



**UNIVERSITI TEKNOLOGI MARA**

**IMPACT OF LIQUIDITY ON FIRM  
PROFITABILITY: THE CASE OF  
FINANCIAL SECTOR IN MALAYSIA**

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## **ABSTRACT**

The focus of this research is to identify the relationship between liquidity and profitability of financial firm listed in Bursa Malaysia. The main objective of this research is to identify the impact of liquidity on the financial firm profitability that had been chosed. This research uses panel data analysis to analyse the data collected. As for the data, the data is the financial statement over the period of 2005 to 2015. On the other hand, the dependent variable is return on assets in which represent the firm profitability while for the independent variable is current ratio, acid test ratio, cash ratio, liquid ratio and size of the firms in terms of total assets.

**Keywords:** Return on Assets (ROA), Current Ratio (CR), Acid Test Ratio (ATR), Liquid Ratio (LR), Cash Ratio (CSHR) and size of the firms (S).

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## **CHAPTER ONE: INTRODUCTION**

### **1.1 INTRODUCTION**

Liquidity management is an essential criteria for every organisation which means that, the organisation needs to pay the payment obligations that include short term financial expenses and operating, the payment obligations and to pay current obligations on business. A firm should ensure that it does not suffer from lack-of or excess liquidity to meet its short-term compusions (Miko, 2010). Hence, according to Bhunia (2010) , the study of liquidity become one of the major importance toboth the internal and the external analysts because of its close relationship with day-to-day operations of a business.

This research being conducted in order to investigate the problems of financial firm liquidity management in order to determine its effect on the firm profitability. As for this section, it will review on the background of the study or research, the problem statement that contributes to this research, the objectives of this research, research questions, and significance of study or research, scope of study or research, limitation on this research as well as definition of terms used in this research.

This research will focus on the impact of liquidity on firm profitability for the case of financial sector in Malaysia. The aim of this study is to examine the financial firm's exposure to liquidity risk in the context of financial firm that had been listed in Bursa Malaysia, by using data in the period of 2005 to 2015. In addition, in this research, all relevant data related to this research will be obtained from DataStream and E-Views 7 will be used as the evaluation system of our data.