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BANKRUPTCY PREDICTION BY USING ALTMAN Z-SCORE MODEL IN ZIMBABWE: CASE OF EDGARS STORE LIMITED AND ITS SUBSIDIARIES

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ABSTRACT

The research focused on assessing financial health of Edgars store limited applying bankruptcy prediction model in order to establish whether the model can accurately predict bankruptcy of the firm particularly developing countries like Zimbabwe faced with unfavorably economic conditions. Encountered with hyperinflation, high fluctuation interest rate and liquidity crisis, most firms encountered business fail.

The study mainly determined how financial distress can be predicted of a retail firm using Altman Z-score model (1968). It is essential important to examine prediction of companies’ failures as it leads to massive costs both business-wise and non-financially. Financial ratios are an important indicator of financial health and soundness of a firm. The researcher has five financial ratios as considered by Altman and other various authors may use more less ratios depending on the model used. The study applied Z-score model to predict financial bankruptcy up to 2 years.

The research examine the usefulness of the statistical method mostly characterized as multiple discriminant analysis in bankruptcy prediction of Edgars store limited and its subsidiaries listed in the Zimbabwe stock Exchange covering a period of 2011-2016 (6 years).

The ratios that form the model were independent variables ratios and this include working capital/total assets and retained earnings/total assets.

The methodology examined and justified the research design to be applied in the study. Stated the population and sample to be used. Data gathering technique relied on one retail firm identified under the population. The source of secondary data is obtained from financial reports.

The researcher used SPSS in support of the evidence from Z-score model. The results of Edgars store limited under review clearly classified under grey and safe zones only. The independent variable show are good indicators and are significant in predicting bankruptcy of Edgars store limited. This is indication that the model is appropriate and accurate for conditions which the firms operate. This study recommended that the model should be regularly applied so as not to overlook out the likely looming risk of bankruptcy.