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Cashflow Indicators as a Predictive Tool for Financial Distress

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ABSTRACT

Purpose: The main objective of the study was to identify the usefulness of cash flow indicators in predicting financial distress in manufacturing firms listed on the Colombo Stock Exchange (CSE)

Design/Methodology/Approach: The study utilizes multiple regression analysis to explore the relationship between cash flow indicators and financial distress with the use of 65 companies over four years, from 2019 to 2022. In addition, control variables such as company size and return on assets (ROA) were also considered for the study.

Findings: The results implied that the solvency indicator is a strong predictor of financial distress when combined with two control variables. The study suggests that cash flow indicators are not a useful method for determining financial distress in the Sri Lankan context on their own but can be valuable when combined with financial indicators such as company size and ROA.

Originality: The findings of the study provide useful insights for stakeholders in understanding the relationship between cash flow indicators and financial distress and to mitigate the risk of failure. The study recommends techniques such as effective cash flow and interest management, prospective business expansion, and increasing income-generating assets to avoid bankruptcy.

Keywords: *Financial Distress, Cash Flow Indicators, Financial Indicators, Altman's Z-score model, Bankruptcy, Return on Equity*