AN ANALYSIS OF USEFUL FINANCIAL RATIOS IN PREDICTING FAILURE AMONG THE FINANCIALLY DISTRESSED COMPANIES IN MALAYSIA

By :
SALWA BTE ABDUL MANAF
93658468

A DISSERTATION SUBMITTED TO
SCHOOL OF BUSINESS AND MANAGEMENT
IN PARTIAL FULFILLMENT OF THE
ADVANCED DIPLOMA IN BUSINESS STUDIES (FINANCE)
MARA INSTITUTE OF TECHNOLOGY
SHAH ALAM

NOVEMBER 1995

ACKNOWLEDGEMENT

Praised be to Allah S.W.T. whose mercy and blessing has enabled me to complete this dissertation.

Many person had contributed time and ideas during the development of this study. First and foremost, heartful appreciation to my advisor, Mr.Lee Keng Choon, for his assistance and guidance in preparing this research paper. His willingness to share his valuable time is highly appreciated.

I would also like to thank En. Abdul Halim Mohd Ibrahim and En. Amir Zainal Abidin, Corporate Finance Lecturers, for their ideas and suggestions during the progress of this study.

My acknowledgement also goes to my course tutor, Dr. Rokiah Hassan, for her advice and support towards the completion of this course. It also goes to the management and staff of KLSE and PTAR II library, for their kind co-operation in providing me with all the data and information needed.

This dissertation is specially dedicated to my late parents. And, to my brothers and sisters, thanks for the support and encouragement, love and care pampered all these days.

Last but not least, to all my friends and those who had involved in the progress of this study, thank you.

ABSTRACT

The main objective of this study is to analyse the usefulness of financial ratios in predicting corporate failure. A model known as the "Z-score" model which combined five financial ratios into a single predictive equation was evaluated in order to determine its applicability as an indicator in predicting failure. The sample consisted of financially distressed companies listed in the KLSE and were analysed for a period of nine years. While financial ratios have been widely used to measure financial health of a company, the applicability of this model that comprised of five financial ratios in predicting failure among the financially distressed companies in Malaysia, is still questionable and needs further research to be conducted. However, from the study, it was found that the model can be used as an indicator in predicting impending failure as it did gives an early warning signal should substantial changes take place in the financial health of the distressed companies.

TABLE OF CONTENTS

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Corporate failure is crucial. The phenomenon can be described as common occurences in the business world. It is an indication of resource misallocation which is undesirable from a social point of view.

The term *failure* can be defined in several ways, and some failures do not necessarily result in the collapse and dissolution of a firm.