



**AN EVALUATION OF CORPORATE LIQUIDITY POSITION OF
SMALL AND MEDIUM ENTERPRISES**

DISEDIAKAN OLEH:

**NOR BALKISH BT ZAKARIA
JUYATI BT MOHD AMIN
NORMALA BT SHARIFF**

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ABSTRACT

Small to medium enterprises (SME) comprises the largest proportion of business in Malaysian economics and offer the greatest potential for job creation. The conventional image of the small businesses owner is that of a highly independent individual taking risks and 'doing it tough' with limited assistance from others. Thus, the survival of these SME is so vital to stimulate the healthy business and economics maintenance. Based on the combination interest of firm size financial performance together with relationship between measurements of corporate liquidity, this study addresses the issue of examining the relationship between earnings, cash flow and corporate liquidity in Malaysian SME. The findings in this study imply that both earning and cash flow can be used to provide corporate liquidity information in small and medium businesses in Malaysia according to dynamic measurement of corporate liquidity. Anyhow, the static measures represent by the current ratio and quick ratio did not show any significant relationship with corporate liquidity. Thus corporate liquidity measurements may be varies across the sectors with regard to the firm sizes. This study on Malaysian small and medium scales companies will pave the way to enhance governance in the management of corporate liquidity in the Malaysian businesses scenarios.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Efficient liquidity management involves planning and controlling current assets and current liabilities in such a manner that eliminates the risk of the inability to meet the due short-term obligations, on one hand, and avoid excessive investment in these assets, on the other hand. This is due in part to the reduction of the profitability of running out of cash in the presence of liquid assets.

Profitable companies of various scales do not necessarily be equated with good performance. Apparently there are many profitable companies that had to be closed down due to financial distress. Since then analysts have developed many performance measurements that have reflected the actual situations. Therefore, the rise in corporate bankruptcy has led to an increased interest in the examination of corporate liquidity.

Cash is king is an expression sometimes used in analyzing businesses; it refers to the importance of cash flow in the overall fiscal health of the business. For example, if a company has a large amount of account receivables, its balance sheet will give the appearance that the company is increasing equity, but the company can still be short on cash. Referring to the Statement of Financial