UNIVERSITI TEKNOLOGI MARA

PREDICTION OF BUSINESS FAILURE AMONG MALAYSIAN CONSTRUCTION COMPANIES USING LOGISTIC REGRESSION ANALYSIS

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Dissertation submitted in partial fulfillment

of the requirements for the degree of

Master of Accountancy

Faculty of Accountancy

January 2015

AUTHOR'S DECLARATION

I declare that the work in this dissertation was carried out in accordance with the regulations of UniversitiTeknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This dissertation has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I hereby, acknowledged that I have been supplied with the Academic Rules and Regulations for Post Graduate, UniversitiTeknologi MARA, regulating the conduct of my study and research.

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ABSTRACT

This study attempts to investigate whether financial ratio analysis derived from financial statements information can be used to give sufficient signal prior to financial distress and/or business failure in the context of Malaysian construction industry. The paper also aims to develop business failure prediction model using logistic regression as a statistical model and financial ratios as independent variables. This study focused on construction industry and thus analyse 14 construction companies consist of seven distressed firms and its healthy counterpart. Data was collected up to five years before the distressed company being declared as PN17. This study employs descriptive and correlation analysis to compare the characteristics of both group and investigates the relationship between financial ratios and financial health of companies. Logistic regression was then utilised in an attempt to develop a model that can predict business failure and the outcome of this study shows that, the model has the ability to predict financial distress of Malaysian construction companies with 71.4% accuracy rate. The findings also reveal the significance of solvency in determining the financial health of a company which supports prior literature in this field. In conclusion, the study provides overview of Malaysian construction industry and might benefit related stakeholder in economic decision making process while considering and analysing financial statements information.

Keywords: Business failure prediction, financial ratio analysis, logistic regression

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