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Effect Of Balance Sheet Reporting On Financial Performance Of Firms Listed At Nairobi Securities Exchange

Sr. Oyieko Margaret[1], Dennis Nyamasege[2], Caleb Akuku[3]
(Phd Student, Department Of Accounting And Finance, Kisii University, Kenya)
(Lecturer, Department Of Accounting And Finance, Kisii University, Kenya)
(Lecturer, Department Of Business Administration, Kisii University, Kenya)

Abstract
Background: *Financial reporting dimensions play a crucial role in providing users and regulatory agencies with insights into a company's financial health. Adhering to established accounting standards, financial reports become relevant, reliable, and comparable, promoting informed decision-making. Transparent reporting fosters trust and credibility with stakeholders while supporting responsible decision-making. However, there has been a declining trend in the return on assets (ROA) among listed firms from 2019 to 2024, with some firms ceasing operations. Despite the importance of accurate financial reporting for investor confidence and financial performance, there is limited understanding of how these dimensions affect firm financial performance in Kenya. This work was anchored on the theory of Accounting Conservatism.*
Material and Methods: *Positivism research philosophy was adopted alongside cross-sectional research design. A target population of 57 firms was used as per NSE handbook of 2023. Stratified sampling technique was used to derive a sample of 50 listed firms. A Structured data collection sheet was employed to extract secondary data from the firm's financial statements for the period of 2018 to 2023. Data was analyzed by use of descriptive statistics methods of means, standard deviations, and percentages, while inferential statistics included correlation and panel regression analysis.*
Results: *Correlation analysis showed a strong positive relationship between balance sheet reporting and financial performance at a 95% confidence level. Hausman test conducted directed that random effect regression was the most preferred model over fixed effect regression. The results showed a strong positive correlation between balance sheet reporting and financial performance with (r=.5044). Further GLS random effect regression model indicated that balance sheet reporting had a statistically significant effect on financial performance of listed firms with an influence of 51.14% and p<.05 significance level.*
Conclusion: *Balance sheet reporting enhances transparency and accountability of financial information thus improved investor confidence. This ensures long term sustainability of firms and accelerated wealth accumulation. 1 unit change in balance sheet reporting causes .5114131 units change in financial performance of firms listed at Nairobi Securities Exchange*
Key Words: *Financial Reporting Dimensions; Balance Sheet Reporting; Financial Performance*

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I. Introduction

The global landscapes of reporting financial performance of listed firms have seen significant developments from 2019 to 2024 among countries. This period has been marked by advancements in regulatory frameworks, technological innovations, and a growing emphasis on financial reporting dimensions. The United States continues to rely on GAAP that firms should report financial information as well supported by FASB. Recent updates have focused on improving the clarity and transparency of financial reports, especially regarding revenue recognition and lease accounting (FASB, 2020). Standard reporting aims to give investors performance. The U.S firms have seen a significant increase in the adoption of advanced technologies such as artificial intelligence (AI) and block chain in financial reporting. These technologies enhance the accuracy, efficiency, and security of financial data, thereby improving the overall quality of financial reports. IAS 1 narrates influence on presentation of financial statements (Kokina et al., 2021).

African countries have been progressively adopting IFRS to improve the transparency and comparability of financial statements. Kenya, for example, has mandated IFRS for listed firms, which has enhanced the credibility of financial reports and attracted international investors (ICPAK 2021). Despite these advancements, challenges such as limited regulatory enforcement, lack of technical expertise, and infrastructural constraints

remain prevalent. However, there are significant opportunities for improvement, especially with the increasing focus on capacity building and regulatory reforms (World Bank, 2020).

There is a growing awareness and implementation of sustainability reporting in Africa. Firms in Kenya and other African countries are beginning to integrate ESG factors into their financial disclosures, driven by both regulatory pressures and investor demand (Nganga, 2023). From the period from 2019 to 2024 has been witnessed substantial progress in financial reporting and financial performance. While developed markets continue to enhance their regulatory frameworks and leverage technology, developing regions are making strides in adopting international standards and improving transparency. The rising focus on sustainability reporting in different countries around the globe brings into light that the concept of financial disclosures is not static but is in transition towards encompassing broader perspective of firm's value creation and future sustainability. Accounting plays a very significant role to the business, investors, regulators, and accounting professionals as the business environment expands interconnections and diversification. It helps the finance managers of the firm and the firm in general to monitor the flow of cash in and out of the organization to know the current and future risks. This ensures the organization has sufficient cash flow to grow the business and take advantage of opportunities when they arise. The increasing numbers of firms provide information on financial reporting on their performance by adopting accounting dimensions. China's Securities Regulatory Commission requires listed companies to provide their financial reports (Turzo and Terzan, 2022).

Financial reporting dimensions include preparations of cash flows statements, balance sheets, statement of shareholder equity and income information (IAS 1 and IAS 7. Kenyan perspective we adopt IFRS 7 and IAS 18 in preparing financial reports. While addressing financial reporting dimensions challenges requires concerted efforts from regulators, businesses, professional bodies, and other stakeholders. Financial reporting dimensions has a limited access to ownership finance for most businesses, especially small and medium enterprises (SMEs), can affect their ability to invest in proper accounting systems and processes (Mutuiri et al, 2023).

Balance sheet is financial reporting tool that explains and evaluate status of affair of the firm during accounting period. Balance sheet is a statement that presents financial position over a given period of time, mostly annual reports (IFRS 18). Disclosure of financial statements can be used to evaluate performance (Ouma, 2017). The evolution, dimensions, and challenges of balance sheet reporting have been experienced from the United States to African nations, including Kenya. In the United States, the balance sheet reporting practice is governed by GAAP as established by FASB commentaries. The prominent changes in the balance sheet is increasing details of the elements presented where the focus has been on more detailed asset and liabilities (FASB, 2020).

The highlights on the integration of technology in balance sheet preparation and reporting has been adopted in many firms. Sophisticated methods in data analysis, blockchain technology, and artificial intelligence enhance the reliability and promptness of financial reports. Balance sheet has very important role in disclosing the financial realities and preserving investors' trust. That is why the elaboration of continuously accurate and comprehensive reports regarding the financial position of a reporting company assists investors on the provision of informative input in the relevant capital markets (Healy & Palepu, 2001). What these technologies do: They enable 'live' or instant reporting and improve the aspect of transparency (Kokina et al, 2021).

The European Securities and Markets Authority (ESMA) ensure compliance with IFRS, promoting high-quality financial reporting. This suggests that stringent regulatory oversight has improved the reliability of balance sheet disclosures in the EU (European Commission, 2021). The use of IFRS has standardized balance sheet reporting across member states. IFRS focuses on providing a true and fair view of the company's financial position, enhancing comparability and transparency (Pacter, 2020).

Post-Brexit, (the withdrawal of the United Kingdom (UK) from the European Union (EU) has influenced balance sheets changes. There have been discussions on potential deviations in financial reporting standards between the UK and EU. UK businesses are struggling with increased cost of labour and supply skills shortages issues following the UK's departure from the European Union. This divergence may impact the consistency of balance sheet reporting and cross-border investments (Barker, 2020).

Many Asian countries, including China, Japan, and India, have either adopted or aligned their local accounting standards with IFRS. This convergence has facilitated international investments and enhanced the comparability of financial statements (KPMG International, 2020). Despite alignment with IFRS, challenges such as differing regulatory environments, economic conditions, and market dimensions affect the consistency of balance sheet reporting. Literature indicates that continuous efforts are needed to ensure uniform application of standards to the preparation of balance sheet (Chen et al., 2019). Similar to the U.S., Asian markets are increasingly adopting technological solutions to improve financial reporting dimensions. AI and big data analytics are being used to enhance the accuracy and efficiency of balance sheet reporting of most firms (PwC Japan, 2021).

African nations, including Kenya, have made significant strides of balance sheet in adopting IFRS to improve financial reporting dimensions. The adoption of these standards aims to enhance the credibility and comparability of financial statements. Despite the adoption of IFRS, many African countries face challenges such as limited regulatory enforcement, inadequate technical expertise, and infrastructural constraints. These

challenges can affect the quality and reliability of balance sheet reporting. Literature emphasizes the need for capacity building in African nations to improve the implementation of IFRS. Training programs for accountants and auditors are essential to enhance their understanding and application of international standards in balance sheet (Omondi, 2022).

The evolution and current dimensions of balance sheet reporting across different regions. In the United States, technological advancements and regulatory standards have significantly improved financial transparency. The European Union's adoption of IFRS has standardized reporting, although Brexit poses new challenges. Asian markets are converging with IFRS, but face implementation challenges. African nations, including Kenya, are making progress in adopting international standards but need to address regulatory and capacity-building challenges. In all the regions, there is increased focus on the reporting of performance once combined with the conventional accounting figures to offer a broader view of firm's affairs specifically in financial reporting.

II. Literature Review

Accounting Conservatism Theory

Conservatism accounting theory was proposed by David Solomons in 1907. The theory of conservatism in financial accounting reporting suggests that financial information statements are reported in a manner that emphasizes prudence and caution, prioritizing reliability and ensuring potential risks and losses are adequately recognized. This approach aims to prevent overstating financial performance or the value of assets, thereby providing users of financial statements. Conservative accounting dimensions serve to protect investors and stakeholders by reducing the risk of financial statement misrepresentation, fraudulent reporting, and earnings manipulation. By use of conservative accounting policies demonstrates ideal commitments to achieve earnings at high level of trust and confidence to various investors. Accounting conservatism theory is a financial reporting principle that requires accountants to prepare financial statements with caution and perform proper verifications of accounting entries (Watts, 2003).

In the assumption of this theory is that; the modern financial reporting is based on the recognition and application of conservatism which act as a guiding principle. This became more pronounced following the establishment of formal accounting standards-setting bodies such as the Financial Accounting Standards Board (FASB) in the United States and (IASB). Accounting policies act as means towards sound financial control and management and help to avoid the problem of financial fragility hence ensuring the survivability of companies. The recognition of losses and liabilities at the lowest amount is advantageous for the company because this prepares it for the risks and adversities that are characteristic for the periods of financial crises and ensures its financial reporting sustainability (Turgut, 2022).

Conservative theory can be criticized as not the only way to enhance the credibility and trustworthiness of financial statements. Investors and stakeholders are more likely to rely on financial information that reflects a conservative assessment of a company's financial position and performance, as it reduces the likelihood of financial statement manipulation or earnings management. This theory shows how financial reporting dimensions, adopted through balance sheet and income statements on financial performance of listed firms. However, the contextually reviewed literature applies to several other sectors, not just listed firms that are the focus of this study (Kontesa et al., 2024).

Accounting Conservatism Theory remains relevant to financial reporting dimensions and is the main theory this study. The theory emphasizes on prudence, transparency, and credibility to investor protection in financial reporting. Thus, when proactively incorporating the conservativism accounting measurements in all financial reporting dimensions, firms are expected to improve overall reliability, efficiency of managing risks and investor's confidence. The theory ensures financial statements are prudently prepared well to safeguard user's interests in the various firms.

Empirical Literature Review

Karim *et al.* (2020) explored the impact of balance sheet statement reporting on the financial performance of the digital technology sector in Malaysia. Their research employed a mixed-methods approach, combining quantitative and qualitative methods to gather and analyze data. The study focused on specific companies within the digital technology sector in Malaysia, examining how changes in balance sheet reporting influenced their financial outcomes. The study analyzed data using descriptive and regression. The inferential statistics findings revealed that balance sheet reporting such as current assets and fixed asset values had a significant impact on a firm's financial performance. Fixed asset investments were positively correlated with firm performance, suggesting that companies that effectively utilize their long-term assets tend to perform better financially. In particular, the study found that current liabilities are a key indicator of short-term financial health. A higher level of current liabilities relative to current assets was associated with liquidity problems, potentially signaling a firm's inability to convert its assets into cash. Conversely, firms with lower current liabilities relative to current assets were found to manage their short-term obligations effectively. These findings were statistically

significant, as regression analysis indicated that current liabilities and current assets had a direct influence on financial performance. These recommendations aimed to enhance financial performance, improve transparency in reporting, and optimize managerial decision-making within digital technology firms in Malaysia. The study did not analyze noncurrent asset and current liability resulting to conceptual gap.

Demerian *et al.* (2021) investigated the impact of balance sheet reporting on the financial performance of Japanese institutions, focusing specifically on balance sheets using the asset ratio for banks. The study employed a correlation design to analyze how the balance sheet approach, emphasizing asset and liability valuation, affects financial performance over time. The research centered on Japanese banks, which are pivotal in the Japanese economy and significantly influenced by fair value measurement under the balance sheet approach. The study found that changes in total current assets and total current liabilities had a significant impact on financial performance. Firms with higher current assets and liabilities may be operating in industries with longer cash conversion cycles. Regression coefficients showed that balance sheet reporting is statistically significant to financial performance. Gaps in methodologically, the use of a longitudinal design is important as it allows for the analysis of changes over time, offering deeper insights into how various financial ratios, such as liability ration, credit rating but not focused on net working capital which influence performance. Hence, conceptual gap on balance sheet using net working capital which is the difference between current assets and current liabilities.

Noskova (2022) explored the impact of balance sheet reporting on the financial performance of businesses. The study examined how balance sheet statements influence business performance. The study employed an analytical research design that focuses on collecting and analyzing quantitative data. This approach is appropriate for exploring causality and correlation between outcomes. The research involves a sample of 17 businesses, although the selection criteria, such as industry, size, or geographic location, are not in detailed provided. Data analysis in the study is conducted using descriptive statistical techniques, including regression analysis. The study found regression analysis which revealed that balance sheet variables such as noncurrent and current assets, and a healthy net asset position, were positively associated with business performance, and hence statically significant. High noncurrent and current assets, along with a healthy net asset position, suggest a firm's ability to sustain operations. However, negative net assets or high liabilities may face challenges in maintaining financial performance. Further analysis could explore the relationship between these balance sheet components and firm performance, profitability, or risk. The conceptual gap in this study lies in the elements of the balance sheet (current ratio, non-current asset, working capital, asset valuation, liabilities) and net assets interact with financial performance would provide a more comprehensive theoretical framework under conservatism theory. The methodological gap in this study is based on limited sample size and panel data analysis application.

Choi and Kim (2023) examined the impact of balance sheet statements on the financial performance of banks in Jordan. The study analyzed balance sheet statements from 2014 to 2015 using the annual reports of 13 Amman-listed banks. Various statistics, including descriptive analysis, affirmed that balance sheet items such as capital, assets, and liabilities influenced financial performance. Regression analysis was used to test the hypotheses, showing that balance sheet statements inversely and significantly correlate with financial performance. However, tested assumptions indicated that the balance sheet did, in fact, improve bank financial performance. Based on these findings, the study recommends that banks provide additional notes to their published financial reports to enhance transparency and understanding of their financial position. It finds that capital-intensive sectors that invest heavily in noncurrent assets tend to outperform in terms of long-term growth, although they may face short-term liquidity risks if not managed properly. This research will address this gap by incorporating the current assets and net asset as an indicator of balance sheet, testing its direct and indirect effects on financial performance.

Li and Zhang (2025) explored the analysis of balance sheets on the performance of Latin American firms, with a particular focus on agricultural management in Lucrari, involving 231 participants. The study employed a qualitative research design, possibly including case studies or comparative analysis across different countries or regions within Latin America. The study utilized both primary and secondary data, drawing on a sample of 138 respondents, and general citizens in Latin American countries. The descriptive statistics indicated that assets, liabilities, and capital provide critical insights into operational stability. A positive correlation was found between total noncurrent assets and firm performance have a statistically significant impact. This suggests that firms with higher assets are likely to experience better performance, as assets support operations and long-term growth. Liabilities were found to have a negative correlation with financial performance due to potential liquidity issues and higher risk. A main conceptual gap in this study is the lack of a clear theoretical framework to explain how balance sheet components directly influence the performance. While the study found that these balance sheet components are critical for assessing operational stability, it does not explore the specific balance sheet reporting with networking capital, current ratio that underlie these relationships. A panel data approach, combining correlation insights with quantitative financial performance indicators, will have provided a more comprehensive analysis hence methodological gap.

Singh and Reddy (2024) investigated the impact of balance sheet reporting on the performance of community banks. The study employed a case study design, utilizing quantitative methods to analyze the data. It focused on 24 smaller community banks, which primarily operate locally and serve their communities, distinguishing them from larger commercial banks. The study's findings were contingent on the number of community banks included in the analysis and the availability of relevant data. Data collection likely included financial statements of the community banks. The data analysis employed quantitative techniques, such as correlation, regression, to evaluate the relationship between balance sheet and various measures of bank financial performance. The study found that balance sheet activities significantly impacted financial performance of banks. Correlation Results indicate that higher assets positively influence performance, while high liabilities negatively impact financial performance. This ratio would help assess how the leverage (or debt) of the banks relates to their total assets and could offer a deeper understanding of how balance sheet impacts the overall solvency of these banks. Conceptual gaps including the debt-to-asset ratio in the analysis could help better capture the relationship between balance sheet reporting with net assets and their influence on the financial performance.

Patel and Sharma (2023) examined the impact of balance sheet statements on the financial performance of agricultural enterprises. The research likely drew on accounting theories related was incorporated principles to explore balance sheet analysis and financial performance indicators using return on assets. A sample of 43 agricultural enterprises involved in production and cultivation activities was used. The study employed both qualitative and quantitative methods, with a particular focus on financial reports. Regression analysis was applied to assess the relationship between balance sheet management and financial performance. The study found that effective management of working capital is crucial for maintaining financial equilibrium and operational efficiency. Fixed assets (also known as non-current assets) refer to long-term assets that a company uses in its operations, such as property, plant, equipment, and intangible assets also reported. The study also recommended promoting transparency and accuracy in financial reporting to build investor confidence and facilitate access to capital. A conceptual gap in this study is the limited exploration of the underlying mechanisms that explain how specific components of the balance sheet such as assets, liabilities, and equity affect agricultural enterprises. Although the study highlights the importance of balance sheet for financial stability, it does not fully explore the causal relationships between different balance sheet components (such as current assets, fixed assets, current liabilities, and long-term debt) and performance outcomes. Firms with large current assets typically have better liquidity positions, but excessive current assets could also indicate inefficiencies in capital utilization. As highlighted by the study, managing working capital effectively can enhance profitability and reduce financial risk.

Wang and Liu 2024) analyzed the impact of balance sheet reporting on the financial performance of commercial banks in developing countries, focusing on Rwanda and Burundi. The study aimed to assess how balance sheet components influenced the financial performance of banks in these countries. A comparative study design was applied, likely to examine risk factors and financial components in their balance sheets. Financial capital theory was employed to explain the reporting structure of the banks' balance sheets. The study utilized an econometric model, with a sample of 43 banks, which were specifically chosen using a quantitative research design. Of these, 18 banks published financial reports that were individually analyzed from both countries. Data collection methods involved financial statements, regulatory reports, and possibly interviews or surveys with bank executives. The study findings found that balance sheet statements significantly contributed to enhancing the financial performance of these banks. A conceptual gap in the study lies in the limited exploration of the specific theoretical mechanisms by which balance sheet components (such as total fixed assets, current assets, liabilities, and net assets) impact the financial performance.

Khan and Ali (2023 explored the role of the balance sheet reporting structure and its importance for the financial performance of commercial companies. The study aimed to compare balance sheets and focus on how corporate financial performance is influenced by accounting elements. The financial statements from 2018 to 2023 were analyzed. Quantitative methods were applied to ensure the results could be generalized to other similar business firms. The study found that Noncurrent assets represent long-term investments that are expected to provide benefits over an extended period. High noncurrent assets can indicate a firm's reliance on fixed assets or long-term investments for its operations, which is common in industries like manufacturing or utilities. Current liabilities represent the company's obligations that are due within one year, including accounts payable, short-term debt, and accrued expense, as indicated by correlation results.

III. Materials And Methods

Research Philosophy

The research philosophy refers to the belief about knowledge of knowing and analyzing a phenomenon (Saunders et al., 2014). The study adopted positivism research philosophy. This philosophy is applicable in this study because of various explanations about annual reports and general observation of collecting data. This would form important beliefs to come up with clear understanding and enable the researcher to examine basic

assumptions under the study phenomena as to why it is chosen, known, and whether is appropriate for having epistemology, ontology, and research axiology.

The study used positivism paradigm to examine empirical study and theoretical aspect of literature through conceptual framework and testing research hypotheses. This research philosophy enables the researcher to examine conceptual framework for measuring data underlying assumptions. The positivist perception is directly related with the notion of understanding objectivism under study (Wanjau 2019). This type of research philosophy gives scientist perspective of evaluating existing phenomena with various objectives through subjective views (Sekaran 2013). This enabled the researcher to derive natural characteristics of testing hypothesis using theoretical assumptions through measurement of a given realism. This philosophy is full of ideas explaining reality about data collection designed to determine accuracy application of theories. The positivist perspective philosophy enabled the study to predict and generalize findings on the previous observations and explain it into reality relationships. Thus, it would enable the researcher to predict and to establish the reality of financial reporting on financial performance outcomes.

Positivism is a paradigm in research philosophy that emphasizes empirical observation and scientific methods as the means to acquire knowledge about the world. This paradigm is rooted in the belief that the social world can be studied in a similar manner to the natural sciences, aiming for objectivity, replicability, and generalizability of findings. Positivist researchers adopt an epistemological stance that posits there are objective truths that can be discovered through systematic observation and experimentation. Positivism has been influential in financial reporting dimensions where empirical testing and validation of hypotheses are central to advancing knowledge (Smith, 2021).

Research Design

Soh (2022) defines research design as the systematic approach through which study objectives are achieved with minimal deviation from expected outcomes. Arowoshegbe and Emeni (2014) utilized similar 5-year and 10-year periods. It helps researchers collect data from financial records of a sample of large firms. Longitudinal research design is acknowledged as an essential concept in conducting research, as it aids researchers in organizing research-related information and procedures for users (Kapur, 2018).

The study employed longitudinal research design, which enabled the researcher to examine time series data due to long period of publications. The firms operate in different sectors with their own policies in the accounting periods. This design enables the researcher to collect data at a single point in time from multiple sectors on the NSE, allowing for comparisons. Researchers might assess model of intersection within financial metrics across different companies or sectors to understand trends and performance at one point in time. Cross-sectional studies are useful for longitudinal design enabling identifying correlations between variables for the periods (Smith and Doe 2023). Availability of longitudinal or secondary datasets often contains long-term data that is necessary for panel analysis. For instance, financial records spanning several years can provide insights into trends and changes over time.

Cross-sectional studies provided a snapshot of a population at a specific point in time, allowing researchers to assess the prevalence of certain characteristics, behaviors, or conditions. It involves collecting data that describes events and then organizing, presenting, and illustrating this data using visual aids such as charts and graphs (Maluleke et al., 2023). Johnson (2023) notes that this cross-sectional design is the important in this research, because it helped in reducing data to manageable form and gave a good explanation and situation of the variables under study. This design provides essential insights into current conditions and behaviors, helping to shape effective interventions and future research directions.

Target Population

Kothari (2014) describes target population as the complete number of items, individuals or products under the study. Targeted surveys and interviews may be conducted with key stakeholders to gather qualitative data on financial reporting dimensions and the impact of government policies. This study targeted 57 companies listed in NSE, Kenya as at December 2023.

Sample and Sampling Procedure

Sample Size

According to Chumba (2021), determination of sample size depends on size of the population a researcher is interested in, use of sample sizes related to a researchers' study, use of sample size available tables and mathematical formulas.

In this study, stratified sampling was used because of the standards it has for choice of sample size which include levels of precision and risk levels a researcher is prepared to take given. The simple random sampling within each industry stratum would be used to choose each of 50 listed firms in Nairobi securities exchange from 2018 to 2023. Yamane 1967 sample size formula was used to derive the sample size of 50 firms

Sampling Procedure

The study adopted stratified sampling technique, considering it appropriate for reducing sampling errors and enhancing representation (Kothari, 2014). Stratified sampling technique is based on different categories outlined in the sampling frame to be utilized. Stratified Sampling selected a sample size of 50 firms. Proportional allocation was adopted to determine the number of firms to sample from each stratum while simple random sampling was used within each stratum (Kapur 2018).

Data Collection

The study utilized secondary data, characterized as cross-sectional time series data, which previously published or is available from other studies (Tarus & Omandi, 2013). This approach is suitable for analyzing financial reports from the annual periods spanning from 2018 to 2023.

Instrumentation

Kothari (2004) noted for the utilization of annual reports in studies due to their comprehensive coverage and efficient data accessibility. Annual reports serve as the cornerstone of research operations, offering cost-effective and unbiased information sourced directly from official documents rather than websites. Ensuring proper construction of annual reports is vital for the success of the survey (Abdi, 2021). Additionally, a data collection matrix was constructed, and developed financial statements were utilized in the analysis process.

Data Collection Procedures

A data collection matrix employed for secondary data and verified from annual reports or document analysis (Kothari, 2004). Gathering financial data from listed firms on cash flows, balance sheets, income statement, and shareholders' equity moderated by government policies that may affect listed firms. Mutuiri, Ngeera, & Kirambia, (2023) affirmed that before collecting data, the researcher requested a letter of authority from the University postgraduate department to enable the application for a research permit. Additionally, a research permit was obtained from NACOSTI and used to request permission from the Nairobi Securities Exchange.

Data Analysis

The data was summarized for entry accuracy, consistency, completeness and then arranged properly to enable coding and tabulation before the final analysis. First, descriptive statistics such as means, standard deviations and percentage will be used. This is in terms of overall, between company, and within company statistics to establish the suitability of the data distribution for panel data regression. However, before establishing the direct and moderated effects diagnostic tests was run to examine the robustness of data.

Descriptive Statistics

The study employed quantitative data analysis methods. Descriptive statistics was used to summarize and describe the main features of the collected data, providing a clear image of financial reporting. This statistical approach helped in understanding the central tendencies, variability, and distribution of the data related. Central tendency was used to calculate the mean of key financial reporting metrics and financial performance across listed firms. Measure of dispersion was determined the mean, standard deviation to understand the variability in balance sheet figures among firms. The gathered information underwent sorting and coding using Statistical Package for Social Sciences version SPSS 25. By analyzing measures of central tendency, dispersion, and distribution, the study provided a comprehensive overview of the current dimensions and their impacts, forming a foundation for more detailed inferential statistical analysis. This approach helped in identifying key trends, patterns, and relationships that inform financial reporting dimensions and government policy formulation in the various sectors.

Inferential Statistics

Correlation Analysis

Karl Pearson Product Moment of Correlation was used to test the nature and strength of the relationships. This regression coefficient is particularly effective in dealing with the complexities of panel data using potential fixed effects and random effects.

Other than regression model summary, correlation analysis becomes more useful for estimating parameters in statistical relationships with variables values (like Pearson moment of correlation). The correlated values were particularly positive or negative suited for the data where relationships may evolve over time, such as how past performance influences current reporting dimensions. Analysis of the assumption provides efficient estimates even in the presence of complex relationships, allowing for a more accurate understanding of how financial reporting dimensions influence performance.

Panel Data Analysis

Random effect model equation……..(2)

In contrast, the Random Effects model treats unobserved firm-specific effects as random variables. It assumes that these unobserved factors are uncorrelated with the independent variables being studied. Random Effects models are more flexible, allowing for the possibility that these unobserved factors vary randomly across firms and may not necessarily be tied to the independent variables of interest.

$Y_{it}=\alpha+\beta X_{it}+\mu_i+\mu_{it}$ ……ii

where μ_i represents the random effect for each entity.

Random effect assumes that the entity-specific effects that are uncorrelated with other independent variables. It uses both within-entity and between-entity variations.

GLS Random Effect

$FP_t f(x) = \beta_0 + \beta_1 X_{11it1}, + \beta_2 X_{2it} + \beta_3 X_{3it}, + \beta_4 X_{4it}, + e_t$……(5)

Panel Data Assumptions

Autocorrelation in Panel Data Analysis

The error terms for each entity should be correlated over time. In the output, check the Durbin-Watson statistic**.** A value close to 2 indicates no significant autocorrelation**.** Values below 1.5 or above 2.5 suggest significant autocorrelation**.** Durbin-Watson Test**:** SPSS does not have no direct panel support tools for testing autocorrelation in panel data, but one can still use residual plots to check for autocorrelation while Wooldridge Test for Autocorrelation **(**in panel data**)** is preferred. If the p-value is less than 0.05**,** it suggests autocorrelation in the residuals within entities (time-series correlation), and you may need to adjust for it in your model **(**using clustered standard errors**) (**Foster, 2022).

Hausman Test/Endogeneity

Panel data models account for unobserved differences across entities (individuals, companies, etc.), such as individual-specific characteristics (balance sheet items, income statements items, cash flows and statement of equity having company's specific effects).

Hausman Test was run to enable the researcher to decide whether the data will use Fixed Effects and Random Effects. These differences can be captured by using Fixed Effects (FE) or Random Effects (RE) models**.** Hausman Test after estimating Fixed Effects and Random Effects models, if the p-value is less than 0.05**,** it suggests that Fixed Effects was preferred because it accounts for unobserved heterogeneity **(**i.e**.,** entity-specific characteristics was to be correlated with the regressors or predictors**).** If the p-value of the Hausman test is less than <0.05 then Fixed Effects should be preferred, as it accounts for unobserved heterogeneity**.** A larger p-value suggests that Random Effects is appropriate.

Endogeneity may occur when the explanatory variables are correlated with the error term, which can lead to biased and inconsistent estimates. Endogeneity is common in panel data, and it may arise from omitted variables, measurement error, or simultaneity. A Hausman test can be used to detect endogeneity by comparing Fixed Effects and Random Effects models. If there is endogeneity, Fixed Effects is generally preferred. Instrumental Variables (IV) Regression: If endogeneity is suspected, once can use 2SLS (Two-Stage Least Squares) regression with an appropriate instrument. Where z1 is the instrument for x1, and it should be correlated with x1 but uncorrelated with the error term. Assumptions for Panel Data Regression and their Test were as shown.

IV. Results

Response Rate

The study targeted a sample of 50 firms listed in NSE where data was to be collected from the audited annual consolidated financial statements for the period of 2018-2023. The final study sample consisted of 43 firms which are listed at Nairobi Securities Exchange. This represents 86% of the sampled firms. This response rate was considered adequate for further analysis because its higher that the acceptable response rate of 60% suggested by Sataloff and Vontela (2021). This implies that use of the results can be relied upon to represent the entire population.

Balance Sheet Reporting

The indicators that were measuring balance sheet reporting included Total Noncurrent Assets, Total Current Assets, Total Current Liabilities, and Net Assets. These indicators were essential in understanding the financial position of firms, specifically in terms of asset base, liabilities, and overall financial reporting. This enabled the researcher to gain insights into the liquidity, solvency, and capital structure of firms listed at Nairobi Securities Exchange. Further these descriptive statistics provided a basis for assessing the efficiency of utilization

of the firm assets in generating revenue when its compared with the return of assets measure of financial performance

Table 1 Balance Sheet Reporting

Variable	Obs	Mean	Std. dev.	Min	Max
Total noncurrent asset	258	4.16e+07	8.41e+07	2200	4.71e+08
Total current asset	258	1.05e+08	2.46e+08	6917	1.72e+09
Total current liabilities	258	9.99e+07	2.38e+08	15499	1.85e+09
Net asset	258	4.65e+07	1.77e+08	-1.74e+09	9.87e+08

Source: Field Data 2025

The mean and standard deviation of total noncurrent assets were (M=Ksh 41,600,000, SD= Ksh 84,100,000). The mean is the average value of total noncurrent assets which included long-term investments, property, plant, and equipment, suggesting that, on average, firms in this dataset have significant investments in long-term assets. The standard deviation of SD= ksh 84,100,000 is relatively high, indicating considerable variation in noncurrent assets across firms. Some firms have substantial long-term investments, while others have fewer or smaller noncurrent assets.

The minimum value of Ksh 2200 suggests that there may be firms in the dataset with very small or almost negligible noncurrent assets, possibly due to the nature of their business (e.g., service-oriented or asset-light firms). The maximum value of ksh 471,000,000 shows that some firms have large investments in noncurrent assets, which could be reflective of capital-intensive industries or large-scale infrastructure. Noncurrent assets represent long-term investments that are expected to provide benefits over an extended period. High noncurrent assets can indicate a firm's reliance on fixed assets or long-term investments for its operations, which is common in industries like manufacturing or utilities (Teodora (2012)

The total current assets amount had a mean (M=Ksh 105,000,000, SD= Ksh 246,000,000). The mean is the average total current assets which amount to Ksh 105,000,000. Current assets are those assets expected to be converted into cash or used up within one year, such as inventory, accounts receivable, and cash reserves. This suggests that, on average, firms hold significant short-term assets. The standard deviation of Ksh 246,000,000 is substantial, showing significant variability in the level of current assets across firms. This may reflect differences in firm size, industry characteristics, or working capital management.

The minimum value of Ksh 6,917 is very low, indicating that some firms may have minimal or very low current assets, possibly due to limited operations or a focus on intangible assets. The maximum value of Ksh 1,720,000,000 shows that some firms hold very large amounts in current assets, which could indicate significant inventories, accounts receivable, or cash reserves. This implied that high current assets are essential for maintaining liquidity and meeting short-term obligations. Firms with large current assets typically have better liquidity positions, but excessive current assets could also indicate inefficiencies in capital utilization. As highlighted by Williams and Clark (2013), managing working capital effectively can enhance profitability and reduce financial risk.

The total current liabilities mean amount was (M=Ksh 99,900,000, SD= Ksh 246,000,000). Current liabilities represent short-term obligations that need to be settled within one year, such as accounts payable, short-term loans, and accrued expenses. The high variability in current assets and liabilities reflects differences in working capital management and liquidity strategies. Firms with higher current assets and liabilities may be operating in industries with longer cash conversion cycles. The standard deviation of Ksh 238,000,000 is large, indicating that the firms in this dataset have a wide range of current liabilities. Some firms may have relatively low short-term debt, while others have substantial short-term obligations.

The minimum value of Ksh 15,499 is quite low, suggesting that some firms have very few or almost no short-term liabilities, possibly due to low leverage or highly liquid positions. The maximum value of Ksh 1,850,000,000 shows that some firms have very large short-term liabilities, which could indicate aggressive use of short-term debt or high levels of operational expenses. Total current liabilities are a key indicator of a firm's short-term financial health. A high level of current liabilities relative to current assets could signal potential liquidity problems, especially if the firm struggles to convert its current assets into cash. On the other hand, low current liabilities suggest that a firm is managing its short-term obligations effectively (Karim et al. 2020).

The net asset had a mean of M= Ksh 46,500,000 and the standard deviation of SD=177,000,000. Net assets represent the residual interest in the firm's assets after subtracting liabilities and are a key indicator of equity. The standard deviation of Ksh 177,000,000 is large, indicating considerable variation in net assets across firms. The result suggests that some firms are heavily invested in long-term assets, while others focus on more liquid or intangible assets. The variability in net assets highlights differences in firm solvency and equity capital. Firms with negative net assets may be facing financial difficulties, while firms with large net assets are likely more stable.

The minimum value of –Ksh 1,740,000,000 suggests that some firms have negative net assets, meaning they are technically insolvent or have more liabilities than assets. Negative net assets, as seen in some firms in this dataset, can indicate distress or over-leveraging, which could lead to potential bankruptcy. The maximum value of Ksh 987,000,000 indicates that some firms have very large positive net assets, signifying they are financially strong and well capitalized. Net assets reflect a firm's solvency and financial strength. Positive net assets, on the other hand, provide a cushion against financial shocks and are a sign of financial health.

Kasozi (2022) examined balance sheet and financial performance of listed firms in Singapore. The study used longitudinal design to sample 32 firms. The balance sheet variables provide a snapshot of the financial health, liquidity, and solvency of firms. High noncurrent and current assets, along with a healthy net asset position, suggest a firm's ability to sustain operations and grow. However, firms with negative net assets or high liabilities may face challenges in maintaining financial stability. Further analysis could explore the relationship between these balance sheet components and firm performance, profitability, or risk. This study investigates how asset structure, including both noncurrent and current assets, impacts the financial performance of firms in emerging markets. It highlights how differences in asset management strategies (i.e., capital expenditures in fixed assets versus liquidity management) can significantly influence profitability and financial stability, with a focus on firms operating in volatile economic environments. The current study will classify all listed firms using secondary data.

Correlation Analysis

The Karl Pearson moment of correlation coefficient was to determine the relationship between independent variable and dependent variable. Also, to establish the existence and nature of the relationship between the independent and dependent variable Karl Pearson Coefficient was determined

The results demonstrated that net assets had a strong positive correlation with return on assets (r=.5044). If r is more than 0.5, the relationship considered positive this means that as net assets of a firm increase the return on assets also increases, hence financial performance of listed firms.

This finding is in tandem with Noskova (2022) study on effect of balance sheet reporting on financial performance of businesses, which found that balance sheet variables such as noncurrent assets, current assets and healthy net assets position were positively associated with financial performance and the association was statistically significant. This imply that a firm that strictly follow balance sheet reporting dimensions tend to exhibit higher profitability and favorable liquidity position.

However, Saqer (2016) study examined impact of balance sheet statements on financial performance of banks in Jordan. The study aimed to analyze balance sheets statements from 2014 to 2015 using annual reports of 13 Amman listed banks. Empirical findings of this study established a negative correlation between balance sheet reporting and financial performance of the listed banks. This finding is contradicted by the current empirical results which project a positive correlation between balance sheet reporting and financial performance of listed firms.

In the study of Karim *et al* (2020) on balance sheet reporting and financial performance of digital technology sector in Malaysia, it was argued that balance sheet reporting elements such as current assets, and fixed assets values had a significant impact on firm's performance. Further, fixed asset investments are positively correlated with firm performance. These findings concur with the current study findings.

Demerian *et al.* (2021) investigated the impact of balance sheet reporting on the financial performance of Japanese institutions, focusing specifically on balance sheets using the asset ratio for banks. The study found that changes in total current assets and total current liabilities had a significant positive correlation with financial performance. This finding is in tandem with the findings in the current study.

Accurate, consistent and concise balance sheet reporting facilitates transparency accountability and safeguard to the resources of a firm. Despite the GAAPs, IAS and IFRS stipulations organizations keep changing internal policies for valuation of assets and liabilities. This projects different images of the organization and keep influencing the investor decisions.

Testing of Panel Data Regression Assumptions

Autocorrelation

This was tested in order to test for existence serial correlation. Autocorrelation assumptions were tested using Durbin Watson and the results are as presented in table 4.2. This technique affirm that autocorrelation exist if the Durbin Watson coefficient is less than 1.5 or more than 2.5.

Table 2 Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin- Watson
1	.42[a]	.176	1.5843	1.224356	2.001

Source: Field Data 2025

The results indicate that the Durbin Watson Coefficient was 2.001, which is between the acceptable range 1.5 and 2.5. This means that the data did not suffer from serial correlation. The implication of this finding is that data can be used for further regression analysis and generate valid prediction models

Hausman Test/Endogeneity

This test was run to determine the most suitable regression model that can generate a viable prediction model either fixed effects or random effect model. If the p> 0.05 then random effects is preferred therefore the results indicated p>.5. Both fixed effect and random effect model coefficients were calculated and the coefficients stored in STATA memory to establish their differences.

The Chi-square for the indicators generated a value of 0.5 upon enhancement by the Sigmamore technique. The process derived Prob > chi2 = 0.8481. The null hypothesis in Hausman test is that, one should select fixed effect if p< .5 and the alternate hypothesis requires one to select random effect if p>.5. Based on these results with p=.8481 then it dictated that random effect is the preferred model for further analysis.

Balance Sheet Reporting and Financial Performance of NSE Listed Firms

To determine the effect of balance sheet reporting on financial performance of firms listed in NSE the composite indicators of the two variables were regressed using random effect regression model and the results are as presented in table 4.3.

Table 3 Balance Sheet Reporting and Financial Performance

LnROA	Coefficent	Std. err.	Z	P>Z	95%conf.	interval
LnNA	.5114131	.2266555	2.26	.024	.0671764	.9556497
Cons	-3.46648	1.998513	-1.73	.083	-7.383493	.4505323
Chi2(1) =0.04 Prob > chi2 = 0.8481						

Source: Field Data 2025

Balance sheet reporting proxy of logarithm of Return on Assets was regressed on logarithm of Net Assets and the results in table 4.3 indicate that Net Assets can explain 51.14131% of the changes in ROA of firms listed in NSE by Prob > chi2 = 0.8481. This explanatory power is statistically significant since the p-value of .024 is less than .05 probability level. This implies that net balance sheet reporting can account for 51.14131% of the changes in financial performance of the NSE listed firms. In the event that there are no changes in balance sheet reporting then financial performance will decline by 3.46648 units.

The output model from table 4.15 was therefore $Y= -3.46648+.5114131X_1$

V. Conclusion

The paper objective meant to determine the effect of balance sheet reporting on the financial performance of firms listed on the NSE. The findings indicated that firms generally have substantial investments in assets, as reflected by the high mean net assets. However, the significant standard deviation highlights variability in asset investment, influenced by firm-specific policies and industry requirements.

The study established a positive and relatively strong correlation ($r = 0.5044$) between balance sheet reporting and financial performance, suggesting that improved balance sheet reporting aligns with better financial performance. Regression analysis further confirmed a statistically significant effect, with a coefficient of 0.7910067 ($p < 0.05$), implying that a unit increase in net assets leads to improved financial performance.

Additionally, the GLS random effect regression analysis validated this relationship, showing a positive and significant effect (RE coefficient = 0.5114, $p < 0.05$), indicating that a unit change in balance sheet reporting results in a 51.14% variation in financial performance. Hence, findings underscore the critical role of balance sheet reporting in enhancing financial performance. Appropriate asset utilization, transparency, and accountability not only safeguard investor interests but also bolster investor confidence, ultimately contributing to improved firm performance.

VI. Recommendations

Firms listed on the NSE should strengthen their balance sheet reporting practices by adopting IFRS and ensuring consistency in financial disclosures. Transparent and standardized reporting enhances investor confidence and improves financial decision-making. Since balance sheet reporting significantly affects financial performance, firms should focus on the efficient utilization of assets to maximize returns. Implementing robust asset management strategies, such as regular asset valuation and strategic capital investments, can improve financial performance.

Companies should establish strong governance structures that promote financial transparency and accountability. Board oversight, independent audits, and compliance with financial regulations will help mitigate risks associated with poor financial reporting and enhance stakeholder trust.

Firms should view financial reporting not just as a compliance requirement but as an accounting tool to attract investors, secure financing, and build long-term market reputation. Proactive disclosure of financial health can differentiate firms from competitors.

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