Financial Ratios As The Predictor Of Corporate Distress In

This book is an introduction-level text that reviews, discusses, and integrates both theoretical and practical corporate analysis and planning. The field can be divided into five parts: (1) Information and Methodology for Financial Analysis; (2) Alternative Finance Theories and Cost of Capital; (3) Capital Budgeting and Leasing Decisions; (4) Corporate Policies and their Interrelationships; (5) Financial Planning and Forecasting. The theories used and discussed in this book can be grouped into the following classical theoretical areas of corporate finance: (1) Pre-M&M Theory, (2) M&M Theory, (3) CAPM, and (4) Option Pricing Theory (OPT). The interrelationships among these theories are carefully analyzed. Real world examples are used to enrich the learning experience; and alternative planning and forecasting models are used to show how the interdisciplinary approach can be used to make meaningful financial-management decisions. In this third edition, we have extensively updated and expanded the topics of financial analysis, planning and forecasting. New chapters were added, and some chapters combined to present a holistic view of the subject and much of the data revised and updated.

Risk and Return in Asian Emerging Markets offers readers a firm insight into the risk and return characteristics of leading Asian emerging market participants by comparing and contrasting behavioral model variables with predictive forecasting methods.

Discuss four crisis-prone areas of the economy-monetary control, bankruptcy, the international economy, and speculative bubbles.

Financial Ratios and the Prediction of Corporate Failure

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Financial Ratios Analysis and Prediction

Financial Statement Analysis and the Prediction of Financial Distress

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1.0 INTRODUCTION. In this chapter we define first in Section I.1 the concept of failure used in this study. Thereafter, we discuss briefly the causes and possible consequences of failure. Finally, we explain in Section 1.2 the aim of this study. 1.1 THE CONCEPT OF FAILURE. In this monograph we investigate the predictability of corporate failure. By 'failure' we understand the inability of a firm to pay its obligations when these fall due (i.e. technical cash insolvency). (Walter 1957 and Donaldson 1962 and 1969). Failure mostly appears in a critical situation as a consequence of a sharp decline in sales. Such a decline can be caused by a recession, the loss of an important customer, shortage of a raw material, deficiencies of management, etc. The ability to predict corporate failure is important for all parties involved in the corporation, in particular for management and investors. An early warning signal of probable failure will enable them to take preventive measures: changes in operating policy or reorganization of financial structure, but also voluntary liquidation will usually shorten the period over which losses are incurred. The possibility to predict failure is important also from a social point of view, because such an event is an indication of misallocation of resources; prediction provides opportunities to take corrective measures. (See also Lev 1974, p. 134). 1.2 AIM AND OUTLINE OF THE STUDY.

Master's Thesis from the year 2005 in the subject Business economics - Accounting and Taxes, grade: 1,0, European University Viadrina Frankfurt (Oder), course: International Business Administration, language: English, abstract: Bankruptcy prediction has become during the past 3 decades a matter of ever rising academic interest and intensive research. This is due to the academic appeal of the problem, combined with its importance in practical applications. The practical importance of bankruptcy prediction models grew recently even more, with "Basle-II" regulations, which were elaborated by Basle Committee on Banking Supervision to enhance the stability of international financial system. These regulations obliged financial institutions and banks to estimate the probability of default of their obligors. There exist some fundamental economic theory to base bankruptcy prediction models on, but this
typically relies on stock market prices of companies under consideration. These prices are, however, only available for large public listed companies. Models for private firms are therefore empirical in their nature and have to rely on rigorous statistical analysis of all available information for such firms. In 95% of cases, this information is limited to accounting information from the financial statements. Large databases of financial statements (e.g. Compustat in the USA) are maintained and often available for research purposes. Accounting information is particularly important for bankruptcy prediction models in emerging markets. This is because the capital markets in these countries are often underdeveloped and illiquid and don’t deliver sufficient stock market data, even for public/listed companies, for structural models to be applied. The accounting information is normally summarized in so-called financial ratios. Such ratios (e.g. leverage ratio, calculated as Debt to Total Assets of a company) have a long tradition in accounting analysis. Many of these ratios are believed to reflect the financial health of a company and to be related to the bankruptcy. However, these beliefs are often very vague (e.g. leverages above 70% might provoke a bankruptcy) and subjective. Quantitative bankruptcy prediction models objectify these beliefs in that they apply statistical techniques to the accounting data. [...] Financial Statement Analysis and the Prediction of Financial Distress discusses the evolution of three main streams within the financial distress prediction literature: the set of dependent and explanatory variables used, the statistical methods of estimation, and the modeling of financial distress. Section 1 discusses concepts of financial distress. Section 2 discusses theories regarding the use of financial ratios as predictors of financial distress. Section 3 contains a brief review of the literature. Section 4 discusses the use of market price-based models of financial distress. Section 5 develops the statistical methods for empirical estimation of the probability of financial distress. Section 6 discusses the major empirical findings with respect to prediction of financial distress. Section 7 briefly summarizes some of the more relevant literature with respect to bond ratings. Section 8 presents some suggestions for future research and Section 9 presents concluding remarks. The purpose of this thesis is to determine if the pricing strategy used by defense aerospace contractors can be explained using information readily available from the financial statements of the corporation and from compilations of industry financial data. The sample includes seventeen defense contractors within the aerospace industry and fifty-two aircraft and missile programs. Twenty-one financial ratios were developed from corporate financial data and compared with the industry average for the same ratio. The resulting values were correlated with the slope of the price reduction curve for the programs. A seven variable linear regression model was developed which is significant in explaining pricing strategy. Selecting high-performing stocks among a vast number of available securities is still one of the investor’s prime concerns. While the number of different approaches to find these thriving stocks is enormous, many methods are based on fundamental financial indicators predicting future firm performance. With the continuing advances in computational sciences, machine learning methods are used to analyse the fundamental financial ratios for stock performance prediction. Given the large number of financial performance measures, it is evident that not all of them are equally useful to predict stock performances. Large differences in business models between different industries have the effect that financial ratios cannot be used to the same extent for performance predictions in every industry. Research in the field of performance prediction with machine learning methods on financial indicators currently focuses solely on entire markets, neglecting the different fundamental ratio characteristics between the industry sectors. Current research focuses only on prediction performance and therefore neglects the interpretation of the significance of the underlying financial indicators. This study therefore aims to employ a machine learning method for stock performance prediction not only on the overall market, but specifically for every major industrial sector. Additionally, the importance of
the financial ratios used for the analysis is discussed with respect to concepts of classical financial analysis. This research shows the possibility to beat the stock market performance for specific years under analysis, applying a machine learning method that includes fundamental financial ratios. The industry breakdown shows that there are large differences in prediction ability between the different industries ranging from a rather predictable materials sector to an unpredictable information technology sector. Focusing on the importance of the financ.

Bankruptcy prediction is one of the most important research areas in corporate finance. Bankruptcies are an indispensable element of the functioning of the market economy, and at the same time generate significant losses for stakeholders. Hence, this book was established to collect the results of research on the latest trends in predicting the bankruptcy of enterprises. It suggests models developed for different countries using both traditional and more advanced methods. Problems connected with predicting bankruptcy during periods of prosperity and recession, the selection of appropriate explanatory variables, as well as the dynamization of models are presented. The reliability of financial data and the validity of the audit are also referenced. Thus, I hope that this book will inspire you to undertake new research in the field of forecasting the risk of bankruptcy.

This dissertation, "Financial Ratios, Discriminant Analysis and the Prediction of Corporate Financial Distress in Hong Kong" by Ho-cheong, Chan, ???, was obtained from The University of Hong Kong (Pokfulam, Hong Kong) and is being sold pursuant to Creative Commons: Attribution 3.0 Hong Kong License. The content of this dissertation has not been altered in any way. We have altered the formatting in order to facilitate the ease of printing and reading of the dissertation. All rights not granted by the above license are retained by the author. DOI: 10.5353/th_b3126310 Subjects: Bankruptcy - China - Hong Kong Corporations - China - Hong Kong - Accounting Financial statements - China - Hong Kong Discriminant analysis

Bankruptcy of a business firm is an event which results substantial losses to creditors and stockholders. A model which is capable of predicting an upcoming business failure will serve as a very useful tool to reduce such losses by providing warning to the interested parties. This was the main motivation for Beaver (1966) and Altman (1968) to construct bankruptcy prediction models based on the financial data (Deakin 1972). This research study also initiated with a great interest on this subject to investigate the predictive capability of financial ratios for forecasting of corporate distress and bankruptcy events. This study is expounded on similar previous studies by Altman (1968), Ohlson (1980), Beaver (1966) by examining the effectiveness of financial ratios for predicting of corporate distress. The logistics regression analysis (LRA) statistical method is used to scan the risk factors from the previous financial year data and prediction models are constructed which can reasonably classify the expected bankruptcy group and can reasonably predict the solvency status of a firm. The research has been focused on the USA companies only. A set of bankrupted and non-bankrupted company financial data are used for constructing the bankruptcy prediction model and then a second set of bankrupted and non-bankrupted company financial data has been used to test the classification accuracy of the constructed models. The result of this study is consistent with the previous bankruptcy prediction researches outcomes. This study also investigates the time factor implication of bankruptcy prediction models using 5 years financial ratios.
This paper will review the existing bankruptcy prediction models which utilize financial ratios. The most notable models by William H. Beaver and Edward I. Altman will be examined closely. These mathematical models were developed from financial data of manufacturing vise construction firms. A method of analysis will be developed for distinguishing the significant differences in financial reporting between the two industries. Using this information an effort will be made to modifying the models that can be applicable to the construction industry.

Keywords: Analysis of variance, Computations. (kr).

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