INFLUENCE OF ACCRUALS EARNINGS MANAGEMENT ON EARNINGS PREDICTABILITY OF LISTED FIRMS IN KENYA

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ABSTRACT

This study examines the impact of accrual-based earnings management on the predictability of earnings among listed firms in Kenya. Earnings predictability is crucial for investors and stakeholders as it enhances decision-making by providing reliable financial information. However, managers may manipulate earnings through discretionary accruals, thereby affecting the quality and reliability of reported earnings. The study employs a quantitative approach, utilizing financial data from firms listed on the Nairobi Securities Exchange (NSE) between 2010 and 2022. The study adopts a modified Jones Model to determine discretionary actuals from the financial data of the listed firm's reports. Earnings per share and share price are used to determine earnings predictability by computing the earnings price ratio.

Through an explanatory research design and panel data regression analysis, the study investigates the extent to which accruals-based earnings management influences the predictability of earnings. It differentiates between discretionary and non-discretionary accruals, assessing their respective impacts on financial statement reliability. Analysis of both descriptive and inferential results is presented after conducting appropriate model and data test. The findings reveal that discretionary accruals have a varying impact on earnings predictability across sectors. The study finds a weak but significant positive correlation ($r = 0.141$, $p < 0.01$), suggesting that while accrual-based earnings management slightly enhances predictability, excessive manipulation can undermine financial statement reliability. These results highlight the need for stringent financial reporting standards and robust corporate governance mechanisms to limit earnings management and improve financial transparency. The study recommends stronger regulatory oversight and further research on the role of external auditors in mitigating earnings manipulation in emerging markets.

Keywords: Earnings Management, Earnings Predictability, Discretionary Accruals, Financial Reporting Quality, Corporate Governance.

INTRODUCTION

To be relevant, among other characteristics, earning numbers must have a predictive and confirmatory value. Users of accounting data rely on efficiency of prediction of earnings numbers for firm valuation (Dichev & Tang, 2009). Quality of earnings according to Licerrn-Gutiirrez and CanooRodrrguez (2017) is the ability of earnings numbers to have a decision usefulness and economic-based perspectives. Accordingly, earnings predictability is the ability

of current earnings numbers to predict future periods earning numbers and higher earnings predictability is an indication of higher earnings quality (Salawu, 2019). Economic based factors assume price as a construct for earnings prediction while accounting factors rely on managerial accounting choices.

Since earnings are significant in making specific predications, management may use some techniques sometimes legal and sometimes illegal to achieve these earnings predication. Various studies on earnings prediction hypothesize a number of drivers that influence earnings prediction; Luttman and Silhan, (2011) expound empirically on factors such as earnings quality, earnings response co-efficient, management forecasts, decision making strategies, and cross- sectional differences such as corporate performance, and firm size. From works of Fairfield et al. (1996) and Kothari (2001) as cited by Banker and Chen, (2006) decomposing earnings into its operating income and non-operating income components improves time series prediction models. This is because the variability in a firm's reported earnings series depends on the variability in its operating performance and the extent to which managers intervene in the financial reporting process (for instance, through managing accruals) to smooth reported earnings.

Accruals earnings management (AEM) is a common technique used by firms to manipulate reported earnings by adjusting discretionary accruals, which are accounting estimates that do not directly involve cash flows. The modified Jones model, developed by Dechow et al. (1995), is widely used to detect earnings manipulation by estimating discretionary accruals separately from normal (non-discretionary) accruals. This model corrects for changes in revenue and property, plant, and equipment (PPE) to better isolate discretionary accruals, making it a robust method for assessing earnings management practices. Studies such as Sánchez-Ballesta & García-Meca (2007) have demonstrated that firms with weaker governance structures are more likely to engage in earnings manipulation through accrual adjustments.

The ability of managers to manipulate accruals is often linked to incentives such as meeting earnings targets, securing executive bonuses, or avoiding regulatory scrutiny. Nuryaman (2013) found that firms with high leverage ratios tend to exhibit higher discretionary accruals, as managers attempt to present a healthier financial position to creditors. Additionally, Waweru & Ntui (2018) showed that firms facing declining profitability are more likely to use accruals-based earnings management to smooth income and maintain investor confidence. These findings highlight the opportunistic nature of accruals management and its potential impact on financial reporting quality.

Regulatory interventions and accounting standards have sought to limit the extent of accruals manipulation by enhancing disclosure requirements and promoting more stringent audit practices. The adoption of International Financial Reporting Standards (IFRS) has been instrumental in improving earnings quality by requiring firms to recognize accruals based on consistent and transparent accounting principles. However, research by Chen (2015) suggests that even under IFRS, firms can still engage in earnings management by exploiting flexibility

in accounting estimates. This underscores the need for continuous monitoring and enforcement mechanisms to ensure compliance with reporting standards.

An alternative approach to assessing accruals earnings management involves analyzing the persistence of earnings over time. Firms engaging in high levels of discretionary accruals tend to exhibit lower earnings persistence, as their reported profits are less reflective of underlying economic performance (Francis et al., 2005). Empirical evidence from Dechow & Dichev (2002) further suggests that firms with low-quality accruals experience higher earnings volatility and reduced predictive power of future earnings. These studies reinforce the argument that accrual-based earnings management can distort financial statements, ultimately affecting investor decision-making and market efficiency.

Given the evolving landscape of corporate financial reporting, future research should explore the role of emerging technologies, such as machine learning and artificial intelligence, in detecting accruals-based earnings manipulation. Automated anomaly detection models have the potential to identify patterns of discretionary accruals that may indicate fraudulent financial reporting. Additionally, integrating accruals analysis with other earnings quality metrics, such as cash flow persistence and voluntary disclosure indices, could provide a more comprehensive assessment of financial reporting integrity. This would help regulators, investors, and auditors better understand the extent of earnings management and implement effective measures to mitigate its impact.

In Kenya, the relationship between accruals earnings management and earnings predictability is emerging as a significant concern for stakeholders, including investors and policymakers. Studies such as those conducted by (Mafunga et al., 2019; Kamau et al., 2022) have highlighted the crucial role that ownership structures and financial distress play in shaping earnings management behaviors among listed firms in the region. These factors can introduce variations in the reliability of reported earnings, affecting the overall predictability of future financial performance, as emphasized by (Nam, 2019), who establishes a connection between earnings management and prediction errors in future earnings.

Problem Statement

The necessity for transparent financial reporting is widely recognized as essential for fostering investor confidence and supporting market stability. Earnings prediction models applied either result to forecasting errors (Dichev and Tang, 2009) or the efficiency of the market to available information and accounting anomalies is in question (Serrano-Cinca et al., 2019). The practice of accruals earnings management is known to impair the accuracy and predictability of earnings reports, undermining stakeholders' ability to make informed decisions and creating an environment rife with uncertainty. Jadhav *et al*. (2015) reckon that earnings per share (EPS) is probably one of the most important indicators investors consider as performance metric for a firm; Goh and Simanjuntak (2018) use price earnings ratio by dividing the share price to EPS. A less volatile EPS trend is more reliable in making predictions about the future than highly volatile EPS trend (Donelson & Resutek, 2015).

Evidence from several studies indicates a growing incidence of accrual-based earnings management in Kenya, highlighting the sophistication of these practices and their implications for earnings predictability (Nam, 2019). Specifically, firms engaging in earnings manipulation may produce reports that mislead investors, leading to increased prediction errors and decreased reliability of financial reports (Nyangweso & Wepukhulu, 2019). As a result, investors may base their decisions on distorted earnings figures, adversely affecting market behavior and firm valuations. Reports indicate that numerous publicly listed firms in Kenya have faced significant financial distress, raising critical concerns about the integrity and quality of their financial reporting (Obong'o et al., 2024).

Furthermore, the understanding of the influence of accruals earnings management is complicated by various external and internal factors, including corporate governance structures and ownership dynamics. Research suggests that these factors substantially impact financial performance and the reliability of earnings predictions (Aluoch, 2021; Nzau & Musa, 2022). Nonetheless, there remains a gap in robust empirical studies specifically examining the relationship between accruals earnings management practices and the predictability of earnings among listed firms in Kenya. This gap underscores the necessity for further exploration of how accruals management behavior affects earnings forecasts, which could influence the overall financial landscape of the Kenyan market.

Thus, this study seeks to delineate the implications of accruals earnings management on the predictability of earnings. It evaluates whether there are any significant consequences of earnings manipulation on investor decision-making processes and market integrity in Kenya.

RELATED LITERATURE

Salsiah *et al*. (2008) investigated the relationship between managerial ownership and earnings management with a proxy of discretionary accruals for Malaysian listed firms. Literature informs that use of discretionary accruals by managers may mislead shareholders but also if applied within proper accounting judgement may improve information dissemination. The estimate working capital accruals excluding depreciation accruals which is visible to users hence presents a difficulty in manipulation is regressed against revenues to determine the residuals error terms. The study findings indicate a significant relationship between ownership structures and earnings management. While managerial ownership is significant, factors such as size of the firm influence the relationship as smaller firms are seen to be more susceptible to manipulation than larger firms.

Sánchez-Ballesta and García-Meca (2007) examined the explanatory power of discretionary accruals controlled by ownership structure of firms in Spanish non-financial companies listed on the Madrid Stock Exchange during the period 1999–2002. Following the agency theory, ownership structure aligns the goals of management and shareholders and under this convergence of interests, opportunistic behaviour of management is constrained. The study regresses an absolute value of discretionary accruals with annual stock returns on earnings controlled by ownership structure. Their findings confirm a linear relationship between ownership structure (Insider ownership) and discretionary accruals. However, this is limited to

about 40% ownership composition where beyond which it starts to become ineffective due to the individual risk characteristics of management.

While looking at the effect of accruals quality on cost of capital for listed firms in the NSE, Oluoch (2015) separately looks as innate and discretionary accruals. Discretionary accruals in the study were measured as the error term from a regression of accruals quality against the standard deviation of operating cash flows, standard deviation of revenues and incidences of loss on a five year period from the accruals year. Purposive sampling was used for 39 out of the 61 listed firms during a 20 year time period up to December 2013. Results show that majority (99%) of accruals are as a result of innate accruals. In general listed firms in Kenya are seen to not exercise much discretion in the accrual reporting process. Study findings therefore contend that discretionary accruals has no significant effect on the cost of capital of listed firms in the NSE.

The study by Konan et al., (2001) on earnings quality and stock returns for firms listed on the New York (NYSE), American (AMEX) and Nasdaq markets used accruals as proxies for earnings quality. This was measured using the Sloan (1996) model measuring accruals as the residual of changes between current assets less current liabilities and depreciation. The study found out that earnings and stock returns are negatively related. Accruals specifically are seen to be informative of expected earnings surprises therefore; like cost asymmetry, Accruals may grow if managers expect sales to grow in the near future. Further, study found out that, earnings increases that are accompanied by high accruals, suggesting low-quality earnings are associated with poor future returns. Possible reasons for accruals predictive power are that high accruals are suggestive of earnings manipulation, or that they may serve as indicators of changes in a firm's prospects.

Another study is by Roychowdhury (2006), who investigates the effect of real and accrual-based earnings management on future firm performance. The study finds that both types of earnings management tend to have adverse effects on future earnings and stock returns, but that accrual-based earnings management is more likely to lead to short-term boosts in earnings at the expense of long-term value creation. Roychowdhury's research highlights the long-term risks associated with manipulating accruals as a way to meet earnings targets or boost firm performance in the short term.

Another study by Xie (2001) focuses on the relationship between earnings management, ownership structure, and corporate governance. Xie finds that the level of discretionary accruals is inversely related to the quality of corporate governance, as measured by board independence, audit committee independence, and managerial ownership. The study suggests that better corporate governance mechanisms can help reduce earnings management by limiting the opportunities for managers to engage in discretionary accruals, thereby improving the quality of earnings reported by firms.

Chen et al. (2015) extend this line of research by examining the impact of institutional ownership on earnings management. Their study finds that institutional investors, particularly

those with a long-term investment horizon, tend to monitor and constrain the use of discretionary accruals. This is because institutional investors are more likely to focus on the long-term performance of firms and hold management accountable for any earnings manipulation that might harm the firm's future prospects. The study also indicates that institutional ownership helps align management's interests with those of shareholders, thus reducing the likelihood of earnings manipulation.

In a similar vein, Burgstahler and Dichev (1997) study the relationship between earnings management and stock returns, emphasizing the impact of accruals on earnings predictability. They argue that earnings management through accruals, especially when used to smooth earnings, can undermine the ability of earnings to serve as a reliable indicator of future performance. Their findings suggest that firms that engage in aggressive earnings management through accruals often experience negative stock returns in the long run, as investors begin to recognize the manipulation and adjust their expectations accordingly.

Furthermore, Jones (1991) introduced the widely-used Jones model for detecting earnings management through accruals, which measures the extent to which changes in accruals are discretionary. The model has since become a foundational tool in empirical accounting research. Jones's study indicates that firms with high levels of discretionary accruals are likely to face more scrutiny from investors, regulators, and auditors, which may increase the cost of capital and reduce the firm's value over time. The Jones model has been widely adopted in subsequent research to analyze earnings management across various industries and markets.

Krishnan (2003) examines the relationship between earnings management and audit quality. The study finds that firms with higher levels of discretionary accruals are more likely to hire auditors with lower reputations, potentially because these firms want to avoid the scrutiny of top-tier audit firms. Krishnan's research underscores the importance of audit quality in curbing earnings manipulation and ensuring that firms report accurate and reliable financial information to their stakeholders.

Finally, Kothari et al. (2005) explore the use of discretionary accruals in earnings management and its relationship to firm performance. The study finds that firms that manipulate earnings through discretionary accruals often experience poorer long-term performance compared to firms that report earnings more transparently. Kothari et al. argue that while discretionary accruals may provide short-term benefits by enhancing earnings, they ultimately harm the firm's reputation and stock performance, as investors become more wary of the firm's financial reporting practices.

Together, these studies provide a comprehensive understanding of the complex relationship between accruals earnings management and various aspects of financial performance, firm governance, and stock market behavior. They highlight the risks associated with earnings manipulation and emphasize the importance of effective governance and high-quality audits in maintaining the integrity of financial reporting.

RESEARCH METHODOLOGY

The study adheres to a positivist research philosophy, which emphasizes objectivity and the observation of factual data pertaining to social phenomena. This philosophy enables the researcher to remain value-free and supports the use of observable constructs as empirical data. The positivist approach aligns with the information signaling theory, which suggests that investors rely on observable accounting metrics to mitigate information asymmetry regarding future firm performance, thereby focusing on potential market efficiency within the Nairobi Securities Exchange (NSE).

This study employs a descriptive survey research design aimed at elucidating anticipated characteristics of the sample. The secondary data is collected from financial statements for the accounting measures adopted for Price Earnings Ratio and Discretionary Accruals. Coupled with a longitudinal approach, the design facilitates the examination of correlations over time through panel data, providing comprehensive insights into the behavior of the analyzed firms. The sample comprises 50 firms over a span of 13 years (2010 – 2022), emphasizing the substantive use of panel data in the investigation.

Ratio of Discretionary Accruals Components, RDAC, as applied by Ibrahim (2009), is a measure of the consistency of the signs and magnitudes of accrual components and is found to provide information that can be used to distinguish between discretionary accruals resulting from intentional manipulation by managers and discretionary accruals that are simply measurement error or noise. Inclusion of this measure is shown to be incrementally significant in detecting discretion in firms that have artificially-added accrual manipulation. In a panel data study, absolute and aggregate values of discretionary accruals are the basis of analysis of consistency. The cross-sectional modified Jones model of Discretionary accruals is commonly applied in studies such as Sánchez-Ballesta & García-Meca (2007), Nuryaman (2013) and Waweru & Ntui (2018). This study adopts the modified Jones Model. In this model the estimate of accruals quality are based on the statistical properties of the discretionary accruals. High accrual quality is used as a proxy for high earnings quality and consequentially earnings predictability. Accruals are calculated in the steps below

Step One

$$TAi,t = (NI - CFO)\frac{1}{Ai} \text{---------- } Equation\ i$$

Where

TAi,t = Total accruals in year t for firm

NI= Net Income

CFO =Cash flows from operating activities

$Ai,t-1$ =Total assets in the year t-1 for firm i

Step two

Using the Total accruals above and using the following Modified Jones Model, the following regression model provides cross sectional intercepts to be used later to compute the non-discretionary Accruals

$$TAi,t,\frac{1}{Ai},t-1 = \beta 0 + \beta 1\,(\Delta REVi,t)\frac{1}{Ai},t-1 + \beta 2PPEi,t\frac{1}{Ai},t-1 + \varepsilon i, \ldots. Equation\ ii$$

Where:

TAi,t = Total accruals in year t for firm i Calculated as (Δ Current assets-Δ Current liabilities –Cash + Short Term Debt - Depreciation and amortization Expenses)/ $Ai,t-1$

$Ai,t-1$ =Total assets in the year t-1 for firm i

$\Delta REVi,t$= Revenue in year t less revenue in year t-1 for firm i scaled by $Ai,t-1$

$\Delta RECi,t$= Receivables in year t less receivables in year t-1 for firm i scaled by $Ai,t-1$

$PPEi,t$=Gross property plant and equipment in the year t for firm i scaled by $Ai,t-1$

ξi, t=error term in the year t for firm i

This formula gives the non-discretionary accruals.

$$NDACi,t = \beta 0 + \beta 1\,(\Delta REVi,t - \Delta RECi,t)\left(\frac{1}{Ai},t-1\right) + \beta 2 PPEi,t\left(\frac{1}{Ai},t-1\right) + \xi i, \quad \ldots.$$

Equation iii

Individual cross- sectional regressions are re-run with the residual from Equation 1. Discretionary accruals (DA) are therefore computed as the difference between total accruals and Non-Discretionary Accruals. . This study goes a step further than simple disaggregation of accruals into its components and modeling them separately.

The relationship between accruals earnings management and earnings predictability is tested using the following panel regression model:

$Y_{i,t} = \beta_0 + \beta_1 X_{1it} + \mathcal{E}_{it}$ ……...……... (II)

Where: β_0 *is* the intercept of the model; β_1 is the parameter to be estimated; $X_{i,t}$ represents the independent variable; accruals earnings management and $\mathcal{E}_{it}$ is the error term.

RESULTS AND DISCUSSION

Results in Table 1, has measures of central tendency such as mean and median, measures of diversion such as minimum, maximum, standard deviation and measures of distribution such as skewness, kurtosis and Jarque-Bera for the dependent variable, price earnings ratio (PER) and independent variable discretionary accruals (DAC).

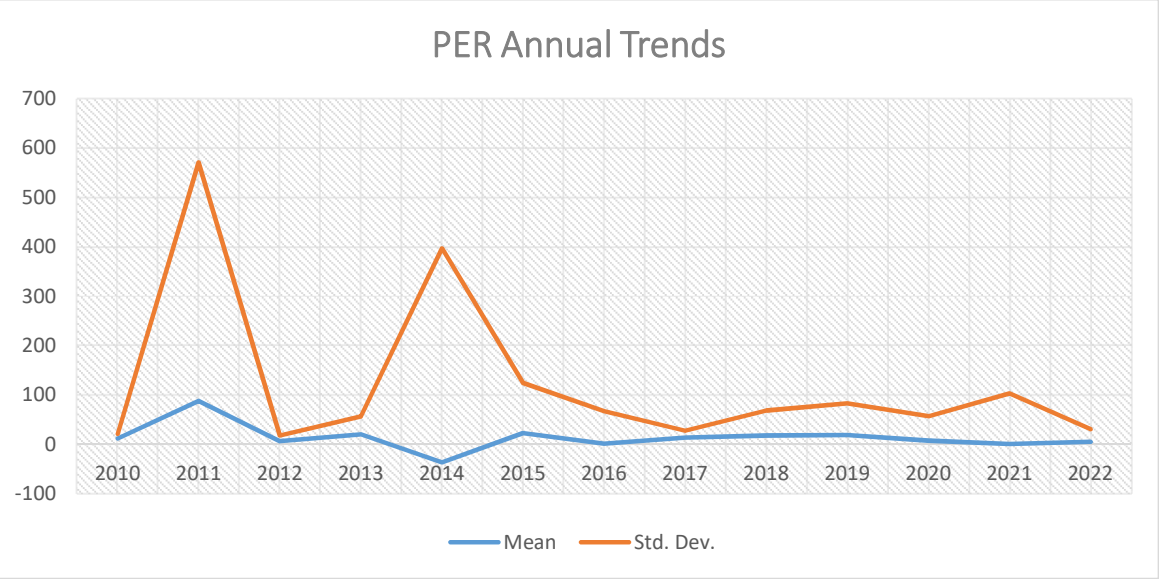
Descriptive Statistics

Table 1: Descriptive Statistics (Price earnings ratio, discretionary accruals)

	Mean	Median	Minimum	Maximum	Std. Deviation	Kurtosis	Skewness	Jarque Bera	Sum	Observations
PER	3.96	9.27	-22.2	70	13.424	4.3499	-0.477	31.78	1106	618
DAC	0.138	0.01	-0.05	1	0.31	13.7	2.27	375	38	618

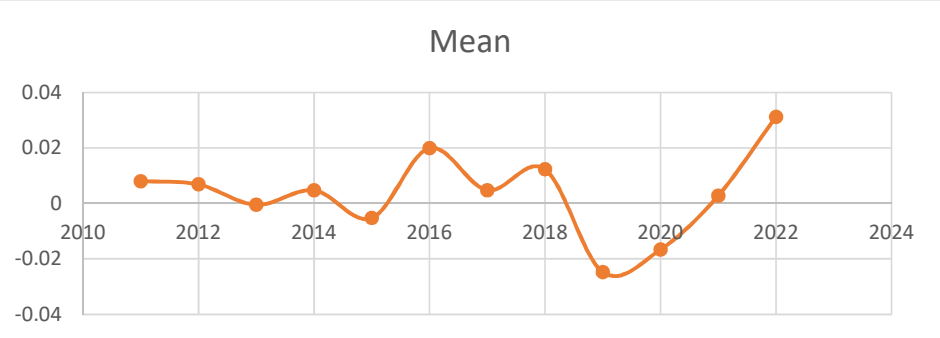
Results from the study as shown in table 1 revealed that the mean Price Earnings Ratio (PER) for the listed firms in the study period was 3.96. There was a moderate volatility of PER as accounted for by standard deviation of 13.424 units supporting literature outlined in the statement of the problem depicting potential inefficiency in predictability models. Table 1 shows PER volatility between periods ranging from -22.2 to 70. According to Donelson & Resutek, (2015) a less volatile EPS trend is more predictable. Further, skewness coefficients

revealed that the PER was skewed to the negative side with a Skewness coefficient of -0.47 and kurtosis coefficient was normally distributed, since its coefficient was greater than 3 at a coefficient of 4.34 units. High kurtosis coefficient indicated traces of auto-regressive co-integration (ARCH) effects in the series, which can only be modelled through time series analysis. The volatility for DAC can be modelled as follows:



Volatility (Price Earnings Ratio)

The discretionary accruals are a function of totals accruals is very minimal with a mean of 0.003 as shown in table 1. This is comparable to other studies such as Oluoch, (2015) that reported a mean accruals discretionary accruals quality of 0.00824 for listed firms between 1997 and 2013. A study by Sanchez-Ballesta and Garcia-Meca (2007) showed discretionary accruals with a mean of -0.003 for sample of Spanish non-financial companies listed on the Madrid Stock Exchange during the period 1999–2002. Notably, the standard deviation (0.07) show minimal variation of discretionary accruals for firms listed in the NSE signifying that these firms have a large proportion of normal accruals. Annuals means show a consistently low values for discretionary accruals ranging between -0.02 and 0.03 can be modelled as shown in the figure below



Discretionary Accruals Trend

Correlation Analysis

Table 2: Correlation analysis

		PER	DAC
earnings predictability	Pearson Correlation	1	-.141**
	Sig. (2-tailed)		.001
	N	582	582
accruals earnings	Pearson Correlation	.141**	1
	Sig. (2-tailed)	.001	
	N	582	650

The analysis of accruals earnings as per table 2 reveal a weak positive correlation between accruals earnings and earnings predictability ($r = 0.141$, $p < 0.01$). This suggests that firms utilizing accruals earnings management practices may exhibit slightly higher levels of earnings predictability.

The Hausman Specification test enabled the study to identify the panel model – fixed or random effects model – to utilize in the analysis process. In order to determine whether to choose between a fixed or random effects model, the study adopted a null hypothesis which stated that the study utilizes the fixed effects model (the unique errors are correlated with the repressors, the null hypothesis is that they are not correlated). Table 3 presents the results for the Hausman Specification Test.

Table 3: Hausman Fixed and Random Specification Test

Chi Square Test Statistic	P Value	Conclusion
122.400	0.513	Adopt a Random Effect Model

$\boldsymbol{H_0}$: preferred model is random effects

vs

$\boldsymbol{H_1}$: preferred model is fixed effects

If the p-value is significant (for example <0.05) then use fixed effects, if not use random effects. From the findings presented in Table 3 , Prob>chi2 = 0.513 was greater than 0.05. Thus, the null hypothesis was accepted. Consequently, the study adopted the Random Effect Panel Model (REM)

Before undertaking the model analysis, the following diagnostic test were carried out;

Table 4 Unit Root Test (Level)

Variable		ADF Test at levels		
		T statistic	**Critical Value at 5%**	**P value**
PER	Constant	-12.33	-2.86	0.000
DAC	Constant	-10.82	-2.86	0.000

Group statistic

	---------- Interpolated Dickey-Fuller ---------			
	Test Statistic	1% Critical Value	5% Critical Value	10% Critical Value
Z(t)	-33.911	-3.430	-2.860	-2.570

Given that the test statistic Z (t) was substantially lower than the critical values, and the p-value was very close to zero ($p < 0.0001$), there was strong evidence to reject the null hypothesis. Therefore, based on the Dickey-Fuller test, it can be concluded that both variables considered have a unit root. In other words, they are stationary, which is a desirable property for time series data.

Further, the test for normality in this case was measured using Kolmogov-Smirnov statistic which according to According to Gray (2016), a sig. value of more than 0.05 for the Kolmogorov-Smirnov test signifies normality in a distribution. The results showed from 650 firm year observations the variables were significant at ($p> .05$) ;Accruals earnings management a statistic of .178 (Prob .0.83) and Earning Predictability at .181 (prob = 0.68), both suggesting a normal distribution.

Bivariate regression Analysis

This study seeks to evaluate the influence of accruals earnings management practices on the predictability of earnings for listed firms in Kenya. Accruals earnings management involves the manipulation of accounting accruals to smooth reported earnings. Understanding how these practices impact earnings predictability is essential for assessing the reliability of financial statements.

Model Summary

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	.141[a]	.020	.018	11.95615

a. Predictors: (Constant), accruals earnings

ANOVA[a]

Model		*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
1	Regression	1672.737	1	1672.737	11.702	.001[b]
	Residual	82910.695	580	142.949		
	Total	84583.432	581			

a. Dependent Variable: earnings predictability

b. Predictors: (Constant), accruals earnings

Coefficients[a]

Model		*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*
		B	Std. Error	Beta		
1	(Constant)	.237	1.122		.211	.833
	accruals earnings	5.407	1.581	.141	3.421	.001

a. Dependent Variable: earnings predictability

Table 5: Model Summary, Anova and Beta Coefficients Accruals Earnings Management on Earnings Predictability

The regression analysis results suggest that the model including the predictor variable accruals earnings significantly predicts earnings predictability among the observed firms. The model summary indicates a modest relationship, with an R-square value of 0.020, implying that approximately 2.0% of the variance in earnings predictability can be explained by accruals earnings. The standard error of the estimate is 11.95615, indicating the average distance between observed and predicted values.

The ANOVA table confirms the significance of the regression model, with a significant F-statistic of 11.702 ($p = 0.001$), indicating that the model's predictor collectively contribute to predicting earnings predictability.

Examining the regression coefficients, the intercept coefficient (Constant) is 0.237, indicating the expected value of earnings predictability when the predictor variable is zero. The coefficient for accruals earnings is 5.407, suggesting that for each unit increase in accruals earnings, there is an average increase of 5.407 units in earnings predictability. This coefficient is statistically significant ($p = 0.001$), indicating a positive relationship between accruals earnings and earnings predictability. Therefore, based on these findings, it can be concluded that accruals earnings have a significant positive impact on the predictability of earnings among the listed firms in the study.

Summary and Conclusions

For all firms, analysis revealed a weak positive correlation between accruals earnings and earnings predictability ($r = 0.141$, $p < 0.01$). Firms with higher levels of accruals earnings tended to have slightly more predictable earnings. Accruals earnings management involves manipulating accounting accruals to smooth earnings or achieve certain financial targets, which can affect the reliability and predictability of reported earnings. Accruals earnings represent non-cash accounting adjustments made to reflect revenue and expenses that have been earned or incurred but not yet realized in cash (Dechow & Skinner, 2018). While accruals earnings management can distort reported earnings in the short term, it may contribute to earnings smoothing and enhanced predictability over the long term. The study agrees with findings of Simamora (2018) who concluded that innate abnormal accrual (5.8706) are higher than discretionary abnormal accrual (0.0000)

Therefore accruals earnings management, involving the manipulation of accounting accruals to smooth earnings, can impact the reliability and predictability of reported earnings. These findings underscore the need for companies to carefully consider the impact of their disclosure practices and earnings management strategies on earnings predictability.

The find of this paper are in coherence with Jones and Smith (2020) who found that firms engaging in aggressive accruals earnings management tend to exhibit lower earnings predictability and reduced credibility of financial statements. However, moderate levels of accruals earnings management may contribute to the stability and predictability of reported earnings by aligning them with underlying economic fundamentals (Dechow & Skinner, 2018). Therefore, our findings suggest that the relationship between accruals earnings and earnings predictability is nuanced and may depend on the extent and nature of earnings management practices. It is however worth noting that these are generalized findings for listed firms in Kenya, further considerations for industry specifications would provide more guidance on the nature of accruals in specific firms.

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