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*Original Article*

# Effect of Accruals Quality on the Firm Value of Construction and Allied Firms Listed at the Nairobi Securities Exchange, Kenya

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*Accruals Quality, Tobin's Q, Discretionary Accruals, Firm Value.*

## ABSTRACT

Accruals quality is a dimension of financial reporting quality because reliable accrual information enables investors to assess reported earnings and firm performance. However, evidence on whether accruals quality translates into higher firm value remains limited among construction and allied firms listed at the Nairobi Securities Exchange. The study examined the effect of accruals quality on firm value. It was anchored on Signalling Theory, which explains how credible financial information provides useful signals to market participants. A causal research design was adopted using panel data from four firms with financial information covering 2015–2025. Accruals quality was measured using the Dechow and Dichev (2002) model, while firm value was measured using Tobin's Q. Panel regression analysis was conducted using STATA Version 18, with the hypothesis tested at the 5% significance level. The findings showed that accruals quality had a positive and statistically significant effect on firm value ($\beta = 1.428$, $p = .003$). This finding indicates that higher-quality accrual information was associated with higher market valuation among the sampled construction and allied firms. The study concluded that accruals quality was an important financial reporting attribute in explaining firm value within the sector. It recommended that firms strengthen accounting systems, internal controls, audit oversight, and financial reporting practices to improve the reliability of accrual information. Future research should examine whether audit quality, corporate governance, ownership structure, and investor information processing explain the relationship between accruals quality and firm value.

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## INTRODUCTION

Firm value is an important indicator of how investors assess a company's current performance, future prospects, and capacity to generate sustainable returns. In well-functioning capital markets, reliable financial information should support accurate valuation and reduce uncertainty. However, firms may experience substantial fluctuations in value when reported financial information does not adequately reflect underlying economic conditions. Global evidence indicates that higher-quality accrual information improves the informativeness of financial statements and supports capital market efficiency, while poor accruals quality is associated with weaker cash-flow predictability and reduced investor confidence (Givoly et al., 2020; Barth et al., 2021). Similar concerns exist in African markets. Evidence from Tunisia associates weak accruals quality with greater information asymmetry and lower firm valuation, while evidence from Nigeria links accrual estimation errors with earnings quality and investor decision-making (Hmaied & Hamza, 2020; Okafor et al., 2021). In Kenya, listed firms have also experienced fluctuations in reported earnings. Njoroge (2022) found that inconsistencies in accrual estimation contribute to such fluctuations. These concerns make accruals quality important when examining firm value among NSE-listed firms.

Accruals quality refers to the extent to which accounting accruals accurately map into underlying cash flows. It captures estimation errors that may arise from business complexity, volatility, and managerial judgement. Higher-quality accruals therefore provide more reliable information for assessing firm performance and value (Okafor et al., 2021). The issue is particularly relevant to Kenya's construction and allied firms because they operate in a capital-intensive environment exposed to financial pressures, changing demand, and operational uncertainty. The NSE construction and allied segment includes Bamburi Cement Plc, East African Portland Cement Plc, ARM Cement Plc, Crown Paints Kenya Plc and East African Cables Plc. Their reported financial outcomes have varied considerably, including financial distress, accumulated losses, restructuring, and changes in profitability (Hmaied & Hamza, 2020). ARM Cement was placed under administration and delisted in 2018, while East African Portland Cement and East African Cables recorded substantial losses in recent years. These circumstances heighten the need for reliable accrual information. However, Kenyan studies have largely examined earnings management, financial performance, or broader earnings quality, with limited attention to accruals quality as a standalone determinant of firm value. The study therefore sought to address the sector-specific empirical gap by examining the effect of accruals quality on firm value among construction and allied firms listed at the Nairobi Securities Exchange.

### Specific Objective

- To assess the effect of accruals quality on the firm value of construction and allied firms listed at the Nairobi Securities Exchange, Kenya.

### Hypothesis

**$H_{01}$:** Accruals quality has no statistically significant effect on the firm value of construction and allied firms listed at the Nairobi Securities Exchange, Kenya.

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**Significance of the Study**

The study is significant because it provides evidence on whether the quality of accrual information is associated with firm value among construction and allied firms listed at the Nairobi Securities Exchange. The findings may assist investors and other capital market participants in understanding the valuation relevance of accruals quality when interpreting financial statements and assessing firms. For managers, the findings may highlight the importance of reliable accrual estimation, effective accounting systems, and sound financial reporting practices in supporting market valuation. The findings may also provide useful information to auditors and financial reporting oversight bodies when considering the quality and reliability of reported accounting information. In addition, the study contributes sector-specific empirical evidence to the literature on accruals quality and firm value in Kenya, where limited attention has been given to accruals quality as a standalone determinant of firm value. The study may therefore provide a basis for future research examining other factors that could influence the relationship between accruals quality and firm value.

## LITERATURE REVIEW

**Accruals Quality and Firm Value**

Dang *et al*. (2020) examined the effect of accruals quality on firm value among listed firms in Vietnam using panel data comprising 6,847 firm-year observations over the period 2010–2020. The study adopted a longitudinal research design and applied fixed effects, random effects, and generalised regression models, with accruals quality measured using the Dechow and Dichev framework. The findings revealed a statistically significant negative relationship between accruals quality and firm value, implying that poor accruals quality reduces firm valuation. The interpretation of a "negative effect" is, however, largely mechanical because higher residuals indicate lower quality. The study's conclusion may therefore appear counterintuitive without careful conceptual clarification. The findings highlight the importance of clear operationalisation when interpreting the direction of accruals quality and firm value relationships.

Nguyen *et al*. (2024) similarly investigated the relationship between accruals quality, stock returns, and information risk using data from firms listed on the Vietnam Stock Exchange. The study employed a two-stage cross-sectional regression model based on the Fama–MacBeth approach and analysed accruals quality as both innate and discretionary components. The findings showed that accruals quality explains variation in stock returns but is not consistently priced as a risk factor in the market, suggesting weak investor sensitivity to reporting quality. This finding challenges the assumption that improvements in financial reporting quality are consistently reflected in market outcomes. However, the study focused on stock returns rather than firm value measured by Tobin's Q. Its findings therefore provide evidence on market returns but do not directly establish whether accruals quality affects the overall valuation of firms.

Ahmadi and Bouri (2018) examined the relationship between accruals quality and firm value among firms listed on the Tunis Stock Exchange using panel data and regression analysis. Accruals quality was measured using the Dechow and Dichev model, while firm value was proxied using Tobin's Q. The study found a positive and significant relationship, indicating that higher accruals quality enhances firm valuation through more reliable earnings information and greater investor confidence. The finding provides direct evidence that accruals quality can have valuation relevance. However, the study was conducted in Tunisia, and its findings may not fully reflect the institutional and market conditions of Kenya. This limits the extent to which the evidence can be directly applied to firms listed on the Nairobi Securities Exchange.

Ismail (2020) investigated the effect of accruals quality on firm value among firms listed on the Egyptian Stock Exchange using panel regression models. The study utilised accruals quality as a

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proxy for financial reporting quality and measured firm value using market-based indicators. The findings indicated that poor accruals quality significantly reduces firm value, reinforcing the importance of reliable financial reporting for market valuation. However, the study aggregates accruals quality without distinguishing between discretionary and innate components. Consequently, the findings provide limited insight into whether valuation effects are associated with managerial reporting choices or underlying economic conditions. The study nevertheless supports the broader evidence that accrual information quality is relevant to market-based firm valuation.

Serem *et al*. (2024) examined the relationship between financial reporting quality and firm value among firms listed on the Nairobi Securities Exchange. The study adopted a descriptive and explanatory research design using panel data from 46 listed firms over the period 2013–2017. Accruals quality was operationalised using accrual-based earnings quality measures, while firm value was proxied by Tobin's Q, and panel regression models were used for analysis. The findings indicated that higher-quality financial reporting positively and significantly influences firm value. The study provides useful Kenyan evidence linking reporting quality to market valuation. However, its focus on broader financial reporting quality makes it difficult to establish the independent contribution of accruals quality to firm value. The evidence therefore supports the relevance of reporting quality but does not provide a sufficiently focused test of accruals quality as a distinct construct.

Muhoho *et al*. (2025) investigated the effect of earnings quality on firm value among companies listed on the Nairobi Securities Exchange using a correlational research design and secondary data from 35 firms over a six-year period from 2014–2019. The study employed multiple regression analysis with accrual-based earnings quality proxies as independent variables and firm value measured using Tobin's Q. The results showed a statistically significant relationship between earnings quality and firm value, suggesting that improved accrual reliability is associated with stronger investor valuation. Nevertheless, the study examined earnings quality as a broader construct rather than isolating accruals quality. This limits the extent to which its findings can explain the specific valuation implications of accrual estimation quality. The study also did not focus specifically on construction and allied firms, leaving uncertainty about whether the observed relationship applies to this sector.

The reviewed studies generally indicate that the quality of accrual information has valuation relevance, but the direction and strength of the relationship are not consistent across markets and measures. Dang *et al*. (2020) reported a negative relationship, while Ahmadi and Bouri (2018) and Ismail (2020) provided evidence that better accruals quality is associated with higher firm value. Nguyen *et al*. (2024) further showed that accruals quality may explain stock returns without being consistently priced as a market risk factor. These differences suggest that the valuation implications of accruals quality may depend on the market context, the measurement of accruals quality, and the indicator used to represent market outcomes. The evidence also shows an important methodological pattern. Studies that directly examine accruals quality provide more construct-specific evidence, whereas Kenyan studies by Serem *et al*. (2024) and Muhoho *et al*. (2025) examine broader financial reporting or earnings quality constructs. Consequently, the Kenyan evidence establishes a general association between reporting quality and firm value but does not clearly establish the independent effect of accruals quality.

A further gap concerns sector specificity. Existing Kenyan studies use broad samples of listed firms, which may mask differences arising from the operating characteristics of particular industries. Construction and allied firms operate within a capital-intensive sector where long production cycles, substantial working capital requirements, project-related transactions, and fluctuations in operating conditions can increase the importance

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of reliable accrual estimation. None of the reviewed studies directly isolates construction and allied firms listed at the Nairobi Securities Exchange and examines whether accruals quality affects their firm value. The empirical gap is therefore both construct-specific and sector-specific. Although previous studies provide evidence that accruals quality and broader earnings or reporting quality may be associated with market outcomes, limited evidence establishes the direct effect of accruals quality on firm value among construction and allied firms listed at the Nairobi Securities Exchange. The current study addresses this gap by isolating accruals quality as the explanatory variable and examining its effect on firm value, measured using Tobin's Q, among construction and allied firms listed at the Nairobi Securities Exchange, Kenya.

## THEORETICAL FRAMEWORK

### Signaling Theory

Signalling Theory was formally introduced by Michael Spence in 1973 in his seminal work on job market signalling. The theory was later extended to finance and accounting to explain how information asymmetry between informed and uninformed parties affects decision-making. In corporate settings, managers possessed superior information about a firm's financial position, risk profile, and future prospects compared to investors and other stakeholders (Connelly et al., 2025).

## THEORETICAL FRAMEWORK

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The central tenet of Signalling Theory is that informed parties deliberately send signals to reduce information asymmetry and distinguish themselves from lower-quality counterparts. Managers in corporate contexts signal firm quality through financial disclosures, dividend policies, governance structures, and investment decisions (Steigenberger & Wilhelm, 2018). Effective signals must be observable, credible, and costly to imitate by low-performing firms. Financial reporting quality meets these criteria because preparing detailed and transparent reports involves compliance costs, reputational risk, and regulatory scrutiny. According to the theory, high-performing firms are more willing to disclose and report comprehensive information because they expect favourable market reactions. Poorly performing firms, however, may withhold information to avoid negative valuation effects.

Signalling Theory is based on several key assumptions. One assumption is the existence of information asymmetry between firm insiders and external stakeholders. It also assumes that managers act rationally and strategically when deciding whether and how much information to disclose. The theory further assumes that signals are costly to produce to ensure that only firms with superior performance can afford to send high-quality signals consistently (Steigenberger & Wilhelm, 2018). Signalling Theory also assumes that investors are capable of interpreting signals correctly and adjusting firm valuation accordingly. The theory assumes that capital markets respond to disclosed information in a timely manner.

Signalling Theory presents several limitations when applied to financial reporting quality and firm value despite its explanatory power. The

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theory assumes that markets interpret signals accurately, yet this assumption may not hold in emerging or less efficient capital markets where information processing is uneven. Investors may misinterpret financial disclosures or discount them because of scepticism regarding managerial intentions, particularly when earnings manipulation is suspected. Signalling Theory also assumes that signalling is costly, which prevents low-quality firms from easily mimicking high-quality firms, although regulatory requirements may reduce such cost differences and weaken signal credibility. The theory places greater emphasis on voluntary disclosures while giving limited attention to mandatory disclosures, which are often driven by compliance rather than strategic intent. It also gives limited attention to institutional and regulatory environments that shape disclosure practices across economies. The influence of firm size is similarly simplified because smaller firms may attempt to signal aggressively despite having fewer resources and potentially lower signal credibility. Signalling Theory alone therefore does not fully explain financial reporting behaviour and may be applied alongside complementary frameworks such as Agency Theory.

Previous empirical studies have applied Signalling Theory to explain how financial information influences firm value through market perception. Connelly *et al*. (2011) demonstrated that firms use disclosure as a mechanism to convey private information to external stakeholders, thereby reducing information asymmetry. Spence (1973), in the foundational work on signalling, established that credible signals can differentiate high-quality entities from low-quality entities in competitive markets. Steigenberger and Wilhelm (2018) further showed that firms with strong underlying performance tend to disclose more detailed and forward-looking information to signal financial strength and reduce perceived risk. High-quality financial reporting can therefore signal reliability and enhance investor confidence, which may improve firm valuation. However, these studies generally considered disclosure or signalling in aggregate and did not explicitly distinguish specific dimensions of financial reporting quality such as accruals quality.

Signalling Theory provides a direct theoretical explanation for the relationship between accruals quality and firm value examined in this study. Accruals quality represents the independent variable, while firm value represents the dependent variable, measured using Tobin's Q. Under the theory, investors face information asymmetry because managers possess more detailed knowledge about the firm's underlying economic activities than external investors. The quality of accrual information can therefore serve as a signal of the reliability of reported financial performance. When accruals accurately reflect the underlying economic activities and cash flows of a firm, they provide investors with more credible information for evaluating its financial position and future prospects.

The theoretical relationship operates through the credibility and interpretation of the financial signal. Higher accruals quality provides a more credible signal because it reduces uncertainty associated with reported earnings and improves the reliability of accounting information. Investors who perceive the information as credible may have greater confidence in the firm's reported performance and future prospects. This may increase the perceived value of the firm and consequently be reflected in a higher Tobin's Q. Conversely, lower accruals quality increases uncertainty surrounding reported financial performance because accrual estimates contain greater estimation error. Investors may therefore perceive the reported information as less reliable, which can weaken confidence in the firm and negatively affect its market valuation. Thus, Signalling Theory predicts that differences in accruals quality should be reflected in differences in firm value.

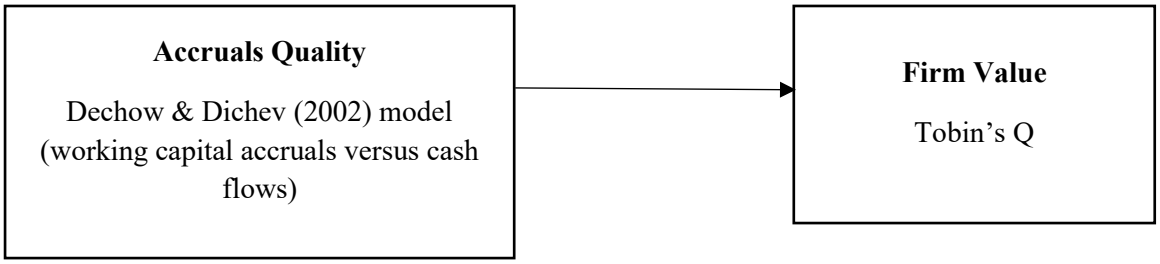
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## CONCEPTUAL FRAMEWORK

Independent Variables

Dependent Variable




## METHODOLOGY

### Location of the Study

The study was conducted in Kenya. The country is located in East Africa between approximately 5° North and 5° South latitude and 34° East and 42° East longitude (Soja, 1968). Kenya lies along the equator on the eastern coast of Africa, bordered by Ethiopia to the north, Somalia to the east, Tanzania to the south, Uganda to the west, South Sudan to the northwest, and the Indian Ocean to the southeast (Soja,1968). The research specifically focused on firms listed under the Construction and Allied sector at the Nairobi Securities Exchange. Kenya provided an appropriate empirical setting due to its developing capital market, evolving financial reporting framework, and increasing regulatory emphasis on disclosure quality following full adoption of International Financial Reporting Standards (IFRS).

### Research Design

The study adopted a causal research design which was implemented within a quantitative methodological framework. The design was widely recommended for corporate reporting studies since it enabled the researcher to document observable reporting behaviour while simultaneously evaluating statistical associations among variables across time (Kothari, 2004; Creswell & Creswell, 2018). The study utilised balanced panel data covering Construction and Allied Firms listed at the Nairobi Securities Exchange for the 11-year period 2015–2025, with 44 data points. Observing the same firms repeatedly strengthened measurement stability, improved internal consistency, and minimised distortions associated with single-period observations.

### Population of the Study

The population of the study comprised all firms listed under the Construction and Allied sector at the Nairobi Securities Exchange (NSE). The five firms formed the entire population because they were the only entities that met the study's sectoral, regulatory, and listing criteria. Each firm was subject to the same reporting requirements under the Capital Markets Authority (CMA) and IFRS. Firm-year observations were derived from published annual reports and audited financial statements across 11 financial years to yield a balanced panel structure.

### Sampling Procedure and Sample Size

The study adopted a purposive sampling approach whereby the four firms derived from the study population listed under the Construction and Allied category at the Nairobi Securities Exchange (NSE) were extracted for the analysis. The above approach was justified because of the completeness of the data, since one of the five firms within the study population (ARM Cement Plc) lacked complete information as it was delisted from the NSE in 2018 due to consistently poor performance (NSE,2026). The four specific sampled firms included Bamburi Cement Plc, East African Portland Cement Plc, Crown Paints Kenya Plc and East African Cables Plc. The purposive sampling enhanced the validity and generalisability of the findings within the sector.

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**Research Instruments**

The study utilised a structured data extraction sheet to systematically capture secondary data from audited financial statements of construction and allied firms listed at the Nairobi Securities Exchange. The instrument was designed to record firm-year observations of key accounting and market variables required for analysis. It included standardised fields for net income, cash flows from operations, total assets, revenues, receivables, property, plant and equipment, and market capitalisation. The use of a predefined template ensured uniformity in data capture, minimised transcription errors, and facilitated the construction of a consistent panel dataset suitable for longitudinal econometric analysis.

**Data Collection Procedure**

The study relied exclusively on secondary data obtained from publicly available and verifiable sources and did not involve direct interaction with human participants. Ethical approval was first sought from the Tharaka University Ethics Committee, followed by issuance of an introductory letter by the Postgraduate School. Authorisation to conduct the study was subsequently obtained from the National Commission for Science, Technology and Innovation (NACOSTI) before data extraction commenced. Although the study used secondary data, these approvals were obtained to ensure that the research and use of publicly accessible financial information complied with institutional and national research requirements. Data were extracted from audited annual reports and financial statements of the four sampled construction and allied firms listed at the Nairobi Securities Exchange. The reports were obtained from company websites, the official NSE platform, and the Capital Markets Authority repository to enhance completeness and consistency. A structured data extraction sheet was used to record the specific financial items required to compute accruals quality and firm value variables. The extracted data were cross-checked against the original reports before analysis to minimise transcription and coding errors.

**Data Analysis**

Data analysis was conducted using quantitative panel data techniques based on firm-year observations. Accruals quality (AQ) was estimated using the Dechow and Dichev (2002) model. Working capital accruals were computed as:

$$WCAcc_{it} = (\Delta CA_{it} - \Delta Cash_{it}) - (\Delta CL_{it} - \Delta STD_{it})$$

The above model was scaled by lagged total assets and regressed on cash flows:

$$WCAcc_{it} = \alpha + \beta_1 CFO_{t-1} + \beta_2 CFO_t + \beta_3 CFO_{t+1} + \epsilon_{it}$$

Accruals quality was then measured as the residuals ($\epsilon_{it}$) where higher values indicate lower quality. Firm value was measured using Tobin's Q:

$$TQ_{it} = \frac{MVE_{it} + Debt_{it}}{TA_{it}}$$

**Key:**

| | |
|---|---|
| $TA_{it}$ | Total accruals of firm *i* in year *t* |
| $NI_{it}$ | Net income of firm *i* in year *t* |
| $CFO_{it}$ | Cash flow from operations of firm *i* in year *t* |
| $CFO_{t-1}$ | Cash flow from operations in the previous year |
| $CFO_{t+1}$ | Cash flow from operations in the subsequent year |
| $\epsilon_{it}$ | Error term (residual) for firm *i* in year *t* |

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**Key:**

| | |
|---|---|
| $WCAcc_{it}$ | Working capital accruals of firm *i* in year *t* |
| $\Delta CA_{it}$ | Change in current assets of firm *i* between year *t* and *t-1* |
| $\Delta CL_{it}$ | Change in current liabilities of firm *i* between year *t* and *t-1* |
| AQ | Accruals Quality |
| $TQ_{it}$ | Tobin's Q (firm value) for firm *i* in year *t* |
| $MVE_{it}$ | Market value of equity (market capitalisation) of firm *i* in year *t* |
| $Debt_{it}$ | Total debt of firm *i* in year *t* |
| $TA_{it}$ | Total assets of firm *i* in year *t* |
| $\alpha$ | Intercept term in regression model |
| $\beta_1, \beta_2, \beta_3$ | Regression coefficients |
| $i$ | Cross-sectional unit representing firm |
| $t$ | Time period (year) |

**Model Specification**

The study adopted the panel data regression model. The model was originally formalised by Balestra and Nerlove (1966) and further developed by Hsiao (2003). Panel data regression was appropriate because it combined cross-sectional and time-series data to allow for control of unobserved firm-specific heterogeneity that may have influenced firm value but remains constant over time. The regression model for accruals quality was estimated as follows:

$$TQ_{it} = \beta_0 + \beta_2 AQ_{it} + \epsilon_{it}$$

$TQ_{it}$= Tobin's Q (firm value) of firm $i$in year $t$
$AQ_{it}$ = Accruals Quality of firm $i$ in year $t$
$\beta_0$ = Intercept term
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Regression coefficients
$\epsilon_{it}$ = Error term
$i$ = Firm ( $i = 1, \ldots, 5$ )
$t$= Time period (2015–2025)

**FINDINGS AND DISCUSSION**

The findings were analysed and presented in tables. The descriptive statistics, correlation, and regression results were presented based on the study objective.

**Descriptive Results**

Accruals quality was measured using the standard deviation of residuals from the Dechow and Dichev model, with higher values indicating poorer accruals quality and greater estimation error in accruals. Table 1presents the descriptive statistics for accruals quality (AQ) across the four sampled construction and allied firms listed at the Nairobi Securities Exchange for the 2015–2025 period.

**Table 1: Descriptive Statistics**

| Year | Mean | SD | Min | Max | Skewness | Kurtosis |
|---|---|---|---|---|---|---|
| 2015 | 0.742629 | 0.570036 | 0.405131 | 1.400778 | 1.730349 | 1.500000 |
| 2016 | 0.654764 | 0.445814 | 0.313812 | 1.287013 | 1.432472 | 4.667012 |
| 2017 | 0.811755 | 0.689986 | 0.335106 | 1.820007 | 1.714288 | 5.887109 |
| 2018 | 0.714000 | 0.495324 | 0.362408 | 1.417593 | 1.451969 | 4.678812 |
| 2019 | 0.651587 | 0.337650 | 0.355957 | 1.040339 | 0.326650 | -1.089681 |
| 2020 | 0.635721 | 0.283531 | 0.348056 | 0.991053 | 0.525046 | 1.591990 |
| 2021 | 0.547844 | 0.201856 | 0.353580 | 0.779552 | 0.275972 | -0.815483 |
| 2022 | 1.068835 | 0.824268 | 0.349938 | 2.236870 | 1.382636 | 5.040740 |

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| Year | Mean | SD | Min | Max | Skewness | Kurtosis |
|---|---|---|---|---|---|---|
| 2023 | 0.967490 | 0.999203 | 0.354712 | 2.455940 | 1.919459 | 6.711658 |
| 2024 | 0.614804 | 0.336988 | 0.283595 | 1.053432 | 0.739658 | 2.468547 |
| 2025 | 0.497237 | 0.237745 | 0.253095 | 0.747506 | 0.034155 | -1.529565 |
| Average | 0.718233 | 0.508312 | 0.253095 | 2.455940 | 1.919648 | 6.710317 |

The results indicated that the overall mean AQ was 0.7182, with a standard deviation of 0.5083, demonstrating considerable variation in accruals quality across the sampled firms and years. The results suggested that accruals quality was relatively poorer in years characterised by higher residual variability. The annual mean declined from 0.7426 in 2015 to 0.5478 in 2021, suggesting an improvement in accruals quality over this period, before deteriorating substantially in 2022 (M = 1.0688) and 2023 (M = 0.9675). It subsequently improved in 2024 and 2025.

The positive skewness observed in most years indicated that the distribution was influenced by firms with relatively high AQ values, particularly in 2023 (skewness = 1.9195). The highest kurtosis was also recorded in 2023 (6.7117) to indicate a relatively pronounced concentration of observations around the centre together with extreme values. 2025, in contrast, recorded an almost symmetric distribution (skewness = 0.0342). The descriptive results thus demonstrated substantial cross-firm and inter-temporal variation in accruals quality by providing a basis for subsequent correlation and panel regression analysis examining its effect on firm value.

**Table 2: Pearson Correlation Matrix Between Study Variables**

| Variable | AQ | TQ |
|---|---|---|
| Accruals Quality (AQ) | 1.000 | 0.778 |
| Firm Value (TQ) | 0.778 | 1.000 |

**Note.** *N = 44 firm-year observations. AQ = Accruals Quality; TQ = Tobin's Q*

Accruals quality demonstrated a strong positive and statistically significant relationship with firm value ($r = .778$, $p < .001$). The findings indicated that higher values of the AQ measure in the dataset were associated with higher Tobin's Q. Accruals quality also had a weak positive relationship with firm size ($r = .239$, $p = .118$), although the relationship was not statistically significant.

The positive association involving accruals quality was consistent with Dechow et al. (2010), Francis et al. (2020), and Chen et al. (2022), who argued that reliable accrual information improves the usefulness of reported earnings and strengthens investors' ability to assess firm performance. The interpretation was consistent with Signalling Theory since credible accounting information can reduce uncertainty and provide investors with a more dependable basis for valuation.

**Regression Model Results**

The model assessed whether variations in accruals quality were associated with changes in firm value while controlling for firm-specific unobserved effects through the random-effects specification. The estimated model was statistically evaluated using the Wald chi-square statistic, coefficient significance, and the associated probability values at the 5% significance level.

$$TQ_{it} = 0.214 + 1.428AQ_{it} + \varepsilon_{it}$$

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**Table 3: Random-Effects Regression Results for Accruals Quality and Firm Value**

| Variable | Coefficient (β) | Std. Error | z-value | *p*-value |
|---|---|---|---|---|
| Constant | 0.214 | 0.096 | 2.23 | .026 |
| Accruals Quality (AQ) | 1.428 | 0.486 | 2.94 | .003 |
| Wald $\chi^2(1)$ | 8.64 | | | .003 |
| Overall $R^2$ | 0.321 | | | |
| Observations | 44 | | | |
| Firms | 4 | | | |

**Note.** *Dependent variable = Tobin's Q. Random-effects panel regression. Significance was assessed at the 5% level.*

The random-effects regression results indicated a positive and statistically significant relationship between accruals quality and firm value. The null hypothesis that accruals quality has no significant effect on firm value was rejected since $p < .05$. The positive coefficient implied that a one-unit increase in accruals quality was associated with an estimated 1.428-unit increase in Tobin's Q, holding the model specification constant. The constant was also statistically significant ($\beta = 0.214$, $z = 2.23$, $p = .026$). The overall model was statistically significant as demonstrated by the Wald $\chi^2$ statistic of 8.64 ($p = .003$). The model explained approximately 32.1% of the variation in firm value as indicated by the overall $R^2$ of 0.321. The findings therefore provided empirical evidence of a positive association between accruals quality and firm value.

The positive relationship between accruals quality and firm value was consistent with the argument that more reliable accrual information improved the usefulness of reported earnings and reduced uncertainty surrounding reported financial performance. The finding aligned with Dechow and Dichev (2002), who established that higher accrual quality was associated with greater reliability of reported earnings, and with Francis et al. (2022), who demonstrated that accruals quality was relevant to market pricing. It also agreed with Eliwa et al. (2016) and Houcine (2017), who reported positive associations between financial reporting quality and firm value. The finding further supported Sangwichitr (2024), who showed that earnings quality can enhance firm valuation. The result was theoretically consistent with Agency Theory because improved accruals quality can constrain managerial information asymmetry and reduce opportunities for opportunistic reporting. It also supported Signalling Theory since credible and higher-quality accounting information can signal stronger reporting reliability to investors, thereby strengthening confidence in the firm's reported financial position and market valuation.

## CONCLUSION

The study concluded that accruals quality was an important determinant of firm value among the construction and allied firms listed at the Nairobi Securities Exchange. The finding demonstrated that the quality with which accrual-based information represented the underlying economic activities of a firm has important implications for how that firm is valued. Reliable accrual information enhances the usefulness of financial statements by enabling users to obtain a clearer understanding of the firm's financial position and operating performance. The study therefore concluded that financial reporting quality should be considered not merely in terms of whether financial statements are prepared and disclosed but also in terms of the credibility and reliability of the information contained in them. Strengthening the quality of accrual information can consequently contribute to a more informative reporting environment in which investors are better able to assess the underlying value of listed construction and allied firms.

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**Recommendation**

The study established that accruals quality was an important factor associated with firm value. It was therefore recommended that managers and financial reporting personnel in construction and allied firms strengthen systems used to generate, review and validate accrual-based accounting information. Particular attention should be given to accurate recognition of revenues, expenses, receivables and other accrual-related items so that reported financial information faithfully reflects underlying economic activities. Audit committees should undertake regular assessments of the quality of accrual estimates and require explanations for material or unusual changes. The Capital Markets Authority should also continue strengthening reporting oversight to encourage consistent and reliable financial disclosure among listed firms. Such measures would improve the usefulness of published financial statements and enable investors to make valuation decisions using financial information that more accurately represents firms' underlying economic conditions.

**Suggestion for Further Study**

Further research should investigate the mechanisms through which accruals quality influences firm value among listed firms. Particular attention could be given to the roles of audit quality, corporate governance, and investor information needs in explaining the valuation consequences of accruals quality.

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