

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.