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Predicting Corporate Bankruptcy of Jordanian Listed Companies: Using Altman and Kida Models

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Abstract: Abstract The purpose of this study is to report the effect of financial ratios in bankruptcy prediction in Jordanian listed companies through the use of Altman and Kida models. The study sample includes non-financial service and industrial companies for the years 1990-2006. The banking, insurance, and finance sectors were excluded from the study since they apply certain disclosure requirements. To achieve the objectives of the study, Altman and Kida models were applied on the sample companies in both service and industrial sectors. After the exclusion of companies from the financial sectors 16 companies were eligible for the analyses that have been bankrupt during the period mentioned and compared with 16 successful companies every year of the five years preceding the incident liquidation. The results of the two models were then compared to recognize which one is most favorable to give an early warning about the possibility of bankruptcy for each of those years. Of the two models Altman's model has an advantage in company bankruptcy prediction, with a 93.8% average predictive ability of the five years prior to the liquidation incident, while the average for Kida's model is 69%. The outcome of the analyses shows that Jordanian listed companies may not be using such models in their financial and credit analyses. Consequently, it is best that they should at least apply one of these models with high credibility for predicting corporate bankruptcy.