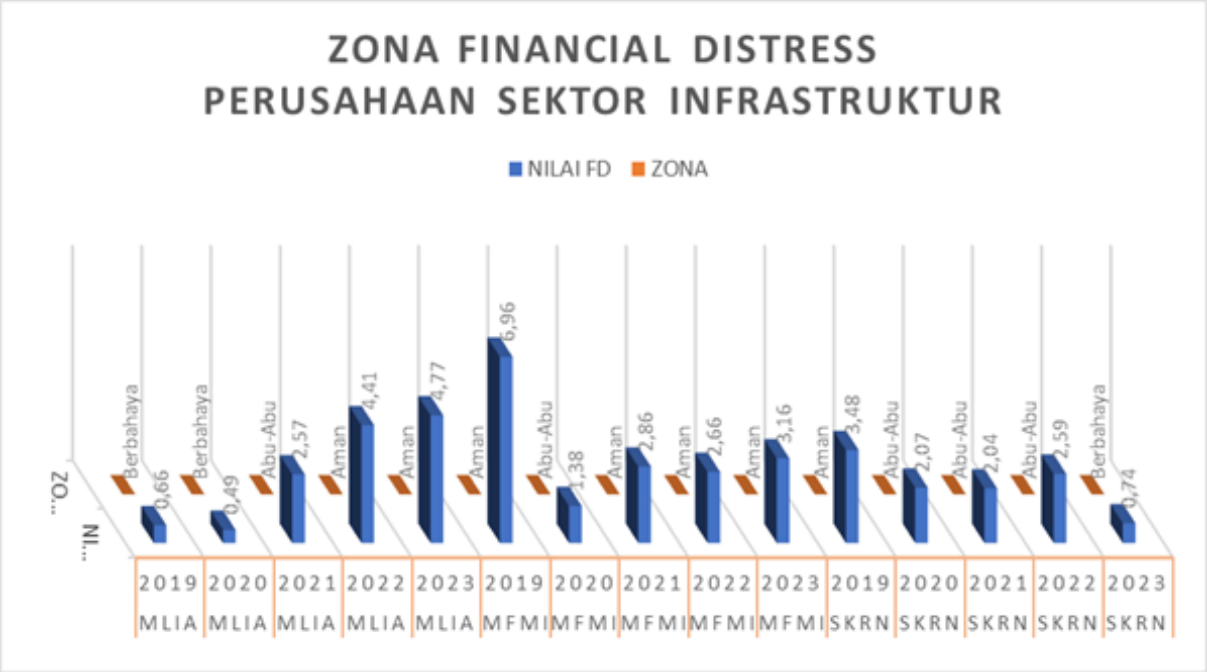
1. Introduction

The financial health of a company is one important way to assess the ability of a company to survive and thrive in a business world full of uncertainty. The development of the economy in Indonesia from year to year has caused companies in Indonesia to compete in competitive business ventures, plus the easier use of technology as a means of communication makes it easier for companies to innovate to compete. (Mulyatiningsih, 2021).

A company experiences financial distress first before the company finally experiences bankruptcy. This is because at that time the financial situation that occurred in the company was in a state of crisis, where in a situation like this it can be said that the company experienced a decrease in funds in running its business which could be caused by a decrease in revenue from sales or operating results carried out by the company to earn profits, but the income or results obtained were not comparable to the obligations or debts that were many and had matured. (Sutra 2019).

By looking at the number of companies that have gone bankrupt due to business competition and other conditions that can affect the company's operational activities, it is important to detect the possibility of bankruptcy as early as possible by analyzing whether the company is facing a financial distress situation or not and what aspects can affect it. This early bankruptcy detection effort can be carried out by analyzing the financial information contained in the annual report published by the company with the aim that certain actions can be taken that can improve the company's financial condition so that the company can avoid bankruptcy. Based on signaling theory, company management voluntarily discloses information about company performance through annual reports with the aim that the possibility of information asymmetry can be reduced and help shareholders make the right business decisions (Sutra and Mais, 2019). Infrastructure companies can be seen from several zones in the calculation of the financial distress value of Almant Z-Score which is divided into 3 zone categories, namely Safe, Gray and Dangerous, here is a data display for companies in the infrastructure sector:

Figure 1. Financial Distress Zones of Infrastructure Sector Companies



Source: Data processed by researchers, 2025

From the processed results of financial distress data on infrastructure companies, there are several that experience the danger zone, namely PT Mulia Industrindo Tbk. which occurred in 2019 and 2020 but in 2021 managed to leave the downturn until finally 2022 and 2023 were in the safe

zone. PT Multifiling Mitra Indonesia Tbk. experienced a financial downturn in 2020, while in the previous year, 2019, it was in a very comfortable zone, reaching 6.96, this is certainly due to the phenomenon felt by all companies in Indonesia and even the world, namely Covid 2019, but this company managed to improve its financial condition until 2023, which is in a comfortable zone. From the two companies that have been described, it is different with PT Superkrane Mitra Utama Tbk. which previously in 2019 was in the Safe zone, after 2020 to 2022 was in the Gray zone and even in 2023 was in the danger zone. This is one of the reasons why researchers want to examine the infrastructure sector on the Indonesia Stock Exchange from 2019 to 2023.

Factors that affect companies experiencing financial distress include capital Intensity is the ability of a company to do how much the company can invest its wealth in the form of fixed assets or inventory. Capital intensity shows the company's ability to invest current assets in the form of fixed assets of the company (Brigham, E.F., & Ehrhardt, Michael C, 2011: 52) cited by (Dwijayanti, 2021). Capital intensity is a ratio used to measure all the assets needed by the company to generate one rupiah of sales, in other words, measuring the efficiency of the company in the use of the company's assets (Ehrhardt & Brigham, 2016: 518). From some of the explanations above, it can be concluded that Capital Intensity is a picture that can determine how much a company invests in fixed assets. Capital intensity research results have a negative effect on financial distress. The results of capital intensity research that has a negative effect on financial distress mean that the greater the capital intensity, the less likely the company is to experience financial distress. The results of this regression analysis are in line with the results of research from Bachtiar and Handayani (2022) and Syafela, et al (2022) which state that capital intensity affects financial distress.

Factors that affect companies experiencing financial distress include Earnings Management is an action where management intervenes in the process of preparing financial reports for external parties so that it can flatten, increase, and decrease profits (Suryanawa, 2019). Companies that practice earnings management as a strategy to improve finance so as to reduce financial distress conditions. Earnings management can occur because managers are given the discretion to choose the accounting method to be used in recording and disclosing their private financial information. From the results of the research Earnings Management has a positive and significant effect on Financial Distress. This is because internal control has been running well and external auditors have reviewed financial reports according to existing standards so that there is no more room for earnings management. The results of the Earnings Management study have a positive and significant effect on Financial Distress. This is because internal control has been running well and external auditors have reviewed financial reports according to existing standards so that there is no more room for earnings management. (Murti and Zamzamy 2024).

Sales Growth Sales growth shows the extent to which the company can increase its sales compared to total sales as a whole. The growth ratio is a ratio that describes the company's ability to maintain its economic position amid economic growth and its business sector (Kasmir, 2018: 107). It can be concluded that sales growth describes the increase in sales from year to year. A high sales growth rate indicates the better a company is in carrying out its operations. Sales growth can illustrate the success of a company. Sales growth is the year-on-year increase in sales. The company successfully implements the strategy if the level of sales growth is getting bigger (Rahma & Dilak, 2021). The company will avoid this condition if it has a good financial condition. This condition is less likely to be

experienced if sales growth is greater. Vice versa, if sales growth is getting smaller, the greater the chance of experiencing financial distress. Research results Sales growth affects financial distress. Sales growth describes the ability to continue to increase revenue. The higher the revenue growth, the more successful the marketing and sales strategy. (Muslimin and Bahri, 2023).

Based on the background that has been described, the problems in the study can be identified as follows: (1) Does earnings management, Capital Intensity affect financial distress (2) Does earnings management affect financial distress? (3) Does Capital Intensity affect financial distress? (4) Can sales growth moderate earnings management on financial distress? (5) Can sales growth moderate Capital Intensity on financial distress? While the objectives of this study are: (1) To test earnings management, Capital Intensity affects financial distress, (2) To test earnings management affects financial distress, (3) To test Capital Intensity affects financial distress, (4) To test Sales growth can moderate earnings management on financial distress. (5) To test Sales growth can moderate Capital Intensity on financial distress.

2. Literature Review

Signaling Theory

In this theory, it is explained that signal theory can provide information presented by companies in the form of good and bad information (Suprihatin and Giftilora, 2020). Information in the form of bad information can be information about the problem of a decrease in the company's financial condition which results in the company's financial difficulties in terms of the company's operational and non- operational aspects, so that it can be concluded that it will indicate a company with bankruptcy symptoms. Based on the above understanding, signal theory is a theory that focuses more on the information published by the company and the reaction to that information. This shows how important the information published by the company is. The relationship between signaling theory and financial distress is based on the company's financial statement information, so that it can be known about the company's capacity and financial condition, so that it can be known whether the company is facing a financial distress situation or not facing a financial distress situation. If financial Distress can be predicted in advance, so it is hoped that there will be preventive measures so that the company does not experience bankruptcy. Companies are unlikely to experience bankruptcy suddenly, therefore companies that experience financial distress are a signal or sign of possible bankruptcy, because financial distress is a step in declining financial conditions before bankruptcy. (Anisa and Rismaniar, 2022). Based on signal theory, the actions taken by a company can provide information and an overall picture to investors regarding the company’s future prospects. Therefore, a higher level of sales growth can be interpreted as a positive signal by investors, encouraging them to invest in the company. This, in turn, may lead to an increase in the firm’s value. (Nurhasanah & Napisah, 2024)

Financial Distress

The decline in the financial condition of a company before bankruptcy or liquidity is known as financial distress (Piatt & Piatt in Zees & Kawatu, 2022). According to Rudianto in Alvionita et al (2021) financial distress is the inability of an organization to meet its financial obligations when it fails, resulting in bankruptcy or liquidity difficulties which can be the beginning of bankruptcy. Indrayani & Herawaty in Amanda & Muslih (2020), financial distress is the financial condition of a company when experiencing a crisis or unhealthy problems before bankruptcy occurs. Financial distress reflects the

financial difficulties that a company may face (Kazemian et al., in Halim., 2021). With the modified Altman Z- score measurement, as follows:

$$Z = 6{,}56\ X1 + 3{,}62\ X2 + 6{,}72\ X3 + 1{,}05\ X4 \qquad (1)$$

Where:

X1 = Working Capital / Total assets

X2 = Retained earnings / Total Assets

X3 = EBIT / Total Assets

X4 = Book Value of Equity / Total Book Payable

Capital Intensity

Capital intensity is the amount of investment in assets made by a company in the form of fixed assets and inventory (Kamalahayati & Pratomo, 2021). Mulyani in Kamalahayati & Pratomo (2021), Capital intensity is a description of the amount of capital needed to make a profit. Capital intensity is a ratio that can be useful in calculating all the assets the company wants that can generate sales, meaning that the ratio measures how efficiently the company uses its assets (Bachtiar & Handayani, 2022). Bachtiar & Handayani (2022), said that a low level of capital intensity reflects that the company uses its assets efficiently and generates sales using low capital. A low capital intensity ratio will reduce the risk of financial distress. Capital intensity in this study is based on the research of Ehrhardt and Brigham in Bachtiar & Handayani (2022), which is as follows:

$$\text{Capital Intencity} = \frac{Total\ Fixed\ Asset}{Total\ Asset} \qquad (2)$$

Earnings Management

Earnings management is an action where management intervenes in the process of preparing financial reports for external parties so that it can flatten, increase, and decrease profits (Suryanawa, 2019). Companies that practice earnings management as a strategy to improve finance so as to reduce financial distress conditions. Earnings management can occur because managers are given the discretion to choose the accounting method to be used in recording and disclosing their private financial information. Earnings management can be cosmetic, if managers manipulate accruals that have no cash flow consequences. Earnings management can also be real, if managers take actions related to cash flow consequences for the purpose of managing earnings. (Murti and Zamzamy 2024).

1. Total Accrual

$$TAC_{it} = NI_{it} - CFO_{it} \qquad (3)$$

2. Nondiscretionary Total accrual using comprehensive regression

$$\frac{TAC_{it}}{TA_{it-1}} = \beta_1 \left(\frac{1}{Ta_{it-1}}\right) + \beta_2 \left(\frac{\Delta Rev_{it}}{TA_{it-1}}\right) + \beta_3 \left(\frac{PPE_{it}}{TA_{it-1}}\right) + \varepsilon_{it} \qquad (4)$$

3. *Nondiscretionary* Total *accrual* (NDTA)

$$NDTA_{it} = \beta_1\left(\frac{1}{TA_{it-1}}\right) + \beta_2\left(\frac{\Delta Rev_{it}+\Delta TRec_{it}}{TA_{it-1}}\right) + \beta_3\left(\frac{PPE_{it}}{TA_{it-1}}\right) \quad (5)$$

4. *Discretionary* Total *accrual* (DTA)

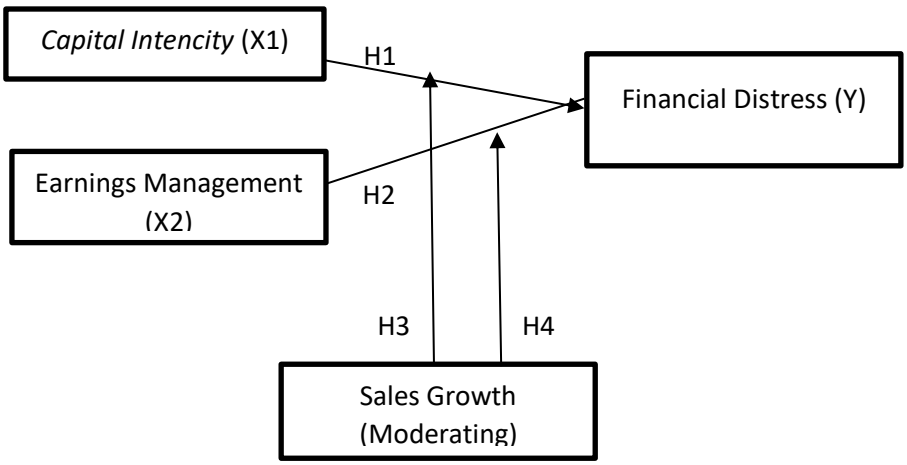
$$DTA_{it} = \frac{TAC_{it}}{TA_{it-1}} - NDTA_{it} \quad (6)$$

Sales Growth

Sales growth or increase illustrates the success of the company's investment during the last period which can be used as a prediction of future company growth (Simanjuntak in Okrisnesia et al., 2020). If the company's sales growth value is high, then the growth is considered successful because the company's management has implemented a good marketing and product sales strategy (Hosea et al., 2020). The higher the level of sales of a company, the lower the level of losses experienced so that the company can avoid financial difficulties (Rahmawati, 2016). According to Hosea et al (2020), positive sales growth also shows a good signal for all parties because companies tend to be able to maintain their business and reduce financial difficulties.

$$\text{Sales Growth} = \frac{Sales_t - Sales_{t-1}}{Sales_{t-1}} \quad (7)$$

Figure 2. Conceptual Framewor



A low level of capital intensity reflects that a company is utilizing its assets efficiently, generating sales with relatively low capital investment. A lower capital intensity ratio indicates more efficient asset usage, which in turn reduces the risk of financial distress. This is supported by the findings of Bachtiar and Handayani (2022), who found that firms with lower capital intensity tend to exhibit healthier financial conditions.

H1: It is hypothesized that capital intensity influences financial distress.

Internal control mechanisms have been properly implemented, and external auditors have reviewed the financial statements in accordance with applicable standards. As a result, there is limited room for earnings management practices that typically arise due to financial distress. This perspective is reinforced by Murti and Zamzamy (2024), who emphasized the role of strong governance in suppressing manipulative financial behavior.
H2: It is hypothesized that earnings management influences financial distress.

A high level of capital intensity can increase the risk of financial distress because the company must bear substantial depreciation and maintenance costs. However, this condition may be mitigated if the company experiences strong sales growth. A stable and increasing level of sales growth helps cover fixed operating costs, thereby reducing pressure on the firm's financial condition. Thus, sales growth can serve as a moderating variable that weakens the positive relationship between capital intensity and financial distress. This is in line with the study conducted by Prastyatini, Ayem, and Ramadhani (2024), which suggested that while high capital intensity has the potential to induce financial distress, a high rate of sales growth may signal the company's successful strategy implementation, allowing it to maintain financial stability.
H3: It is hypothesized that sales growth moderates the relationship between capital intensity and financial distress.

In companies with high levels of sales growth, the pressure to engage in earnings management tends to decrease. Strong operational performance provides sufficient positive signals to stakeholders, reducing the incentive for managers to manipulate earnings. Therefore, sales growth can act as a moderating variable that attenuates the negative influence of earnings management on financial distress. When sales increase consistently year over year, companies tend to maintain better liquidity and cash flow positions, thereby limiting opportunities and motivations for earnings manipulation. This aligns with the findings of Nadhifah and Arif (2020), who demonstrated that sales growth weakens the relationship between earnings management and tax avoidance — an outcome that can be analogously linked to financial distress, as both relate to opportunistic managerial behavior in financial reporting.
H4: It is hypothesized that sales growth moderates the relationship between earnings management and financial distress.

3. Method, Data, and Analysis

This research uses quantitative methods. Sugiyono (2017: 23) asserts, quantitative methods are research methods that have a basis in the philosophy of positivism, which are used to research on certain populations or samples. Data collection uses research instruments, data analysis is quantitative or statistical which has the aim of describing and testing predetermined hypotheses. The data taken is secondary data on industrial sector companies listed on the IDX in 2019-2023. In this study, the authors used purposive sampling technique. According to Sugiyono (2018: 85), purposive sampling is a sampling technique with various considerations and certain criteria.

The data analysis technique in this study uses statistical calculations. The data analysis technique used uses the Microsoft Excel 2023 software application and Eviews version 9. The data analysis technique carried out in this study uses panel data regression. Based on this study, there are

two types of variables, namely the independent variable (free) and the dependent variable (bound). Independent variables are variables that affect or cause changes or the emergence of dependent variables (Sugiyono, 2019: 96). The dependent variable (bound) is a variable that is influenced or becomes the result of an independent variable (Sugiyono, 2017: 97).

Tabel 1. Operasional Variable

Variabel	Indikator	Skala
Financial Distress (Y)	$Z = 6{,}56\,X1 + 3{,}62\,X2 + 6{,}72\,X3 + 1{,}05\,X4$	Rasio
Sales Growth (Z)	$\frac{Sales_t - Sales_{t-1}}{Sales_{t-1}}$	Rasio
Capital Intensity (X_1)	$\frac{Total\ Aset\ Tetap}{Total\ Aset}$	Rasio
Manajemen Laba (X_2)	$DTA_{it} = \frac{TAC_{it}}{TA_{it-1}} - NDTA_{it}$	Rasio

Source: Data processed by researchers, 2025

4. Result and Discussion

The object of this research is the financial statements of industrial sector companies listed on the Indonesia Stock Exchange (BEI) in 2019-2023. Industrial companies are companies that produce products and services for use by other industries that can be calculated and analyzed regarding sales growth moderating capital intencity, earnings management to financial distress. in each company and obtained as many as 16 research samples where the sampling used purposive sampling technique which is a sample selection with certain criteria (Sugiyono, 2019).

Table 2. Results of Research Sample Criteria

No.	Sample Criteria	Does not meet the criteria	Meets Criteria
1.	Industrial sector companies listed on the Indonesian stock exchange (IDX) for the period December 31, 2023?	-	63
2.	Industrial sector companies listed on the Indonesian stock exchange (IDX) during 2019- 2023	(15)	48
3.	Industrial sector companies listed on the Indonesian stock exchange (IDX) that present and publish financial reports for five consecutive years 2019-2023.	(5)	43
4.	Industrial sector companies that have experienced profits for five consecutive years 2019-2023	(26)	17
5.	Industry sector companies that have retained		

earnings for 5 consecutive years	(1)	16
Number of Company samples		**16**
Year of Observation		**5**
Number of observations during 2019 - 2023		**80**

Source: Data processed by researchers, 2025

Model Selection Test Chow Test

Table 3. Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	12.080007	(15,60)	0.0000
Cross-section Chi-square	111.302589	15	0.0000

Source: Data processed by eviews 10, 2025

Based on the Chow Test results above, the cross section F probability value is 0.000 ≤ 0.05, then H0 is rejected, so the most appropriate model to use is the Fixed Effect Model (FEM).

Hausman Test

Table 4. Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.695604	4	0.6100

Source: Data processed by eviews 10, 2025

Based on the results of the Hausman test above, the cross-section probability value is 0.6100> 0.05, then H0 is accepted, so the most appropriate model to use is the Random Effect Model (REM).

LM test

Table 5. LM test

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided
(all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	83.69364	0.275761	83.96941

	(0.0000)	(0.5995)	(0.0000)
Honda	9.148423 (0.0000)	-0.525129 --	6.097590 (0.0000)
King-Wu	9.148423 (0.0000)	-0.525129 --	3.730995 (0.0001)
Standardized Honda	9.721195 (0.0000)	-0.174793 --	3.653639 (0.0001)
Standardized King-Wu	9.721195 (0.0000)	-0.174793 --	1.528901 (0.0631)

Source: Data processed by eviews 10, 2025

Based on the data processing results above, the obtained cross-section Both probability value on Breusch Pagan is of 0.0000 <0.05, so H0 is accepted. This means that the most appropriate model to use is the random effect model (REM).

Model Conclusion

Table 6. Model Conclusion

No	Regression Model	Testing	Result
1	Chow Test	CEM vs FEM	FEM
2	Hausman Test	FEM vs REM	REM
3	LM Test	CEM vs REM	REM

Source: Data processed by researchers, 2025

The results of testing the two models above can be concluded that the model used is the Random Effect Model (REM), so the next step is to perform multiple regression with Random Effect Model (REM).

Table 7. Random Effect Model Test Results

Dependent Variable: LOGFD
Method: Panel EGLS (Cross-section random effects)
Date: 06/18/25 Time: 17:50
Sample: 2019 2023
Periods included: 5
Cross-sections included: 16
Total panel (balanced) observations: 80
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.940144	0.260513	7.447396	0.0000
CIR	-0.850178	0.562128	-1.512427	0.1346
MANLAB	1.451739	0.620012	2.341469	0.0219

CIR*SG	0.190240	0.432961	0.439393	0.6616
MANLAB*SG	2.287981	1.980005	1.155543	0.2515

Effects Specification		
	S.D.	Rho
Cross-section random	0.591563	0.7136
Idiosyncratic random	0.374802	0.2864

Weighted Statistics			
R-squared	0.167751	Mean dependent var	0.438349
Adjusted R-squared	0.123365	S.D. dependent var	0.396810
S.E. of regression	0.371528	Sum squared resid	10.35250
F-statistic	3.779319	Durbin-Watson stat	1.134801
Prob(F-statistic)	0.007452		

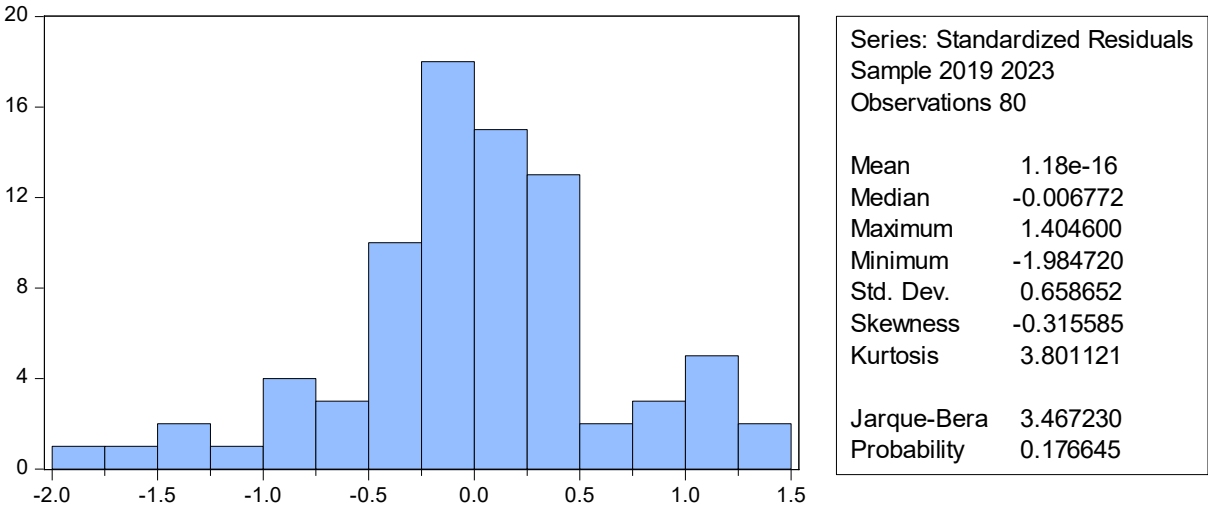
Unweighted Statistics			
R-squared	0.135178	Mean dependent var	1.607952
Sum squared resid	34.27201	Durbin-Watson stat	0.342788

Source: Data processed by eviews 10, 2025

Classical Assumption Test

Normality Test

Figure 3. Normality Test



Source: Data processed by eviews 10, 2025

The figure above shows that the probability value is 0.176645> 0.05 which means that the data normally distributed, which means that the classical assumptions in the normality test are met.

Multicollinearity Test

Table 8. Multicollinearity Test

	CIR	MANLAB	SG
CIR	1	-0.0634312320331895	-0.08645959096459804
MANLAB	-0.0634312320331895	1	-0.1332839100334838
SG	-0.08645959096459804	-0.1332839100334838	1

Source: Data processed by eviews 10, 2025

The results of the correlation analysis show a value of < 1, this indicates that all independent variables do not occur multicollinearity with each other because the results are less than 1.

Heteroscedasticity Test

Table 9. Heteroscedasticity Test

Heteroskedasticity Test: White

F-statistic	1.197044	Prob. F(13,66)	0.3014
Obs*R-squared	15.26363	Prob. Chi-Square(13)	0.2912
Scaled explained SS	13.05333	Prob. Chi-Square(13)	0.4437

Source: Data processed by eviews 10, 2025

Based on the table above, the obs*R-squared probability value is 0.2912> 0.05, so H0 is rejected. meaning that there is no heteroscedasticity problem.

Autocorrelation Test

Tabel 10. Autocorrelation Test

R-squared	0.167751	Mean dependent var	0.438349
Adjusted R-squared	0.123365	S.D. dependent var	0.396810
S.E. of regression	0.371528	Sum squared resid	10.35250
F-statistic	3.779319	Durbin-Watson stat	1.134801
Prob(F-statistic)	0.007452		

Source: Data processed by eviews 10, 2025

Based on the table above, the Durbin Watson value is 1,134801, this shows the DW value between -2 and +2, which means that in this study there is no autocorrelation.

Moderated Regression Analysis

Table 11. Moderation Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.940144	0.260513	7.447396	0.0000
CIR	-0.850178	0.562128	-1.512427	0.1346
MANLAB	1.451739	0.620012	2.341469	0.0219
CIR*SG	0.190240	0.432961	0.439393	0.6616
MANLAB*SG	2.287981	1.980005	1.155543	0.2515

Source: Data processed by eviews 10, 2025

$$FD = 1{,}940144 - 0{,}850178\,(\text{CIR}) + 1.451739\,(\text{MANLAB}) + 0{,}190240\,(\text{CIR} * \text{SG}) + 2{,}287981\,(\text{MANLAB} * \text{SG}) + \epsilon$$

The equation shows that Financial Distress (FD) is influenced by several factors, namely Capital Intensity (CIR), Earnings Management (MANLAB), and the interaction of the two with Sales Growth (SG) as a moderating variable. The constant of 1.940144 indicates that if all independent variables are considered zero, then the Financial Distress that occurs in the company is 1.940144. The coefficient of -0.850178 on CIR indicates that each increase of one unit of Capital Intensity will reduce Financial Distress by 0.850178 units, although the test results show that this effect is not statistically significant. The coefficient of 1.451739 on MANLAB indicates that every one unit increase in Earnings Management will increase Financial Distress by 1.451739 units. This indicates that the higher the level of earnings management carried out by the company, the greater the risk of financial distress faced. The interaction between Capital Intensity and Sales Growth (CIR*SG) has a coefficient of 0.190240, which means that the effect of Capital Intensity on Financial Distress will increase by 0.190240 for every one unit increase in Sales Growth. However, this effect is also not significant in this study. The interaction between Earnings Management and Sales Growth (MANLAB*SG) has a coefficient of 2.287981, which means that the effect of Earnings Management on Financial Distress will be greater if there is an increase in Sales Growth. However, based on statistical tests, this moderating effect is also not significant.

Based on the results of the t test, it can be concluded that Capital Intensity has a t value of 1.512427 < 1.66462 and a significant value of 0.1346 which means that partially Capital Intensity has no effect on Financial Distress. Earnings Management (Manlab) has a t value of 2.341469> 1.66462 and a significant value of 0.0219 which means that earnings management has an effect on Financial Distress. The first moderation of Sales Growth from the CIR to FD relationship has a t value of 0.439393 < 1.66462 and a significant value of 0.6616 which means that Sales Growth cannot moderate or weaken the relationship between Capital Intensity and Financial Distress. The second moderation of Sales Growth from the Manlab to FD relationship has a t count of 1.155543 < 1.66462 and a significant value of 0.2515 which means that Sales Growth cannot moderate or weaken the relationship between Earnings Management and Financial Distress.

Coefficient of Determination

Table 12. Test Results of the Coefficient of Determination

R-squared	0.167751
Adjusted R-squared	0.123365

Source: Data processed by eviews 10, 2025

The table above shows that the Adjusted R-Square is 0.123365, meaning that 12.33% of the independent variables of Capital Intensity and Earnings Management as well as the moderating relationship of Sales Growth affect Financial Distress by 12.33%, the remaining 87.67% is influenced by other variables not examined in this study.

Discussion

Effect of Capital Intensity on Financial Distress

Capital Intensity has a t value of 1.512427 < 1.66462 and a significant value of 0.1346 which means that partially Capital Intensity has no effect on Financial Distress. The size of fixed assets owned by the company cannot reflect in determining the financial health of the company, but from other factors such as burden company or debt long term the longer the period time of borrowing funds and repayment, the risk of financial difficulties in company will be higher, debt is a fixed burden that must be borne by the company. The findings of this study are consistent with the research by Perdana and Rahayu (2023), which found that capital intensity has no significant effect on financial distress. However, these results contrast with the findings of Prastyatini et al. (2024) and Bachtiar and Handayani (2022), who reported that capital intensity does influence financial distress.

The Effect of Earnings Management on Financial Distress

Earnings Management (Manlab) has a t value of 2.341469> 1.66462 and a significant value of 0.0219 which means that earnings management has an effect on Financial Distress. The greater the level of earnings management, the greater the level of financial distress experienced by the company, because companies with high levels of earnings management indicate that the company is in high financial distress as well. Earnings management practices carried out in general are to increase profits during financial distress so that the company's financial condition still looks fine so that investors still believe in investing their capital. The increase in earnings has the potential to trick stakeholders or investors to be interested in investing in the company so that the company avoids financial distress. The results of this study are in line with the research conducted by Murti et al. (2024) and Rinjani and Indrati (2024), which stated that earnings management significantly affects financial distress. However, these findings are not consistent with the study by Bagaskara and Mulyana (2024), which concluded that earnings management does not have a significant effect on financial distress.

Sales Growth as a Moderator of the relationship between Capital Intensity and Financial Distress

The first moderation of Sales Growth from the CIR to FD relationship has a t count of 0.439393 < 1.66462 and a significant value of 0.6616 which means that Sales Growth cannot moderate or weaken the relationship between Capital Intensity and Financial Distress. Sales growth is unable to moderate the influence between Capital Intensity on Financial Distress because sales growth shows the success of the company during the last period which can be used as a clue about how future developments will be. In addition, sales growth is a picture of the company in maintaining the company's ability under any conditions. Furthermore, the results of this study support the findings of Prastyatini et al. (2024) and Oktaviani and Lisiantara (2022), which stated that sales growth does not moderate the relationship between capital intensity and financial distress. However, these findings are not in agreement with the studies by Muslimin and Bahri (2023) and Rochwendi and Nuryaman (2022), who found that sales growth significantly moderates the relationship between capital intensity and financial distress.

Sales Growth as a Moderator of the relationship between Earnings Management and Financial Distress

The second moderation of Sales Growth from the Manlab to FD relationship has a t count of 1.155543

< 1.66462 and a significant value of 0.2515 which means that Sales Growth cannot moderate or weaken the relationship between Earnings Management and Financial Distress. this is because sales growth shows more about the company's success rate in increasing sales volume in a certain period of time rather than as an indicator that can suppress or strengthen the effect of earnings management practices on the company's financial condition, sales growth cannot moderate the effect between earnings management and financial distress. Therefore, although the company recorded an increase in sales, its impact on the financial crisis was not immediately reduced. Increased sales are more indicative of the company's ability to survive in various situations, but do not indicate how earnings management affects the risk of financial distress. Furthermore, the results of this study support the findings of Prastyatini et al. (2024) and Oktaviani and Lisiantara (2022), which stated that sales growth does not moderate the relationship between capital intensity and financial distress. However, these findings are not in agreement with the studies by Muslimin and Bahri (2023) and Rochwendi and Nuryaman (2022), who found that sales growth significantly moderates the relationship between capital intensity and financial distress.

5. Conclusion and Suggestion

This study concluded that Earnings Management has a significant positive effect on Financial Distress, while Capital Intensity has no effect. Sales Growth is also unable to moderate the relationship between Capital Intensity and Earnings Management on Financial Distress. This finding confirms that increasing sales cannot reduce the risk of financial distress caused by earnings management practices.

This study provides empirical and practical benefits for management to pay more attention to earnings management practices rather than just focusing on asset investment or increasing sales. Theoretically, this study extends the evidence that earnings management is a major factor affecting financial distress. The novelty of the research lies in testing the moderation of Sales Growth in the industrial sector which is still rarely researched. However, this study has limitations in the form of limited sample coverage and a low adjusted R-square value of only 12%, so other variables outside the model may have more influence on financial distress. This limitation comes from data and method limitations, not from procedural errors. Future research is recommended to add variables, expand sectors, and use more complex models to obtain more comprehensive results.

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