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**PREDICTION OF BANKRUPTCY FOR LISTED INDUSTRIAL  
COMPANIES IN MALAYSIA**

**CLOSED STACKS**

BY

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1990

Submitted to the Faculty of  
Economics and Administration  
University of Malaya  
in partial fulfillment of the requirements for the Degree of  
**MASTER OF BUSINESS ADMINISTRATION**  
March, 1996

Perpustakaan Universiti Malaya



A505989499

## ABSTRACT

This study aims to develop an empirical model (discriminant function) which can predict bankruptcy for Malaysian Industrial companies listed on the Kuala Lumpur Stock Exchange (KLSE) over the period 1984 - 1992, both inclusive. This will be a linear composite of the predictor variables (i.e. financial ratios) that enables the separation of the groups by maximizing among-groups relative to within-groups variation. The predictive accuracy of the model as the years to bankruptcy become more and more remote is also determined.

Seven financial ratios combined to form the model and they are: (1) Current ratio; (2) Return on stock holders equity; (3) Net profit margin; (4) Total asset turnover; (5) Long term debt To equity; (6) Earnings before interest and tax To total assets; and (7) Market value of common and preferred stock To book value of debt.

## ACKNOWLEDGEMENT

One of the most pleasant parts of writing a dissertation is the opportunity to thank those who have contributed to it. Unfortunately, the list of expression of thanks, no matter how extensive is always incomplete and inadequate. These acknowledgements are no exception.

My first thanks must go to my supervisor, Dr Mansor Md. Isa for his invaluable guidance and support during the course of this project. I also wish to thank Mr Fred Lew, for his assistance and encouragement and Mr. Lim in FEA Computer laboratory for his advice on the use of the SPSSPC statistical package.

My profound appreciation goes to my wife, Fatou who stood firmly by my side, demonstrating a lot of patience and understanding throughout the tenure of our stay in Malaysia . My appreciation goes to my brother Edi, Oumie and family, for taking care of my son Al-hassan while I am away from home.

This piece of work is dedicated to my mother Fatounding and my late father Alhagi Bully, whose memory is deeply enshrined in me.

## TABLE OF CONTENTS

	PAGE
ABSTRACT .....	i
ACKNOWLEDGEMENTS .....	ii
LIST OF ABBREVIATIONS .....	V
LIST OF TABLES .....	VI
CHAPTER	
I INTRODUCTION	
Financial distress .....	1
Traditional ratio analysis .....	1
Objectives of study .....	2
Importance of study .....	3
Organisation of the study .....	5
II LITERATURE REVIEW	
Introduction .....	6
Malaysian bankruptcy law - ACT 360. ....	6
Beaver study .....	9
Altman study .....	12
Deakin study .....	15
Blum study .....	16
Altman, Baidya, and Ribeiro-Dias study .....	17
Takahashi, Kurokawa, and Watse study .....	18
Sandro study .....	20
Bernard study .....	21
Izan study .....	23
III RESEARCH DATA AND METHODOLOGY	
The data and sample used .....	25
The financial ratios used .....	27
The multivariate techniques .....	31

IV	RESULTS OF THE STUDY	
	Introduction . . . . .	35
	Results of the statistical analysis	
	The discriminant function . . . . .	35
	The relative importance values . . . . .	38
	Classification accuracy . . . . .	42
	Applications . . . . .	46
V	SUMMARY AND CONCLUSIONS	
	Review of the study . . . . .	47
	Interpretation of major findings . . . . .	48
	Contributions of the study . . . . .	50
	Recommendations for future research . . . . .	51
	APPENDICES . . . . .	52
	BIBLIOGRAPHY . . . . .	59

## LIST OF ABBREVIATIONS

CA	=	Current assets
CL	=	Current liabilities
NWC	=	Net working capital
TA	=	Total assets
NI	=	Net income after taxes, before extraordinary items
SHF	=	Share holder funds
TO	=	Turn over
S	=	Sales
LTD	=	Long term debt
EBIT	=	Earnings before interest and tax
MVCP	=	Market value of common and preferred stock
BVD	=	Book value of debt
PER	=	Price earning ratio
MPS	=	Market price per share
EPS	=	Earning per share
RE	=	Retained earnings
TA	=	Total assets
R	=	Replacement cost of assets
RP	=	Replacement cost of fixed assets
BP	=	Book value of fixed assets
RI	=	Replacement cost of inventories
BI	=	Book value of inventories
DT	=	Book value of deferred tax
Z <sub>ce</sub>	=	Critical cutting score value for equal group size
Z <sub>a</sub>	=	Centroid for group A
Z <sub>b</sub>	=	Centroid for group B
Z <sub>n</sub>	=	Discriminant Z score for the nth individual
Z <sub>ct</sub>	=	Critical cutting score value

## LIST OF TABLES

Table		Page
3 - 1	Financial ratios used in this study . . . . .	29
4 - 1	Standardized and unstandardized discriminant function coefficients . . . . .	37
4 - 2	Correlation matrix . . . . .	40
4 - 3	Relative contribution tests and ranks of variables in the failure model . . . . .	41
4 - 4	Classification efficiency . . . . .	44
4 - 5	Classification accuracy (Years 1,2,3,4, and 5 prior results	45

## LIST OF APPENDICES

Appendix		Page
2 - A	Summary of past studies . . . . .	52
3 - A	List of financial ratios . . . . .	53
4 - A	List of companies in the study . . . . .	57