

ABSTRACT

Recently, the economy of Thailand rather fluctuates. Because of this reason, a chance of bankruptcy of Small and Medium Enterprises (SMEs) increases unavoidably. Therefore, a tool for bankruptcy prediction is an importance to decrease risks of stakeholders. Then, the objective of this research is to identify whether financial ratios can be used to predict the company bankruptcy in case of SMEs in the form of company limited in Thailand. For the methodology, the logistic regression is employed to create an estimated model by using financial ratios of 110 companies during 2005 to 2008. Later, this estimated model is used to test the ability of prediction in 2009 for 50 companies.

This study evidences that total asset turnover and a ratio of earnings after taxes to total assets are significant factors and can be used to predict the probability of bankruptcy. It is found that total asset turnover and a ratio of earnings after taxes to total assets are negatively related to the probability of bankruptcy. It means that if total asset turnover and a ratio of earnings after taxes to total assets increase, the probability of bankruptcy is likely to decrease.

By using out-of-sample data to test the predictive ability of the estimated model, the results show that the estimated model provides favorable results in which the percentage of accuracy of predicting bankruptcy and non- bankruptcy firms are 68% and 60%, respectively. In addition, a total of 64% of all samples are predicted correctly.

The result of this research provides the benefits to many groups of people such as management and employees, creditors, investors, and credit agencies, etc. They may use information helping them on their decision in order to avoid the wrong decision and get the maximum benefit. Importantly, academicians can gain an idea about studying on topic of bankruptcy prediction for SMEs in the future because there is a few existing research which used SMEs in form of companies limited as sample.