

Financing Cash Flow, Discretionary Accruals and Stock Return of Firms Listed in Nairobi Securities Exchange, Kenya



Samoei Ben Kipngetch¹, Andrew Kimwolo², Joel Tenai³

^{1,2,3}Moi University Department of Accounting and Finance

ABSTRACT: The purpose of the study was to establish the effect of financing cash flow on stock return and to test the moderating effect of discretionary accruals on the relationship between financing cash flow and stock return. Panel data was collected from 29 listed non-financial firms at NSE for 12 years from 2007-2019. Fixed effect hierarchical regression analysis showed that financing cash flow had a positive and significant effect on stock return while discretionary accruals negatively moderate the relationship between financing cash flows and stock returns. The study concludes that financing cash flow improves stock return, however, high discretionary accruals adversely reduce the effect of financing cash flow on stock return. Therefore, the study recommends that NSE should enact incisive regulations pertaining to discretionary accrual practices and its implication on stock return to protect investor vulnerability to losses in their investment due to managers' opportunistic behaviours.

KEYWORDS: Cash Flow, Stock Return, Discretionary Accruals, Financing Cash Flows

INTRODUCTION

Stock return is a field of study which has sparked the interest of many academics in the recent years. Husman (2012) contends that investors within the stock market expend their savings with the speculation of yielding earnings. Rieke *et al.*, (2020) suggests that firms that exhibit positive prospects of high stock returns are preferred by the capital markets in the allocation of capital. According to Tahmoorespour *et al.*, (2015) market players in the financial market utilize stock market indices to explain movements in the economy based on stock market behaviour to compare returns on specific investment. However, stock market returns are more ideal since they facilitate traders and investors to measure and gauge the rapid inflow of information in the stock market (Umutlu, 2015).

Li, *et al.*, (2014) posits that stock return may take the form of proceeds accrued from trading in shares or the dividends acquired and may be awarded to shareholders once every year. According to Kousenidis, (2006) and Omag, (2016) cash flows that are neither investing nor operating in nature form financing cash flow. Specifically, they include, loan repayments, investment by firm owners, dividends received by firm owners and issuance of bonds or stocks (Lan, 2012). Financing cash flow is attributed to acquisition of capital to finance start-ups, expansion, or financing of any other activity that the business organization needs extra funds for. Financing could take the form of internal or external source of financing. Retained earnings form the basis of internal financing while equity and debt financing form the basis of external financing. Equity financing refers to selling of company shares to investors while debt financing on the other hand relates to sale of bonds and these funds are raised through financial markets (Omag, 2016).

According to Ardian *et al.*, (2014) financing cash flow statement contained in the annual financial reports is the source of information that proclaims the capability of the firm to generate positive financing cash flows and profitability trend in the future hence can influence investors' judgments to invest in the stock market. Likewise, market efficiency theory points that when financial results of a firm are announced, some speculations appear that ultimately influence stock prices. This was affirmed by Corhay, *et al.*, (2015) in their studies that revealed that publicly announcing financial results on the US market leads to a significant variation of stock returns immediately.

According to agency theory shareholders can evaluate the firm's financial performance through the annual accounts and reports announced by the management. The main objective of a firm is to maximize shareholders wealth hence managers are likely to apply discretionary accrual (DA) practices to create a positive impression regarding the future performance of the firm's shares

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(Sinan and Suleiman, 2020). As a result, investors will reward them based on stock return reflected in stock prices when annual financial results are released. DA occurs when manager use valuation using alternative accounting methods permitted by the Generally Accepted Accounting Principles (GAAP) in financial reporting and in preparing transactions to either raise or lower the company earning, to mislead some stakeholders about the economic performance of the underlying firm on the accounting numbers reported (Hastuti *et al.*, 2018). Correspondingly, Ghazali *et al.*, (2015) suggests that discretionary accruals may be beneficial to investors and other stakeholders in instances where accurate information regarding firm profitability and leverage is communicated by managers. Some studies have shown that DA and stock return are inversely related, while others suggest positive relationship (Wali, 2017). For instance, Subramanyam (2014) study depicted that DA and stock returns are positively related. Other studies have introduced the concept of DA and its effect on financing cash flows and stock returns. Equally, Utomo and Pamungkas, (2018) found evidence in Indonesia that DA was able to moderate the relationship between both the financing cash flow on stock returns. However, Sinan Suleiman, (2020), found contrary results in Jordan and documented that DA do not have a significant moderating effect in the relationship between cash flow information and stock returns. Based on the conflicting results in previous studies on the effect of financing cash flow on stock returns, and the evidence in literature that DA and stock returns are associated, it becomes intriguing therefore, to investigate further whether the presence of DA strengthens or weakens the relationship between financing cash flow and stock return against a backdrop of mixed and inconclusive results of empirical studies done in advanced economies. More so, evidence in emerging economies such as Kenya is conspicuously lacking. The focus of this study is therefore to test the moderating effect of DA on the relationship between cash flow information and stock returns of firms listed in NSE.

STOCK RETURN IN FIRMS LISTED IN NSE

Stock return reflects the expectation of investors' judgments in making investment decisions (Kuwornu, 2016). Investors associate successful companies exhibiting high performing stocks in the stock market to sound earnings and cash flow information (Utomo & Pamungkas, 2018). As such it is imperative to understand that consistent increase in firms future stock returns, sound financial health, corporate sustainability and growth depend on earnings and cash flow information (Hastuti *et al.*, 2018). More so, extant literature has linked cash flow information and stock returns (Purnamasari, 2015).

However, most firms in emerging economies including Kenya have displayed declining stock returns over time which is a challenge to investors (Capital Market Authority, 2018). For example, Kenya Airways Limited was tagged as the worst performing stock in 2017 with a 58.7% decline in share price, 51.4 % profit decline and 46.7% decrease in dividend payout (Omondi, 2018). Other companies listed at NSE that recorded substantial decline in stock prices over the period include Kenya Power, Uchumi supermarkets, Mumias sugar, Deacons, CIC Insurance and East Africa Cables among others (NSE,2018). Comparatively, Countries like Egypt, Nigeria, South Africa, and Uganda registered quantifiable drop in stock prices at the rate of 67%, 24% and 21% respectively (AU Commission,2009; Hezron, 2009). Consequently, this phenomenon has made investors to question whether financing cash flow information outlined in the cash flow statement influence stock returns better than the income statement that firms have traditionally been using to predict stock returns. This therefore creates a gap for researchers to investigate whether cash flow information influence stock returns to increase or decline in individual firms.

THEORETICAL FRAMEWORK

Efficient market hypothesis (EMH) theory stipulates that in an efficient market price wholly epitomizes all the available information. This implies that an investor can gain a risk adjusted return from investment as prices escalate rapidly and abruptly to any new information. Stock market plays an intermediary role and transfers funds from savers to organizations that use it to implement projects. Hameed & Hammad, (2006) posit that efficient markets are imperative, if the intention is that funds be distributed to the most exorbitant projects. This can be implemented only when stock prices are successfully priced; it influences the price at which market players are willing to trade to claims on organizations' future cash flows. From a policy outlook, proof of capital market efficiency signifies the government's restricted role in capital markets. EMH theory was found to be relevant in this study because NSE is a semi-strong form of EMH, and stock return will adjust promptly in the stock market to reflect all publicly available information regarding the firm, and this informs the investors on the direction future firm cash flow will take. In addition, Agency theory, based on Jensen & Meckling, (1976) was started and formulated by Jensen. Agency theory posits that agency conflicts emerge from the probable divergence of interest between shareholders (principals) and administrators (agents) of organizations. Based on Elliot and Elliot, (2002), the main role played by managers is to oversee the company in a manner that ensures high stock return (stock returns) to stakeholders therefore raising the profit numbers and cash flows. Divergence of interest between managers and shareholders leads to agency costs. The most prevalent agency cost is in a

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situation where the self-interest of managers conflict with shareholder's interest. For example, in instances where management decisions do not maximize shareholders stock return, DA practices may be utilized by managers to hide their sub-optimal investment decisions from reported earnings. Agency theory supports the reasoning that, managers role is to generate high stock returns to maximize shareholders wealth by managing the firm in a prudent, efficient, and effective manner.

REVIEW OF LITERATURE

This section provided empirical reviews on effect of financing cash flows on stock return, and the moderating effect of discretionary accruals on the relationship between financing cash flow and stock return.

Financing Cash Flow and Stock return

In as far as financing of firms are concerned, cash flow patterns are dictated by business cycles. According to Omag (2016), the study found out that there are cash outflows associated with financing information. Consequently, exchange of cash between a firm and its shareholders or creditors for that matter, could be observed by probing this portion of the cash flow statement. Studies in recent years have shown that, most firms use short-term loans and retained earnings to finance their information because long-term resources are not sufficient in the capital markets. Governments take this advantage to issue government bonds to address the issue of budget deficits in their budgets. Thus, firms which are accessible to long-term resources could be regarded as financially stable. The exact amount of these resources may be observed in the financial statements of the relevant firms (Caprio & Demirgu-Kunt, 1998).

Hamza (2014) revealed there were statistically significant, inverse relations between stock returns and cash flows from financing information for some companies, and the associations for others were non-significant. Studies by Durgham & Durghams (2010) found that there is no relationship between shares' stock return, financing cash flow and joint information in all banks other than for the Arab Islamic Bank. The study documented a positive and negative relationship between financing cash flows and shares' returns respectively. Habib (2011) indicated that companies that have financing cash flow and growth opportunities have high stock prices and operating cash flow positively affects stock return where profits are temporary. Mongo (2010) results recorded a positive association of financing cash flow on profits. Other studies by Fenandar and Raharja (2013) results of financing decisions reported positive effect on the value of the firm. Contrary findings were reported by Khanji *et al.*, (2015) results that revealed limited effect of financing cash flows on the share market value of Jordanian commercial Banks.

Financing Cash Flow, Discretionary accruals, and Stock return

Francis *et al.*, (2005) demonstrated that organizations with poor quality accruals have higher interest cost ration and reduced debt ratios. The outcomes of their review reveal that voluntary and non-discretionary accruals are instrumental in specifying variations of profit, although the influence of non-discretionary accruals is more sizable as opposed to option accruals. According to Chambers (2005), stakeholders are trying at projecting accruals and cash flows sustainability but are unable to deliberate on prices. For this reason, in some organizations, sustainability of accruals is more logical and for others less feasible. Francis *et al.*, (2008) investigated the manner of accruals valuation and demonstrated that in market valuation, accruals connected to receivables are more critical compared to other accruals.

The findings attest to the ability of cash flow to influence return on average profitability depending on profitability criteria. An analysis carried out by Artikis *et al.*, (2016) on the results of cash and accruals components of income sustainability, stock return prediction and future stock returns report that there is significant positive link with sustainable cash component from earnings from investment. In addition, investment strategies are also feasible with increased funding in cash items in organizations with massive cash distribution to shareholders. Saghafi and Kordestani (2004) findings demonstrated that market respond to increase in firm cash flow in comparison with positive speculations.

Utomo & Pamungkas (2018) indicated that operating and financing cash flows positively affects stock returns while investment cash flow negatively affects stock returns while discretionary accruals moderate the relationship between operational and financial cash flow and stock returns. However, discretionary accruals have no moderating effect on the relationship between investment cash flow and stock return. Another research conducted by Collins (2014) found that earnings management mediates the relationship between financing cash flow and stock return. This means that when financing cash flow increase investors associate it to increased funding leading to high profits and enhanced stock return. Maximizing shareholders returns is the main objective of the owners of the company while managers want rewards in form of bonus for their performance in the firm. Consequently, managers opportunistic behaviour drives managers to discretionary accrual to make financial statements look good to attract investors and improve stock return. Solechan (2007) research records that discretionary accruals positively affect the initial value of the company. The high corporate value at the beginning signifies the possibility of the investors to get a positive return.

HYPOTHESIS DEVELOPMENT

From the review of literature relating to cash flow information and stock return tabulated it is evident that research in financing cash flow and stock return has been done but not comprehensively. The literature reviewed indicates that few previous researchers have extensively focused on the direct link between financing cash flow information on stock return. No known studies used a moderating variable to test its indirect effect on the relationship between the predictor and the dependent variable in Kenya. Secondly, most of these studies were done in developed countries but very few studies have been carried out in emerging economies like Kenya and have yielded mixed results. This therefore creates a research gap for further studies by testing the effect of discretionary accruals as a moderating variable in the relationship between financing cash flow information and stock return in Kenya. Thus, the study hypothesized that.

H₀₁: Financing cash flow has no significant effect on stock return of firms listed in NSE

H₀₂: Discretionary accruals has no significant moderating effect on the relationship between financing cash flow and stock return of firms listed in NSE

Sampling

There are 67 firms listed at NSE but a total of 19 financial firms including banks, investment and investment services were excluded and 48 firms remained to be considered in this study. An inclusion and exclusion criterion were also subjected to the 48 non-financial firms to arrive at the final number of companies that were considered in the study. Only firms that fulfilled the following conditions qualified to be included in the study; the firms must have filed its audited financial statements that contained all the study variables for the entire period of study in NSE, the company should have been incorporated on or before 2008, the firm must have not been suspended or delisted during the study period and the firm should not have changed its name within the study period.

Secondary data was collected from the 48 non-financial firms but only 29 firms had all the required data for this study. Therefore, 19 firms were dropped because they failed to meet the inclusion and exclusion conditions stated above. This study therefore looked at 29 nonfinancial firms for twelve (12) years from 2007 to 2019 translating to 348 observations. This study adopted a census survey where the 29 non-financial firms were considered for a period of 12 years (2007-2019).

The study employed secondary data. Content analysis technique was employed for collection of data using data collection sheet. The research obtained the required data for all variables from the annual NSE handbook and published audited financial statement and accounts of the firms under study filed at NSE. Use of secondary data was appropriate due to availability of audited financial reports for firms listed at NSE as required by the Kenyan Companies Act CAP 486. Furthermore, it a requirement for all listed companies to file their annual financial reports with the NSE and therefore NSE handbook was the most reliable source of the secondary data needed for this research

Measurement of Variables

This study measured three independent variables (operating, financing & investing cash flows), one dependent variable (stock return) and one moderating variable (discretionary accruals) as detailed.

Dependent variable

The dependent variable of the study is stock return (SR) which contains valid information for investors and its changes are regarded as a criterion for companies' performance. Stock return refers to the compensation given to an investor by a company for postponing current consumption to invest in a company's share (Utomo *et al.*, 2018). The value of stock return fluctuates with the changes in the assigned market stock prices (Utomo *et al.*, 2018). Data regarding Stock return variable was obtained from the NSE Handbooks. This study used firms' closing end of year market share prices in line with Habib (2011) and Brigham *et al.*, (2019) studies to measure the SR variable.

$$SR_{it} = \frac{(P_{it} - P_{it-1})}{P_{it-1}} \dots\dots\dots 1.1$$

Where:

SR_{it} – Stock return for firm *i* for the period *t*

P_{it} – Price of a share for firm *i* for the period *t*.

P_{it-1} – Price of a share for firm *i* during the previous period *t-1*.

Financing cash flow

These are cash receipts and payments resulting from change of equity capital and borrowing structure of the entity (IAS, 7). Variable measurement of financing cash flow (FCF) was obtained from the company's cash flow statement under financing

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information in a certain period less the financing cash flow of the previous year divided by the financing cash flow of the previous year's (Subramanyam 2014).

$$FCF_{it} = \frac{FCF_{it} - FCF_{it-1}}{FCF_{it-1}} \dots\dots\dots 1.2$$

Where:

FCF_{it} – Financing cash flow for firm i for the period t .

FCF_{it-1} – Financing cash flow for firm i during the previous period $t-1$.

Moderating variable

The current study adopted the modified Jones model below to obtain the coefficients α_1 , α_2 and α_3 used to obtain predicted non-discretionary accruals for different firms.

$$\frac{TA_{it}}{A_{it-1}} = \alpha_1 \frac{1}{A_{it-1}} + \alpha_2 \frac{\Delta REV_{it}}{A_{it-1}} + \alpha_3 \frac{PPE_{it}}{A_{it-1}} + \varepsilon_{it} \dots\dots\dots 1.3$$

Where:

TA_{it} Refers to the Total Accruals in year t

A_{it-1} Refers to firm i 's Total Assets at the end of year $t-1$

ΔREV_{it} Refers to firm i 's revenues in year t less revenue in year $t-1$

PPE_{it} Refers to the gross property plant and equipment at the end of year t

α_1 , α_2 and α_3 are the firm specific parameters

The discretionary accruals (residuals) were therefore obtained by deducting predicted non-discretionary accruals from the actual total accruals basing on (Healy, 1985). Therefore, resulting to equation presented as follows.

$$NDA_{it} = \alpha_1 \frac{1}{A_{it-1}} + \alpha_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} + \alpha_3 \frac{PPE_{it}}{A_{it-1}} + \varepsilon_{it} \dots\dots\dots 1.4$$

Where:

NDA_{it} is Non-Discretionary Accruals for firm i in year t

ΔREC_{it} Chang in receivable accounts of firm i between years t and $t-1$

Therefore:

$$DA = \frac{TA_{it}}{A_{it-1}} - NDA_{it} \dots\dots\dots 1.5$$

Where:

DA is discretionary accruals

Control Variables

Firm Size (FS); firm size was measured using log of total assets (Tariverdi, *et al.*, 2014; Laeven *et al.*, 2014). Measured as follows; SIZE it= Log of current year total Assets it. **Firm Age (FA);** the study measured FA as the difference between the year the company was incorporated and the year 2019 to establish how many years the company has been in operation since it was incorporated in line with studies by (Boone *et al.*, 2007; Gregory *et al.*, 2005; Eriki, 2015).

Table 1. Measurement of Variables

Variables	Symbols	Measurement	Empirical Studies
Dependent variable			
Stock Return	SR	Share Price of firm i for the period t minus Share Price of firm i for the previous period ($t-1$) divided by Share Price of firm i for the previous period ($t-1$)	(Habib, 2011)
Independent Variables			
Financing Cash flow	FCF	Financing cash flow as seen from the information of a company's cash flow statement for firm i in period t less financing cash flow of firm i for the previous period ($t-1$) then divided by the financing cash flow for firm i for the previous period ($t-1$).	(Subramanyam 2014).
Moderating Variable			
Discretionary	DA	Measured by using discretionary accruals denoted	Dechow <i>et al.</i> , 1995;

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accruals		(DA).	Ines, 2017; Singh <i>et al.</i> , 2017
Control Variables			
Firm Age	FA	Number of years a firm has been in operation since it was incorporated at NSE	Eriki (2015)
Firm Size	FS	Measured by natural log of current year total assets	Laeven <i>et al.</i> , (2014)

Source; (Author, 2020)

Model specification

A panel data was used to evaluate the hypotheses. This study compared the Fixed Effect Model (FEM) and the Random Effects Model (REM) using Hausman test to determine the best model for the study. This study followed suggestions propagated by Baron and Kenny's (1986), and Frazier *et al.*, (2004) regarding the use of hierarchical multiple regression analyses to test for moderation effect as follows.

$$SR_{it} = \beta_{0it} + [\beta_{1it}FA_{it} + \beta_{2it}FS_{it}] + \varepsilon_1 \dots \dots \dots \text{Eqn. 1.6}$$

$$SR_{it} = \beta_{0it} + C + \beta_{1it}FCF_{it} + \varepsilon_2 \dots \dots \dots \text{Eqn.1.7}$$

$$SR_{it} = \beta_{0it} + C + \beta_{1it}FCF_{it} + \beta_{2it}DA + \varepsilon_3 \dots \dots \dots \text{Eqn.1.8}$$

$$SR_{it} = \beta_{0it} + C + \beta_{1it}FCF_{it} + \beta_{2it}DA_{it} + \beta_{3it}OCF * DA_{it} + \varepsilon_4 \dots \dots \dots \text{Eqn 1.9}$$

SR - is the measure of stock return.

β_{0it} is changes in SR that independent variables present in the model cannot explain. Note that it is the constant in the equation. OCF Operating cash flow, FCF Financing cash flow, ICF Investing cash flow, DA = Discretionary accruals, $C = \beta_{1it}FA_{it} + \beta_{2it}FS_{it}$, ε is error term, i firms, t time.

RESULTS

The summary of descriptive statistics for stock return, financing cash flow and discretionary accruals, firm size and firm age are highlighted in Table 2 below. As indicated in the table, stock return recorded the minimum of -5.141 and a maximum of 7.104. The overall mean was 0.232. This shows that despite the stock return being below average 50%, it is higher than countries like Vietnam which had average of .209 within the same period (Dang *et al.*, 2017). Likewise, from the table the standard deviation was 1.9 meaning that the stock returns fluctuated uncontrollably among the nonfinancial firms listed in the NSE between 2008 and 2009. These results also report that Financing cash flows had a mean of 0.035 with a minimum value of -9.785 and a maximum of 12.457 during the period. This means that there were no major cash outflows towards financing of fixed assets and huge capital outlay for projects. The standard deviations of financing were 2.160 indicating that the cash flow information of nonfinancial firms listed at NSE for the period 2008 through 2019 exhibited skewed behavior and significant fluctuations. Regarding discretionary accruals the minimum value was -8.610 while the maximum was 13.631. The mean was -0.105 meaning managers of non-financial firms listed in NSE practice discretionary accruals at low levels compared to other contexts like Indonesia 0.2742 (Utomo *et al.*, 2018). Furthermore, the minimum value for firm size was 4.027; maximum was 9.916 while the mean was 6.935. Finally, most of the firms have operated for a period ranging from 11 to 69 years. On average, the listed firms in NSE have been in operation for 36 years (mean = 35.603).

Table 2. Descriptive Statistics Summary

Stats	N	MIN	MAX	MEAN	P50	SD	skewness	kurtosis
SR	348	-5.141	7.104	0.232	-0.009	1.900	0.773	7.829
FCF	348	-9.785	12.457	0.035	-0.062	2.160	1.224	8.619
DA	348	-8.610	13.631	-0.105	-0.559	2.460	2.816	14.965
FS	348	4.027	9.916	6.935	6.899	0.920	-0.099	3.699
FA	348	11.000	69.000	35.603	39.000	17.969	-0.156	2.039

KEY: Operating Cash flow (OCF), Investing Cash flow (ICF), Financing Cash flow (FCF), Discretionary Accruals (DA), Firm Size (FS) Firm Age (FA)

Source: (Field Data, 2021)

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Diagnostic Statistics

This study performed the following tests: normality, multicollinearity, autocorrelation, unit root, heteroscedasticity and the hausman test. This helped in ensuring that corrective measures were carried out on the study data prior to the analysis. Normality of data residuals from a regression model comprising of financing cash flow, discretionary accruals, firm age and firm size was confirmed by the Jarque-Bera normality test, chi (2) is 0.087 implying we fail to reject null hypothesis and conclude that the normally assumption holds. Heteroscedasticity was tested using Breusch- Pagan test which had p value greater than the significance value ($p > 0.05$) therefore we fail to reject null hypothesis and concluded that residuals are homoscedastic. The study employed the Wooldridge test to test the presence of autocorrelation in error terms which had F static value of 0.048 and $p < 0.05$ meaning the F test is not significant at 0.05 significant level thus, we conclude that there is no first order serial/autocorrelation in the data. Multicollinearity was checked using Variance Inflation Factor (VIF) and Tolerance limits

Panel Unit Root Test

The Fisher type unit root test based on augmented Dickey Fuller test was used to test for unit root. Table 3 illustrates the findings. The null hypothesis was that all panel contain unit roots while the alternative at least one panel is stationary. Majority of tests had a p value below 0.05 hence null hypothesis was rejected and concluded that data was stationery. Therefore, all variables namely, financing cash flow, discretionary accruals, firm size and age were used at all levels. This means that the results obtained were not spurious (Gujarati, 2010).

Table 3. Fisher-Type Unit-Root Test Based on Augmented Dickey-Fuller test

		Inverse chi-squared (58)	Inverse normal Z	Inverse t(149) L*	logit Modified chi-squared Pm	inv.
SR	Statistic	404.734	-13.782	-20.453	32.193	
	p-value	0.000	0.000	0.000	0.000	
FCF	Statistic	278.657	-11.162	-13.834	20.488	
	p-value	0.000	0.000	0.000	0.000	
DA	Statistic	215.483	-7.318	-9.468	14.622	
	p-value	0.000	0.000	0.000	0.000	
FS	Statistic	220.474	-4.974	-8.716	15.085	
	p-value	0.000	0.000	0.000	0.000	
FA	Statistic	2090.532	-43.759	-107.377	188.716	
	p-value	0.000	0.000	0.000	0.000	

KEY: SR = Stock Return, Financing Cash flow (FCF), Discretionary Accruals (DA), Firm Size (FS) Firm Age (FA)

Source: (Field Data, 2021)

Testing Hypotheses

Based on Hausman test results which showed the p-value less than 0.05 hypothesis were tested using hierarchical fixed effect model. Results indicated financing cash flow had a positive and significant influence on stock return ($\beta = 0.447$, $p < 0.05$). The null hypothesis H_{01} was therefore not accepted. In addition, overall R-sq results showed that financing cash flow can predict 52.8% variation in stock return in NSE. These means that during the period 2008-2019 non-financial firms listed at NSE were well financed as evidenced by the positive financing cash flow. According to Santoso (2011), firms that exhibit increased financing cash flow, can utilize this strength to invest in available opportunities for the company to expand and subsequently win investors' confidence, hence positive stock returns. These findings are comparable to Legiman *et al.*, (2015), Hamza (2014) and Durgham and Durghams results which recorded a significant positive relationship between financing cash flow and stock return. Consistent findings were found by Legiman, et al., (2015) who reported that firms that reports high financing cash flow is a positive signal and attracts more investors. Comparatively, Santoso (2011) documented that firms that exhibit increased financing cash flow, can utilize this strength to invest in available opportunities for the company to expand and subsequently win investors' confidence. This positive investors' reaction will push the stock prices up and, thereafter, increase the stock returns.

More results showed that after introducing discretionary accruals on the relationship between financing cash flow and stock return, the beta coefficient was $\beta = -0.14$, $p < .001$, hence the null hypothesis was rejected. Thus, there is negative and significant

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moderating effect of discretionary accruals on the relationship between financing cash flow and stock return by 2.9% ($\Delta R\text{-sq}=0.029$). Based on Frazier, Tix and Barron (2004) the moderation effect is antagonistic since higher levels of discretionary accruals reverses the positive effect of financing cash flow on stock return to negative effect. Thus, discretionary accruals had a negative and significant moderating effect on the relationship between financing cash flow and stock return ($\beta = -0.14$; $\rho < 0.05$). This implies that the presence or absence of discretionary accruals in a company will be followed by a decrease and an increase in changes in financing cash flows and stock prices which then affect the amount of stock returns. These results imply that investors in Kenya find it unattractive to invest in firms that exhibit high financing cash flow and associate these firms with likely future financial distress. These results support Jensen agency theory (1976) and contradicts the findings of Utomo & Pamungkas (2018). The result of this study shows that the company's discretionary accruals can moderate the relationship between financing cash flow to stock returns. These findings can be linked to the reported disconnection between cash flow from financing activities and stock returns. The association in this case contradicts the findings Collins, Hribar and Tian (2014) which documented that high financing cash flow is related to increased funding, higher profits, and stock returns of the firm. It can, therefore, be concluded that managers' decisions of nonfinancial firms listed in NSE for the period 2008-2019; on the accounting policies and assumptions to adapt are informed by financing cash flow and stock return. Contrary findings were reported by Utomo & Pamungkas (2018) who found that discretionary accruals were able to strengthen the relationship between financing cash flow towards stock returns in Indonesian listed manufacturing firms.

Table 4. Testing for Moderation Effect Discretionary accrual on the Relationship between financing Cash Flow and Stock Return

	Model 1	model 2	Model 3	Model 5
Sr	Coef.(Std. Err.)	Coef.(Std. Err.)	Coef.(Std. Err.)	Coef.(Std. Err.)
_cons	0.23(.10)**	-0.00(.04)	0.23(.07)**	0.26(.06)**
FS	-1.16(.44)**	-0.31(.06)**	-0.58(.30)	-0.39(.29)
FA	0.85(.16)**	-0.34(.16)*	-0.67(.11)**	-0.70(.11)**
FCF		0.45(.05)**	0.23(.07)**	0.22(.07)**
DA			-0.39(.10)**	-0.31(.10)**
FCF*DA				-0.14(.04)**
R-sq:				
Within	0.108	0.587	0.606	0.629
between	0.332	0.600	0.622	0.602
Overall	0.072	0.528	0.560	0.602
$\Delta R\text{-sq}$		0.456	0.032	0.029
F(7,312)	19.210	89.120	80.190	65.940
Prob > F	0.000	0.000	0.000	0.000
hausman				
chi2(8)	16.540	18.730	18.510	18.240
Prob>chi2	0.000	0.005	0.000	0.020

KEY: SR = Stock Return, Financing Cash flow (FCF), Discretionary Accruals (DA), Firm Size (FS) Firm Age (FA)

Source: (Field Data, 2021)

The results in Table 4 are plotted on ModGraphs to provide a clear understanding of interaction effects of discretionary accruals on the relationship between cash flow information (financing cash flow) and stock returns. the modgraph in Figure 1 reveals that with an increase in discretionary accruals, there is a negative effect of financing cash flows on stock return. Thus, discretionary accruals negatively and significantly moderate the relationship between financing cash flows and stock returns for firms listed at the NSE. Thus, there is antagonistic moderating effect of discretionary accruals on the relationship between financing cash flows on stock return

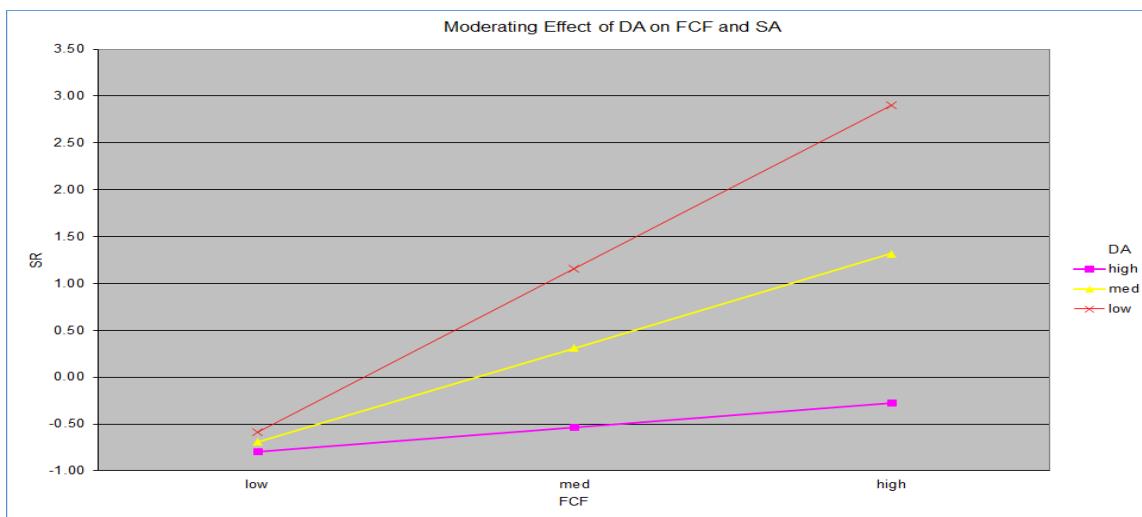


Figure 1 Moderating effects of Discretionary Accruals on the Relationship between Financing Cash Flow and Stock Return
KEY: SR = Stock Return, Financing Cash flow (FCF), Discretionary Accruals (DA), **Source:** (Field Data, 2021)

CONCLUSIONS AND RECOMMENDATION

The study revealed that financing cash flow significantly affects stock return. Thus, the author concludes that financing cash flow positively and significantly affects stock returns of nonfinancial firms listed at the NSE. Ideally, investors associate firms with high financing cash flow to sound financial strength, hence the ability to take advantage of the available growth opportunities. However, discretionary accruals weaken the relationship between financing cash flow and stock return for firms listed at the NSE. This study concludes that unlike other studies done in other contexts which reports that discretionary accruals positively moderate the relationship between financing cash flow and stock return, firms listed in NSE reported contrary findings. This means investors in Kenya are aware that opportunistic discretionary accrual hinders market participants' ability to make informed judgments about financing cash flow allocation, resulting to low stock returns. The Author therefore concludes that Kenyan investors expect well managed firms to have negative financing cash flows to mean that all funds were utilized for the intended projects.

Therefore, firms listed at NSE should work towards enacting policies that assists managers to identify and finance viable growth projects since high financing cash flow increase stock return. On the same vein, the managers should spend financing cash flows for the intended purposes to avoid agency costs attributable to managers opportunistic behavior to cushion firms from financial crisis that can negatively impact on the stock returns. On the same breadth, the firms should strive to finance their projects through internally generated cash flows (retained earnings) to avoid diluting the proportion of shareholding which affects stock returns.

The study recommends that managers of nonfinancial firms listed in NSE should not communicate information about future profitability using discretionary accruals. For stakeholders, it is important for them to know existence of discretionary accruals when analyzing stock investment decisions.

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