

**THE EFFECT OF ACCOUNTING RATIOS ON FIRMS' VALUE:
EVIDENCE FROM MALAYSIAN LISTED COMPANIES**

BELLO USMAN BABA

UNIVERSITI UTARA MALAYSIA

2013

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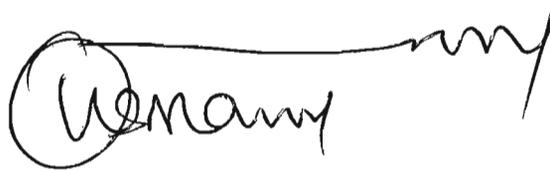
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**Project paper submitted to Othman Yeop Abdullah Graduate School of
Business, Universiti Utara Malaysia, in Fulfillment of the Requirement for the
Degree of Master of Science (International Accounting)**

2013

DECLARATION

I certify the originality of ideas, analyses, conclusion and recommendation reported in this dissertation to be my original work except for quotations and citations which have been duly acknowledged. I also declare that the substance of this paper has not been previously or currently submitted for any other degrees or qualification at UUM or any other University.

A handwritten signature in black ink, appearing to read 'Bello Usman Baba', with a large circular flourish on the left and a wavy line extending to the right.

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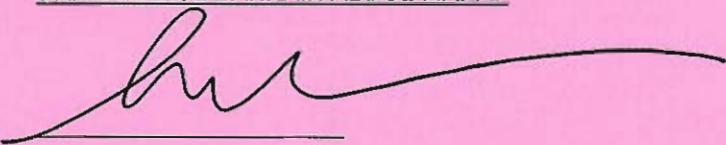
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ABSTRACT

This study empirically examines the effect of accounting ratios on firms' value among Malaysian listed companies. The study utilized a sample of top 100 leading companies in Malaysia (Index Companies) for the period covering 2008 - 2012. Based on the extensive review of literature, conceptual framework was proposed and hypotheses were developed to examine the relationship between the variables of the study. A multiple regression analysis was used in analyzing the data collected. Findings from the study revealed that both liquidity and profitability ratios have a significant effect on firms' value. On the basis of the findings, the study concludes that there is increasing need for a more credible and comprehensive disclosure of accounting ratios in the annual reports of companies. On this ground, the study recommends that Malaysian regulatory authorities implement a policy or a guideline that will encourage a uniform and comprehensive disclosure of accounting ratios by companies. This in turn will avail investors and other users of financial information a better means of evaluating and making a qualitative judgment on companies' financial performance.

Keywords: Liquidity ratios, Profitability ratios, Financial Statement, Firms' Value, Malaysian Capital Market.

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CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

Accounting is commonly termed as the language of business while finance is labeled as the lifeblood of every organization. Therefore, as a language of business, accounting encompasses the entire process of recording, classifying and summarizing data relating to economic activities of an entity and subsequent communication of output to intended users for the purpose of further analysis and interpretation (Osazevbaru, 2012).

Financial statements as spawn of accounting offer reliable and useful information to shareholders and other users of financial statement in decisions making. It also assists in predicting the outcomes of the past, present and future events as well as to correct or confirm previous expectations (Ahmed, 2012). Financial accounting reports are expected to provide a timely, relevant and reliable information to a wide range of users including shareholders, creditors, employees, management, suppliers, government agencies, stockbrokers and financial analysts for the purpose of making effective, prudent and efficient decisions.

According to Ikhatua (2013), accounting information is usually seen as the end result of accounting systems that consistently measure and disclose quantitative data regarding a firm's performance and financial position. Financial accounting information also constitutes the foundation of financial accounting reports to

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