

The Impact of Leverage, Liquidity and Firm's Profitability: Accountability of Malaysian Listed Oil and Gas Firms

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ABSTRACT

Oil and Gas (O & G) industry is one of the industries that is known to be capital intensive. O & G companies are known to frequently file for bankruptcy and incur unexpected losses due to rising financial risk. This trend also applies to some O & G companies in Malaysia. Hence, this study examines the impact of leverage and liquidity on the profitability among firms in the oil and gas industry in Malaysia that are listed in Bursa Malaysia. In order to meet the objectives of this study, a quantitative data methodology was employed. The data were obtained from the audited financial statements of 20 firms in oil and gas industry for the period of ten years (2008 – 2017). The findings revealed that liquidity in terms of current ratio has a positive and significant impact on firm's profitability. While, the acid test ratio and cash ratio have positive and negative relationship but insignificant association on firm's profitability. The results further revealed that debt to equity ratio has negative and significant association on firm's profitability. However, debt to asset ratio and proprietary ratio has positive relationship but insignificant association on firm's profitability. The study recommends that the firms to improve their profitability by increasing the level of liquidity and maintaining their optimal leverage structure level.

Keywords: Leverage, Liquidity, Profitability, Oil and Gas, Debt to Equity ratio, Debt to Asset ratio, Proprietary ratio, Current ratio, Acid Test ratio, Cash ratio