Accruals Quality and Firm Value of Non-Financial Listed Firms in the Nairobi Securities Exchange

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Abstract:

Purpose: *The primary objective of this study was to examine the effect of accruals quality on firm value among non-financial firms listed on the Nairobi Securities Exchange (NSE). The study was anchored on the Signaling Theory and Information Asymmetry Theory, which emphasize the importance of transparent and reliable financial reporting in influencing investor perception and firm valuation.*

Methodology: *The study adopted a positivist research philosophy and employed an explanatory longitudinal research design. The target population comprised 40 non-financial firms listed on the NSE, of which 33 met the inclusion criteria for the period 2015–2024. Using 330 firm-year observations, secondary data were obtained from audited financial statements and company reports. Data were analyzed using descriptive statistics and panel regression models in STATA software to determine the relationship between accruals quality and firm value.*

Findings: *The results indicated that accruals quality had a negative and statistically significant effect on firm value among non-financial firms ($\beta = -2.408$, $p < 0.000$). This finding suggests that lower-quality accruals reduce investor confidence and diminish firm value by signaling potential inefficiencies or opportunistic financial reporting.*

Conclusion: *The study concludes that poor accruals quality undermines firm value by eroding investor trust and distorting the credibility of financial information. Therefore, maintaining high-quality financial reporting and robust internal control systems is critical to preserving market confidence and firm performance.*

Value*: This study contributes to corporate finance and accounting literature by providing empirical evidence on the link between financial reporting quality and firm valuation in emerging markets. It recommends that regulatory bodies such as the Capital Markets Authority (CMA) and the Institute of Certified Public Accountants of Kenya (ICPAK) strengthen compliance monitoring and enforcement of accounting standards. Furthermore, corporate managers should adopt ethical accounting practices and enhance internal governance mechanisms to foster transparency, accountability, and long-term value creation.*

Keywords: *Accruals Quality, Firm Value, Non-Financial, Listed Firms*

Paper Type: *Research Article*

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1. Introduction

Firm value serves as a critical measure of a company's financial health and performance, reflecting its capacity to generate shareholder returns and maintain long-term competitiveness (Ubaidillah et al., 2024). However, maintaining stable firm value remains a global challenge, as evidenced by declining valuations even among historically strong markets. For instance, U.S. corporations have experienced a gradual drop in firm value since World War II, with sharper declines observed after 2015 (Hendratama & Huang, 2021), while UK manufacturing firms recorded a median firm value of just 6.3% of total assets in 2018 down from 8.5% historically (Sitanggang et al., 2020). Across Africa, market capitalization averages only 8–10% of GDP, with nearly one-third of listed firms reporting low firm value (Asngar et al., 2022). In Nigeria, firm value has declined consistently since the 1960s (Chukwudi et al., 2020). These patterns point to widespread structural weaknesses, reinforcing the need to identify determinants that influence firm value globally and locally.

In today's globalized and knowledge-driven economy, the quality of financial reporting has become a cornerstone of corporate competitiveness and sustainability (Sudibyo & Basuki, 2017; Mondal & Ghosh, 2021). Among the indicators of reporting quality, accruals quality has emerged as particularly crucial, as it reflects how accurately earnings predict future cash flows (Marlinah, 2015; Lobo et al., 2012). Rooted in the accrual principle which requires revenues and expenses to be recorded in the periods they occur rather than when cash changes hands (Young & Cohen, 2013) accruals quality assesses the reliability and accuracy of reported earnings. It is often divided into discretionary and innate components (Dechow, 2010). Discretionary accruals reflect managerial manipulation or creative accounting practices to alter earnings perceptions (Nguyen et al., 2024), while innate accruals capture unintentional estimation errors arising from unpredictable future events. This study focuses on discretionary accruals quality, given its direct link to managerial behavior and earnings management.

High accruals quality enhances the precision of earnings as predictors of future cash flows, thereby strengthening investor confidence and reducing the cost of capital (Almeida & Kale, 2024; Tavakoli Baghdadabad, 2024). Conversely, poor accrual quality whether from manipulation or estimation errors distorts financial transparency and impairs firm valuation. Despite global evidence of accrual quality's significance, its adoption in Africa remains limited due to weak regulatory enforcement and voluntary compliance frameworks (Wachira & Berndt, 2019). For instance, by 2015, only about half of firms in the Middle East and Africa adhered to high-quality financial reporting standards (KPMG, 2017). Consequently, few African studies have examined the link between accruals quality and firm value (Kuehn et al., 2018), leaving a gap in understanding how these dynamics unfold in emerging capital markets such as Kenya.

In the Kenyan context, the Nairobi Securities Exchange (NSE) has faced significant volatility in firm performance, particularly among non-financial listed firms. The NSE 20 Share Index plummeted from 6,161.46 points in 2006 to just 1,004.70 points in 2022, while market capitalization dropped from KES 2.84 trillion in 2021 to KES 1.99 trillion in 2022 (NSE, 2022). Several firms including ARM Cement, Deacons (EA), and Atlas collapsed or were suspended, while others like Bamburi and East African Portland Cement recorded declining Tobin's Q ratios. These trends, compounded by economic shocks such as the COVID-19 pandemic and political instability during the 2017 and 2022 elections, reveal persistent structural weaknesses

in financial management, reporting transparency, and investor trust. Yet, few studies have empirically examined how accruals quality influences firm value in Kenya's non-financial sector despite its growing importance in investor decision-making.

Accruals quality influences firm value through its effects on investor perceptions, managerial integrity, and information asymmetry (Harjanto, 2023; Trinh et al., 2022). High accruals quality enhances transparency, reduces uncertainty, and signals strong governance, thus attracting investment and increasing valuation. However, empirical studies present mixed evidence, with some suggesting positive relationships while others find no significant effect, underscoring the importance of contextual and firm-level factors. Therefore, this study seeks to bridge the empirical and theoretical gap by examining the effect of accruals quality on firm value among non-financial firms listed on the Nairobi Securities Exchange (NSE). By doing so, it contributes to the ongoing discourse on financial reporting quality and corporate valuation in emerging economies, providing insights that can inform regulatory policy, investor strategy, and managerial decision-making.

2. Theoretical Framework

Signaling Theory, introduced by Spence (1973), posits that individuals or organizations convey credible information known as signals to reduce information asymmetry in decision-making contexts. In corporate settings, this theory explains how firms communicate their intrinsic value and quality to external stakeholders, particularly investors, through observable actions such as financial disclosures, dividend declarations, and strategic announcements (Lu et al., 2024). These signals help bridge the gap between management, which holds private information, and investors, who rely on external cues to assess firm performance. According to Tulhasanah and Nikmah (2017), transparent and consistent information serves as a positive signal, enhancing investor confidence, firm reputation, and market value. Strong financial performance, adherence to reporting standards, and consistent dividend payouts are interpreted as "good news" signals, while declining profits or reduced disclosures are viewed as "bad news," potentially eroding investor trust. In essence, signaling theory highlights how credible corporate communication through financial reports and dividends can influence investor perceptions and firm valuation (Jogiyanto, 2010).

From this perspective, high-quality financial reporting represents a powerful signal of a firm's operational integrity, efficiency, and long-term sustainability (Bae et al., 2018; Mohammadiyan, 2024). Accurate and transparent reporting reduces information asymmetry by providing investors with reliable insights into profitability, cash flow, and stability, thereby fostering trust and lowering perceived investment risk. Similarly, dividend payout serves as a costly yet credible signal of financial health and growth prospects (Bhattacharya, 1979; John & Williams, 1985). Firms in emerging markets, such as those listed on the Nairobi Securities Exchange, often use dividend announcements to assure investors of stability in environments characterized by weaker disclosure practices (Al-Malkawi et al., 2023; Hussain et al., 2023). When combined, financial reporting quality and dividend policies form a dual signaling mechanism that strengthens investor confidence, improves firm valuation, and mitigates information asymmetry. Therefore, this study applies signaling theory to examine how accruals quality affects firm value among non-financial firms listed on the NSE, recognizing its explanatory power in contexts where transparency and governance remain critical challenges.

3. Empirical Review (Hypothesis Development)

Several empirical studies have examined the relationship between accruals quality and firm value, producing diverse findings based on methodology and context. Kiriukhin (2018) analyzed the impact of accruals quality on firm value using the Nikolaev (2016) model, which separates the volatility of accounting errors from the performance component of accruals. Employing a hedonic regression framework grounded in rational expectations, the study found that investors tend to favor firms with higher accruals quality, as a 1% increase in accounting error volatility reduced firm value by 0.50%. However, investor preferences were more strongly influenced by operating risk, with a 1% rise in operating volatility decreasing firm value by 1.43%. This indicates that while accruals quality significantly contributes to firm value, it operates alongside other determinants such as operational stability and perceived risk.

In a related study, Nugroho and Jasman (2018) examined Indonesian manufacturing firms listed between 2013 and 2016 using the Generalized Method of Moments (GMM). Their findings showed that accruals quality has a positive and significant influence on firm value, emphasizing its role as a strategic tool for improving investor perception. Furthermore, the study observed that highly leveraged firms exhibited different accrual behaviors compared to unleveraged firms, with the former more likely to use discretionary accruals to seize investment opportunities. This implies that effective accrual management can enhance firm valuation, particularly when leveraged to signal growth potential and profitability. Similarly, Mansali et al. (2019), in their study of Euronext Paris firms, found that low accruals quality marked by high information asymmetry led to larger cash holdings, especially among financially constrained firms. Poor reporting quality prompted firms to retain cash as a buffer against uncertainty, thereby limiting dividend distributions and affecting firm value indirectly.

Recent studies, such as Almeida and Kale (2024), extended the literature by examining accrual quality across different stages of a firm's life cycle. The study revealed an inverted U-shaped relationship, where accruals quality peaks during a firm's maturity stage and declines in both the growth and decline stages. Firms in the introduction and decline stages were found to have the poorest accruals quality due to weaker internal controls and increased operational uncertainty, leading to greater information asymmetry and diminished firm value. These findings underscore that accruals quality is dynamic rather than static varying with firm maturity, operational conditions, and market pressures. Consequently, firms that maintain high-quality accruals throughout their life cycle are more likely to sustain investor confidence, enhance transparency, and achieve higher firm valuation. From these findings, it is evident that accruals quality serves as a critical indicator of a firm's reporting reliability and financial transparency, both of which influence investor perception and valuation. High-quality accruals reduce estimation errors, limit managerial manipulation, and strengthen the predictive power of earnings regarding future cash flows factors that collectively enhance firm value. Conversely, poor accruals quality undermines investor trust, increases information asymmetry, and erodes firm valuation. Therefore, this study hypothesizes that:

H_1: Accruals quality has a significant effect on the firm value of non-financial firms listed on the Nairobi Securities Exchange

4. Methodology

The study adopted a positivist research philosophy and an explanatory longitudinal research design to examine the causal relationship between financial reporting quality, agency cost, dividend payout, and firm value among non-financial listed firms on the NSE. The positivist approach emphasized objective measurement and empirical validation of relationships between variables using quantitative data. The explanatory design enabled the identification of cause-and-effect relationships, while the longitudinal element allowed for the analysis of firm performance trends over a ten-year period (2015–2024). This design was appropriate because it utilized secondary panel data drawn from audited financial statements, which provided reliable, time-based evidence of how financial reporting quality and related factors influence firm value.

Sampling

The target population consisted of 40 non-financial companies listed on the NSE as of December 2024, covering various sectors including agriculture, manufacturing, construction, energy, and telecommunications. To ensure data completeness and consistency, the study applied purposive sampling, selecting only firms that had continuously traded on the NSE and maintained complete audited financial records for the entire ten-year period. As a result, 33 firms met the inclusion criteria, yielding a total of 330 firm-year observations (33 firms × 10 years). This sampling approach ensured that the selected firms were representative of the non-financial sector and provided high-quality, longitudinal data for robust statistical analysis and generalization of findings.

Data Collection and Measurement of Variable

The study relied exclusively on secondary panel data, obtained from audited financial statements and published annual reports of non-financial firms listed on the Nairobi Securities Exchange (NSE) for the period 2015–2024. This method allowed for the use of already verified financial data to explore long-term trends and causal relationships between accruals quality and firm value. Data were systematically collected from company websites, the Capital Markets Authority (CMA) portal, and NSE handbooks to ensure accuracy and consistency. Key data were extracted from the statements of financial position and income statements, with a document review guide used to record relevant information such as total assets, liabilities, and market capitalization. Employing secondary data enhanced efficiency and objectivity, aligning with Polit and Beck's (2003) assertion that such data support the exploration of new insights and verification of existing relationships.

The study measured one independent variable accruals quality and one dependent variable firm value. Firm value was measured using Tobin's Q ratio, calculated as the sum of market value of equity and debt divided by total assets, following the model by Tobin (1969) and Chung and Pruitt (1994). A Tobin's Q below one indicated that a firm was undervalued, while a value above one signified overvaluation. Accruals quality, the key predictor variable, was assessed using the Dechow and Dichev (2002) model, which evaluates the degree of precision with which accruals map onto past, present, and future cash flows. High accruals quality indicates that reported earnings closely reflect actual cash flows, enhancing transparency and reliability in financial reporting. This operationalization enabled the study to quantitatively determine how variations in accruals quality influence firm value among non-financial firms listed on the NSE*;*

$$\Delta WCA_{i,t} = \beta_0 + \beta_1 CFO_{i,t-1} + \beta_2 CFO_{i,t} + \beta_3 CFO_{i,t+1} + \beta_4 \Delta REV_{i,t} + \beta_5 PPE_{i,t} + \varepsilon_{i,t}$$

Where $WCA_{i,t}$ is working capital accruals, calculated as the change in non-liquid current assets, minus the change in current liabilities plus the change in short-term bank debt.

$CFO_{i,t-1}$, $CFO_{i,t}$ and $CFO_{i,t+1}$ are the cash flow from operations, which are expressed by the difference between net income before extraordinary items and total accruals. All variables are deflated by average total assets.

Following the approach of McNichols (2002) and Francis et al. (2005), the study incorporated the current year change in sales (ΔREV) and the current year level of property, plant, and equipment (PPE). These additions align the Dechow and Dichev (2002) model with the Jones (1991) model of discretionary accruals, significantly enhancing its explanatory capacity and reducing measurement errors.

The residuals derived from the regression represent the degree to which current accruals (ΔWCA) fail to align with past, current, or future cash flows (CFO). In essence, these residuals capture the portion of working capital accruals unexplained by cash flows from the current year and adjacent periods. Generally, larger residual values indicate lower accrual quality and, consequently, lower earnings quality, whereas smaller residuals suggest higher accrual and earnings quality.

The study incorporated two control variables—firm size and firm age—to account for their potential systematic influence on firm value. Firm size (FS) was measured as the logarithm of total assets for the current year, consistent with Tariverdi et al. (2014) and Laeven et al. (2014), based on the expectation that larger firms typically exhibit higher firm value due to economies of scale, diversified operations, and stronger market presence. Firm age (FA) was determined by subtracting the firm's establishment year from 2015, following the approach of Berger and Udell (1998), Boone et al. (2007), and Eriki (2015). This variable captured the effect of a firm's longevity and experience on its performance, assuming that older firms may possess more stable operational structures and reputational advantages that contribute positively to firm value. Controlling for these variables ensured that the estimated relationship between accruals quality and firm value was not confounded by differences in firm size or maturity.

Table 1 Measurement of Variables

Variable Name	Measurement/Formula	Sources
Dependent Variable		
Firm Value	Tobin Q value,(MVE + DEBT) / TA	Chung & Pruitt (1994); Tobin & Brainard (1968)
Independent variable		
Accruals Quality	Residuals from regression by using the model developed by Dechow and Dichev (2002)	Dechow & Dichev (2002); Francis et al. (2005)
Control Variable		

Firm Size	Log of Total Assets	Tariverdi et al. (2014); Laeven et al. (2014)
Firm Age	Years since incorporation (2015 - establishment year)	Berger & Udell (1998); Boone et al. (2007)

Data Analysis and Model Specification

The study analyzed quantitative data using STATA software, chosen for its robust capabilities in handling panel and time-series data (Hayes, 2013). Data were coded and entered into STATA, where descriptive statistics, correlation analysis, and panel multiple regression were performed to explore relationships among variables. The results were presented through tables and graphs for clarity. To determine the appropriate model for panel estimation, the Hausman test was conducted to decide between the Fixed Effects (FE) and Random Effects (RE) models (Greene, 2008). This test evaluates whether individual-specific effects are correlated with the independent variables. If the p-value exceeded the 5% significance level, the Random Effects model was adopted; otherwise, the Fixed Effects model was preferred. Panel regression was then used to estimate the direct effect of accruals quality on firm value, ensuring consistent and unbiased results even in the presence of unobserved heterogeneity (Schmidheiny, 2014). The model was specified as follows.

$$FV_{it} = \beta_0 + \beta_0 + \beta_1 FA_{it} + \beta_2 FS_{it} + \beta_2 AQ_{it} + \varepsilon$$

Where;

FV - Is the measure of firm value, β_0 Is changes in Firm value that independent variables present in the model cannot explain. Note that it is the constant in the equation, $AQ\ is$ Accrual Quality Ɛ Is the error term, i Companies/Firms, t Time

5. Results

In this section, the study's data analysis and findings are discussed, aligning with the study objectives. The data was summarized and displayed through tables, while various statistical techniques, with the assistance of Stata, were employed to analyse the collected data in accordance with the study's goals. Additionally, this section outlines the process of data analysis, presentation, and interpretation of the results, which directly correlate with the study's guiding objectives.

Preliminary Analysis

= The descriptive statistics for the study variables based on a sample of 330 observations reveal notable variations across firm characteristics. Firm value (FV) ranged from 0.000 to 316.940, with a mean of 4.092 and a standard deviation of 19.839, indicating significant disparities in market valuation among listed firms. Accrual quality (AQ) ranged from -2.143 to 5.646, with a mean of -0.195 and a standard deviation of 0.836, reflecting generally low-quality accruals and moderate variability in financial reporting practices. Firm size (FS) had a narrow range between 4.806 and 8.474, with a mean of 7.086 and standard deviation of 0.580, suggesting consistency in firm scale, with most firms being relatively large and stable. Firm age (FA) varied widely from 19 to 155 years, averaging 75.320 years with a standard deviation of 31.788, indicating that most listed firms are mature, with a few younger or recently incorporated entities.

The correlation analysis shows several statistically significant relationships at the 0.01 level (2-tailed). Firm value is negatively correlated with accrual quality ($\rho = -0.459$, $p < 0.01$), implying that poor accrual management is associated with reduced firm valuation. Similarly, firm value is negatively related to firm size ($\rho = -0.409$, $p < 0.01$), suggesting that larger firms may experience inefficiencies or bureaucratic constraints that lower market value. Conversely, firm value exhibits a positive and significant correlation with firm age ($\rho = 0.196$, $p < 0.01$), indicating that older, well-established firms tend to enjoy higher valuation due to accumulated experience and market reputation. Additionally, accrual quality s positively correlated with firm size ($\rho = 0.230$, $p < 0.01$), suggesting that larger firms maintain relatively better accrual practices. Finally, firm age (FA) is negatively correlated with firm size ($\rho = -0.315$, $p < 0.01$), showing that older firms tend to be smaller in scale, possibly reflecting structural adjustments or market consolidation over time.

Table 1: Descriptive and Correlation Statistics

n=330	**Min**	**Max**	**Mean**	**SD**	**FV**	**AQ**	**FS**	**FA**
FV	0.000	316.940	4.092	19.839	1			
AQ	-2.143	5.646	-0.195	0.836	-.459**	1		
FS	4.806	8.474	7.086	0.580	-.409**	.230**	1	
FA	19.000	155.000	75.320	31.788	.196**	0.051	-.315**	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Key: FV – Firm Value, AQ – Accruals Quality, FS – Firm Size, FA – Firm Age

Unit Root Test

In panel data analysis, establishing whether variables are stationary is crucial, as non-stationary data can result in spurious regressions and unreliable inferences (Gujarati & Porter, 2010); Wooldridge, 2010). To assess the stationarity of the study variables firm value, accrual quality, firm size, and firm age unit root tests were conducted using three widely accepted methods: Levin–Lin–Chu (LLC), Harris–Tzavalis (HT), and Im–Pesaran–Shin (IPS). The null hypothesis (H_0) assumed the presence of a unit root (non-stationarity), while the alternative hypothesis (H_a) indicated stationarity, either across all panels (LLC and HT) or in some panels (IPS) (Baltagi, 2021). The results presented in Table 4.15 show that all p-values for the variables were below the 0.05 significance threshold—for FV ($p = 0.000$), AQ ($p = 0.000$), FS ($p = 0.000$), and FA ($p = 0.000$)—leading to the rejection of the null hypothesis of non-stationarity. This confirms that all variables are stationary at levels, or integrated of order zero, I(0), meaning their statistical properties such as mean and variance remain constant over time. The absence of unit roots implies that the subsequent panel regression analyses can be conducted without differencing, ensuring reliable and valid inferences. Consequently, these results enhance the robustness of the econometric models, allowing for meaningful exploration of long-term relationships between financial reporting quality and firm value (Levin et al., 2002; Im et al., 2003).

Table 4.2 Unit root test

		Inverse chi-squared(66) P	Inverse normal Z	Inverse logit t(169) L*	Modified inv. chi-squared Pm
FV	Statistic	184.329	-4.822	-6.623	10.299
	p-value	0.000	0.000	0.000	0.000
AQ	Statistic	321.968	-6.265	-13.133	22.279
	p-value	0.000	0.000	0.000	0.000
FS	Statistic	488.532	-10.659	-21.082	36.777
	p-value	0.000	0.000	0.000	0.000
FA	Statistic	2309.762	-45.396	-111.145	195.294
	p-value	0.000	0.000	0.000	0.000

Source; (Field data, 2025)

Hypotheses testing

In this section, before model estimation, several diagnostic tests were performed to validate the reliability, accuracy, and suitability of the panel data for regression analysis. The normality tests using Skewness–Kurtosis, Jarque–Bera, Mardia's Skewness and Kurtosis, and Doornik–Hansen statistics confirmed that the residuals were symmetrically distributed and did not significantly deviate from normality ($p > 0.05$). The Wooldridge test for autocorrelation reported an F-statistic of 0.884 ($p = 0.3541$), indicating the absence of first-order serial correlation. Similarly, White's test for heteroscedasticity yielded a chi-square statistic of 18.41 ($p = 0.1888$), suggesting that the error variances were constant across observations. The Variance Inflation Factor (VIF) results ranged from 1.08 to 1.69 with a mean of 1.27, confirming that multicollinearity was not a concern since all VIF values were well below the threshold of 10. Collectively, these diagnostic outcomes demonstrate that the dataset met the key econometric assumptions, thereby validating the application of panel regression methods for hypothesis testing.

To determine the most appropriate model between the fixed effects (FE) and random effects (RE) estimators, the Hausman specification test was conducted. The null hypothesis posited that there was no systematic difference between the FE and RE estimates, implying that the random effects model would be consistent and efficient. The test produced a chi-square statistic of 4.62 with a p-value of 0.2017, indicating failure to reject the null hypothesis. Consequently, the random effects model was selected as the preferred estimator for this study. The choice of the RE model is theoretically justified as it accounts for unobserved firm-specific heterogeneity, such as management practices, governance structures, and organizational culture, which may influence firm value but remain constant over time. This model provides efficient and unbiased estimates under the assumption that individual effects are uncorrelated with the explanatory variables, aligning with recommendations by Baltagi (2008) and Wooldridge (2010).

The random effects regression model results revealed a robust and statistically significant relationship between the predictor variables and firm value. The Wald chi-square statistic ($\chi^2 = 105.13$, $p < 0.001$) confirmed that the independent variables jointly explain variations in firm value among non-financial firms listed on the Nairobi Securities Exchange (NSE). The within R-squared value of 0.224 indicates that approximately 22.4% of the variation in firm value within firms over time is explained by the model, while the between and overall R-squared values (0.431 and 0.316, respectively) show that the model captures a reasonable portion of

variability across firms and overall observations. The rho value of 0.564 further demonstrates that about 56.4% of the total variance is attributable to firm-specific effects, underscoring the importance of accounting for individual heterogeneity. Collectively, these statistics validate that the model is well-fitted and suitable for hypothesis testing.

The random effects regression results in Table 4.18 indicate that accrual quality (AQ) and financial structure (FS) had statistically significant negative effects on firm value ($\beta = –2.408$, $p < 0.001$; $\beta = –6.926$, $p < 0.001$, respectively). These results imply that poor accrual management and weak financial structure reduce investor confidence and diminish firm valuation. Conversely, financial assets (FA) showed a positive but statistically insignificant relationship with firm value ($\beta = 0.289$, $p = 0.408$), suggesting that variations in asset levels did not meaningfully influence firm performance during the study period. The constant term ($\beta = 15.360$, $p < 0.001$) was significant, indicating that firm value remains positive when other explanatory variables are held constant. Therefore, the hypotheses stating that accrual quality and financial structure have no significant effects on firm value were rejected, while the null hypothesis for financial assets was retained. Consistent with these results, the study confirmed H_1: Accruals quality has a significant effect on the firm value of non-financial firms listed on the Nairobi Securities Exchange. This finding infers that firms with weaker accrual quality are penalized by investors, as poor financial reporting undermines market confidence and reduces firm value. This aligns with the empirical evidence by Dechow et al. (2010) and Francis et al. (2004), who found that higher-quality accruals enhance investor trust and firm valuation by improving the credibility and transparency of financial information.

Table 3: Random-Effects Regression

				Number of obs	=	330
Fixed-effects (within) regression Group variable: id				Number of groups	=	33
R-sq:	Within	0.224		Obs per group	min	10
	Between	0.431			avg	10
	Overall	0.316			max	10
				Wald chi2(3)	=	105.13
corr(u_i,Xb) = 0				Prob > chi2	=	0.0000
FV	**Coef.**	**Std. Err.**	**t**	**P>|t|**	**[95% Conf.**	**Interval]**
FS	-2.408	0.295	-8.170	0.000	-2.986	-1.831
FA	-6.926	1.668	-4.150	0.000	-10.194	-3.657
AQ	0.289	0.349	0.830	0.408	-0.396	0.974
_cons	15.360	3.803	4.040	0.000	7.906	22.813
sigma_u	1.148					
sigma_e	1.010					
rho	0.564	(fraction of variance due to u_i)				

Source; (Field data, 2025)

6. Discussion of Findings

The results revealed that accrual quality exerts a negative and statistically significant influence on firm value. This finding indicates that poor accrual quality, often used as a proxy for earnings manipulation or low reliability of financial statements, erodes firm value by diminishing investors' confidence in the credibility of reported earnings. Investors penalize firms with low-quality accruals because such practices signal higher information asymmetry and the potential for opportunistic managerial behavior, which undermines market trust and increases perceived risk. This outcome is consistent with Dechow et al. (2010), who argued that low accrual quality reflects opportunistic earnings management that impairs valuation. Empirical evidence across markets reinforces this relationship. For instance, Kiriukhin (2018) demonstrated that increased volatility in accounting errors reduces firm value by up to 0.50%, emphasizing the market's sensitivity to accrual quality. Nugroho and Jasman (2018) found similar evidence in Indonesia, noting that highly leveraged firms strategically exploit accruals to influence firm value, albeit with varying outcomes depending on leverage levels. Mansali et al. (2019) further revealed that poor accruals quality amplifies information asymmetry and leads to excessive cash holdings, thereby constraining dividends and lowering investor appeal. More recently, Almeida and Kale (2024) highlighted that accrual quality varies across the firm life cycle, peaking at maturity but deteriorating during decline, suggesting that declining firms face greater valuation penalties due to worsening reporting practices. Collectively, these findings reinforce that while accrual quality is not the sole determinant of firm value, its role in signaling credibility is fundamental in shaping investor decisions at the NSE.

7. Conclusions

The study concludes that accruals quality has a significant and negative effect on firm value among non-financial firms listed at the NSE. Low accruals quality often arising from earnings manipulation, subjective accounting judgments, or aggressive revenue recognition erodes the reliability of financial statements and undermines investor confidence. When accruals are of poor quality, investors perceive reported financial performance as less credible, thereby lowering their valuation of the firm. This underscores the market's sensitivity to the credibility of reported figures, as investors tend to discount firms perceived to obscure true performance through accounting discretion. The study therefore emphasizes that maintaining high accruals quality is vital for sustaining investor trust, market reputation, and long-term firm value. Firms that adhere to transparent, consistent, and prudent accounting practices are more likely to experience enhanced investor confidence and sustained market valuation.

8. Recommendations

Given the established link between accruals quality and firm value, several actionable recommendations emerge. First, firms should strengthen internal control systems and enhance audit committee oversight to discourage earnings manipulation and ensure that accounting estimates and judgments are transparent and verifiable. Secondly, regulatory bodies such as the Capital Markets Authority should implement stricter enforcement mechanisms and impose penalties for intentional misreporting or non-compliance with financial disclosure standards. Audit committees and boards of directors should actively promote credible accrual practices and continuous professional training for accountants to ensure compliance with international reporting standards. Furthermore, firms should adopt robust corporate governance frameworks that prioritize ethical financial reporting as a means of protecting investor interests and sustaining firm value in the long term.

Theoretical Implication

The study provides theoretical insights by affirming the relevance of signaling theory in explaining the relationship between financial reporting quality and firm value. Signaling theory posits that managers use financial disclosures, such as accruals quality, as credible signals to communicate the firm's performance and future prospects to investors. The findings confirm that high accruals quality serves as a positive signal of managerial integrity, operational soundness, and transparency, thereby enhancing firm value. Conversely, poor accruals quality sends a negative signal of potential earnings manipulation and unreliability, leading to diminished investor trust and lower firm valuation. These results validate the theoretical proposition that the quality of financial information plays a central signaling role in capital markets, influencing investor perceptions, decision-making, and ultimately firm value.

Policy Implication

The study offers several policy insights for regulators and policymakers seeking to enhance financial reporting integrity and investor protection within Kenya's capital markets. The results demonstrate that the quality of reported accruals is a crucial determinant of investor confidence and firm valuation. Policymakers, therefore, should strengthen existing reporting frameworks by mandating greater transparency and accountability in accrual-based reporting. The Capital Markets Authority should ensure that listed firms comply with the International Financial Reporting Standards and institute periodic monitoring of financial disclosures to detect and deter opportunistic accounting behavior. Additionally, the Institute of Certified Public Accountants of Kenya (ICPAK) should emphasize the "substance over form" principle in its accounting guidelines to reduce manipulation of accruals. Adoption of clear and enforceable policies limiting earnings management will ensure that reported figures reflect the true financial performance of firms, thereby safeguarding investor interests and enhancing the overall stability of Kenya's capital markets.

Managerial Implication

From a managerial standpoint, the study highlights the critical importance of financial reporting credibility in sustaining firm value. Managers of non-financial firms listed at the NSE should recognize that poor accruals quality erodes investor trust and can lead to reputational damage and regulatory scrutiny. To avoid these risks, management should adopt prudent accounting practices that enhance transparency and ensure that accrual estimates faithfully represent underlying business performance. Moreover, managers should view financial reporting as a strategic tool for building investor confidence rather than as a means to manipulate short-term outcomes. Continuous capacity building for accounting and finance personnel should be prioritized to strengthen technical competence and ethical standards. By fostering a culture of integrity in financial reporting, firms can enhance their corporate reputation, minimize valuation volatility, and achieve sustainable long-term growth.

9. Further Research

The primary objective of this study was to examine the effect of accruals quality on firm value among non-financial firms listed at the NSE. While the findings provide important insights, several areas remain open for future research. Subsequent studies could extend the scope to

include financial institutions such as banks and insurance companies, which operate under different regulatory and disclosure regimes, to determine whether the effect of accruals quality differs across sectors. Expanding the framework beyond the accruals quality to include earnings quality, accounting conservatism, and financial transparency would also yield a more comprehensive understanding of how reporting practices influence firm value. Moreover, future research could explore additional moderating and mediating variables, including board diversity, ownership concentration, audit quality, and corporate social responsibility, to capture the governance and institutional mechanisms that shape the relationship between financial reporting quality and firm value in various organizational contexts.

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