# Influence of Cash flow Statement Reporting Dimensions and Financial Performance of Firms Listed in Nairobi Securities Exchange

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**Abstract**

Cash flow statement reporting is essential for evaluating a firm's liquidity and overall financial health. However, firms listed on the Nairobi Securities Exchange (NSE) have experienced a decline in financial performance over recent years. This study aimed to examine the influence of cash flow statement reporting on the financial performance of these firms. Grounded in Conservative Accounting Theory, the research emphasized the role of cautious financial reporting in protecting investors and stakeholders by mitigating risks related to misrepresentation, fraudulent reporting, and earnings manipulationin cash flows. Adopting a positivist paradigm, the study combined empirical analysis and theoretical insights. A descriptive and cross-sectional research design was employed, utilizing secondary panel data from 49 firms over the period 2018 to 2023. The findings revealed that cash flow statement reporting had a weak and statistically insignificant influence on financial performance, accounting for only 3.37% of the variation in return on assets. Based on these results, it is recommended that listed firms enhance the clarity, consistency, and strategic application of cash flow information to support more informed decision-making. Furthermore, regulatory authorities such as the Capital Markets Authority should improve oversight and establish clearer reporting guidelines to ensure that cash flow statements deliver value beyond regulatory compliance.

**Keywords:** Cash flow statement reporting, financial performance, Nairobi Securities Exchange (NSE), conservative accounting theory, positivism paradigm, return on assets (ROA)

## 1. Introduction

Cash flow statements is one of the financial reports which provide a company's ascending activities in receipting and paying money for a given period. From the accept face it presents detail regarding the operation, investment, and financing of the business (IFRS) gives intrinsically results regarding the business as perceived by the flow of cash. This operating cash flow according to GAAP of unites states is arrived at by adding or subtracting from the net income working capital changes and other non- cash expenses like depreciation and amortization to arrive at the cash generated or used by a company's core business. Investing cash details the

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amount of cash spent on investment and acquired from the sale of long-term investments and assets, which reveals how a firm is investing to expand in the future. This financing CFF can be described as the cash flow the Graphic showing the movement of cash between the company and the investors or the creditors, depicting in the most simplified term of how a firm attracts funds and returns it to its equity holders. The cash flow statement enables external users determine the solvency and efficiency of an organization in the generation of cash and payment of its liabilities and the financing of operations and investments. It is a useful tool for investors, creditors and management when it comes to making decision on the health and viability of the business (IASB, 2021).

Cash flow statements are a crucial component of financial reporting, providing detailed insights into the cash inflows and outflows of a business over a specified period. Unlike other financial statements which are prepared on an accrual basis, the cash flow statement is prepared on a cash basis, reflecting actual cash transactions. This cash statement plays a vital role in helping stakeholders understand the liquidity and solvency of an organization, offering a clear picture of how a company generates and utilizes cash. Cash flow statements summarize the amount of cash and cash equivalents entering and leaving a company. Major sources of cash flows are cash from operating activities, issuing of shares, selling of fixed assets (Huang, Chiang, 2019).

In developed markets, such as those in North America and Europe, cash flow statements are integral to financial reporting dimensions. These regions have robust regulatory frameworks and advanced technological infrastructure, which support the accurate and timely preparation of financial statements. The use of advanced data analytics and real-time reporting tools has further enhanced the reliability and relevance of cash flow information in these markets (Kokina, Mancha, & Pachamanova, 2021)

In contrast, African nations are at various stages of adopting and implementing international financial reporting standards. Countries such as South Africa, Kenya, and Nigeria have made significant progress in aligning their financial reporting dimensions with IFRS, including the preparation of cash flow statements. This alignment aims to improve the transparency and comparability of financial information, attract foreign investments, and integrate African markets into the global economy (IFRS Foundation, 2021).

However, the adoption and implementation of cash flow reporting standards in Africa face several challenges. These include limited regulatory enforcement, inadequate technical expertise, and infrastructural constraints. For instance, in Kenya and Ethiopia, while there has been a push towards IFRS adoption, many firms still struggle with the practical aspects of preparing comprehensive and accurate cash flow statements (World Bank, 2020). Additionally, issues such as economic volatility and limited access to advanced technology further complicate the financial reporting landscape in these regions. Despite these challenges, there are significant opportunities for improvement of the importance of cash flow statements among stakeholders can drive better compliance and implementation of reporting standards (Omondi, 2022).

The increasing demand for comparability and relevance in financial disclosures has significantly shaped the evolution of global financial reporting frameworks. As shareholders seek more detailed and comparable information, the financial reporting standards have adapted to meet these expectations. The complexity of the global financial landscape has driven the need for transparency, accuracy, and relevance in the way companies report their financial performance and position using return on assets. In this context, financial reports must present information that is not only accurate but also relevant to the decision-making processes of shareholders and other stakeholders. To ensure that equity is represented in a more precise manner, it is essential that shareholder statements evolve alongside new reporting trends. These trends include the integration of more detailed financial data, enhanced disclosures, and the use of advanced reporting solutions, such as sustainability and non-financial reporting frameworks, to reflect the true economic value of the company.

As the reporting landscape continues to evolve, shareholder statements will likely incorporate these new trends and solutions. This could involve more granular data on financial performance, clearer articulation of equity positions, and additional disclosures related to non-financial factors that influence a company's valuation. Ultimately, these improvements will facilitate a more comprehensive depiction of the company's equity, ensuring that shareholders have the most relevant and accurate information to make informed decisions. Thus, the evolution of financial reporting standards, driven by the need for comparability and relevance, will continue to shape the ways in which shareholder statements reflect a company's equity and its broader financial health. The future of financial reporting will likely involve even greater sophistication in presenting information that is not only detailed but also meaningful to the shareholders who rely on it. It also reveals the state of change of equity and also the manner in which internal dynamics in the company have evolved based on the paradigm of equity (Metwally, 2015).

### *1.1 Statement of the Problem*

Cash flow statement reporting is vital for assessing a firm's liquidity and financial health, yet listed firms on the Nairobi Securities Exchange (NSE) have experienced a decline in return on assets from 23.3% in 2019 to 13.2% in 2023, with asset values falling from Sh 741 billion to Sh 643 billion (NSE, 2023). Prior studies, including Ochieng (2020), Ojeka et al. (2015), and Malimu (2023), have examined financial reporting but lacked focus on the cash flow statement or omitted government policy as a moderating factor. This study seeks to address these gaps by analyzing the effect of cash flow statement reporting on the financial performance of NSE-listed firms, moderated by government policy.

### *1.2 Objectives of the Study*

#### 1.2.1 General Objective

To evaluate effect of cash flow statement reporting on financial performance of firms listed at NSE

*1.3 Research hypothesis*

The following null hypothesis guided the above objectives

$HO_1$: Cash flow statement reporting has no statistically significant effect on financial performance of firms listed at NSE

## 2. Literature Review

*2.1 Theoretical Framework*

2.1.1 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.

*2.2 Empirical Literature Review*

2.2.1 Cash Flow Statement Reporting and Financial Performance

Zhao and Chen (2025) explored the relationship between cash flow statements and the financial performance of multinational firms. They focused on how cash flows from operations, investing, and financing affect profitability, liquidity, and solvency. The study used quantitative design from 2013 to 2017, analyzing the effects of operational, investing, and financing cash flows on financial performance using regression analysis. The study analyzed 150 multinational firms, with 50 firms from emerging markets and 100 firms from developed economies. The primary instrument for data collection was financial data from publicly available financial reports such as balance sheets, income statements, and cash flow statements. This data was extracted from global financial databases such as Thomson Reuters and Bloomberg. Performance metrics like ROE**,** ROA, and net profit margins were used to assess the financial outcomes of firms. A panel regression model was used to analyze the relationship. The study found that high levels of cash flow volatility were positively associated with ROE and ROA for firms in developed economies. The study found that operating cash flow had the strongest relationship with financial performance, while cash flow from investing activities was negatively correlated with firm performance. The sample was limited to manufacturing firms, which may not be representative of service or tech firms, limiting the external validity of the results. A 5-year period may not capture the long-term effects of cash flow trends on financial performance. The study did not account for cash and cash equivalent and net changes that might have affected cash flows during the period.

Adebayo and Ibrahim (2020) investigated how cash flow statement components (operating cash flow, investing cash flow, and financing cash flow) influence the financial performance of Nigerian banks, specifically in terms of liquidity and profitability. The study used data from 10 Nigerian banks over the period 2010–2018 and applied correlation and regression analysis to evaluate the relationship between cash flow components and financial performance indicators like ROA (Return on Assets) and liquidity ratios. Findings indicated that Operating cash flow was found to have a positive and significant effect on profitability and liquidity, whereas investing and financing cash flows had a lesser impact. Contextual gap is that Focusing only on Nigerian banks limits the generalizability of the findings to other sectors or countries with different economic or regulatory environments. The study identifies correlations but does not explicitly test causal relationships, which are crucial for policy and decision-making implications, hence panel data analysis gap.

Zhang and Lee (2021) examined the impact of cash flow statements on firm performance across East Asian economies (China, Japan, and South Korea), with a focus on how cash flows from operating activities impact profitability and market value. The study used comparative design. Using a sample of 100 firms from the region over a 7-year period (2013–2019), the study employed both regression analysis and the GMM (Generalized Method of Moments) technique to control for endogeneity and examine the relationship between cash flows and firm value. The study found that operating cash flow was a significant predictor of firm performance in all three countries, with South Korea showing the strongest relationship, followed by Japan and China. The study did not explore the impact of institutional differences between the countries in terms of financial reporting or investor behavior, which may influence how cash flow information is interpreted. The study pooled firms across various sectors but did not conduct a sector-specific analysis hence longitudinal study.

Alonso and Martínez (2020) analyzed the relationship between cash flow statements and financial performance in Latin American firms, focusing on how cash flows from operations impact profitability and long-term financial sustainability. Using data from 50 firms in Brazil, Argentina, and Chile from 2014 to 2018, the study employed regression analysis to examine the effect of operating cash flow on profitability (measured by ROA and net income). Findings is that Operating cash flow was positively correlated with profitability, but the impact was less pronounced in firms from Argentina due to economic instability in investing activities. Conceptual gap is that while operating cash flow was emphasized, the role of investing and financing cash flows could have been explored in more detail. The study will make use of longitudinal design benefit from a longer time horizon to examine how trends in cash flow over time impact long-term sustainability and financial performance.

Wilson and Thomas (2022) analyzed the role of cash flow statements in evaluating the financial performance of global corporations, examining the effects of operational, investing, and financing cash flows on stock performance and profitability. The study used a sample of 150 global firms from North America, Europe, and Asia, covering the period 2015–2020. Panel data analysis with fixed-effects models was used to analyze the impact of cash flow components on financial performance, measured by stock returns and profitability ratios. Findings; Operating cash flow was the most significant determinant of stock returns and profitability, with investing cash flow showing a negative correlation with firm performance, especially in technology companies. The study did not account for the varying importance of cash flow components across different industries. For example, firms might rely more on non-operational cash flows, such as from investments, than traditional manufacturing firms. Contextual; The study focused on large, developed market firms, and its findings might not be generalizable to firms in emerging markets where financial reporting and cash flow management dimensions can differ.

Andersson and Nilsson (2023) explored how cash flow from operations, investing, and financing activities affects financial performance in multinational corporations (MNCs) operating across different continents. The study used data from 200 MNCs in Europe, North America, and Asia over a 10-year period (2011–2021), employing regression analysis and structural equation modeling (SEM) to assess the impact of cash flows on long-term financial performance. Findings is that Cash flows from operations were the primary determinant of financial performance in

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MNCs, with financing cash flows playing a more significant role in firms from Europe than from North America or Asia. The study did not consider the impact of different accounting standards (e.g., IFRS vs. GAAP) on how cash flows are reported and their subsequent effect on financial performance. Many studies identify correlations between cash flow components and financial performance, but few establish causal relationships. This study will use panel regression methodologies since most studies treat cash flow components as a general determinant of financial performance, but sector-specific differences are underexplored. Conceptually different sectors have different cash flow dynamics and time series using random effects.

Lee and Kim (2020) examined the relationship between cash flow statements on firm performance in Asian markets. The research adopted mixed-methods approach combining quantitative analysis with case studies. The target of publicly traded companies in emerging Asian markets, including China, India, and South Korea were used. Regression models used to assess cash flow and firm value, supplemented by case studies of selected firms. The study found that strong operating cash flow significantly enhanced firm value in emerging Asian markets. Firms with efficient cash flow management were more attractive to investors, leading to higher firm valuations. The study recommends that companies in these regions focus on improving operational efficiency and cash flow management to attract investors and boost firm value. The integration of quantitative and qualitative data could be more robust, ensuring that findings from case studies are adequately reflected in the quantitative analysis. Emerging markets in Asia have diverse economic conditions, which might affect the generalizability of the results. Contextually, the study will consider industry-specific factors, as cash flow dynamics vary greatly across sectors, especially in capital-intensive industries versus technology or service sectors.

Lee (2020) examined the effect of cash flow statements on financial performance using an event study methodology for industries listed from United States on NASDAQ. Their study analyzed how stock prices reacted to the disclosure of quarterly cash flow statements. The sample size included 150 corporations, and the research instrument utilized was a combination of financial data analysis software and stock price monitoring tools. Data was analyzed using statistical techniques to measure stock price reactions before and after the cash flow statement disclosures. The findings revealed that positive and significant cash flow reporting increases financial performance using stock returns. The study recommends that firms prioritize comprehensive and appropriate reporting of cash flows. Analysis gap will be identified as while the study shows a correlation results, it does not establish causality. The relationship between cash flows and stock performance will be influenced by other factors, such as management's overall financial strategy, market expectations, or broader financial conditions. This study will use methodologies such as Granger causality tests and Hausman tests to explore the causal relationship between cash flow statements and stock price movements on financial performance using return on assets.

Anyanwu and Ajao (2020) explored the impact of cash flow statements on the performance of corporations in the United States. The study focused on understanding how different components of cash flow contribute to a company’s overall financial health. Aquantitative research design was employed, with the target population consisting of U.S. corporations across various industries. To ensure comprehensive and generalizable findings, the study aimed to include a broad spectrum of 9 companies, but ultimately analyzed data from a sample of 200 publicly traded U.S. corporations. The primary research tools included financial database software, which was used to collect and analyze data on the cash flow statements and financial performance metrics of the sampled corporations. Data analysis was conducted using multiple regression analysis, with descriptive statistics also applied to summarize and interpret the data. The study found that investing cash flow had a mixed impact on financial performance. Some types of investing cash flow were positively correlated with financial performance, while others were not. Additionally, cash and cash equivalents in cash flow were found to have a positive and statistically significant effect on financial performance. However, the study did not explore why certain types of investments contributed positively to financial performance, while others did not. The regression coefficients indicated a statistically significant effect of cash flow statement reporting on financial performance.

Nasimiyu (2023) analyzed cash flow statement analysis on financial performance of small and medium-sized enterprises (SMEs). This investigated how cash flow statements impact the financial performance of SMEs, aiming to provide insights. The study employed a quantitative research design, utilizing empirical methods. The target population consisted of 1000 small and medium-sized enterprises operating in various sectors within a specific region. This population was chosen to represent a diverse range of business. The study analyzed a sample of 100 SMEs. The sample included firms from different industries to ensure the findings were broadly applicable. The primary research instruments included structured questionnaires. Data analyzed using multiple regression analysis to determine the impact of cash flow statement components on financial performance metrics such as return on assets (ROA) ratios. Descriptive statistics were employed and correlation analysis to explore relationships. Findings revealed that cash and cash equivalent cash flow reporting also moderate a positive and significant relationship with financial performance. The study recommends that SMEs should prioritize effective cash flow statement reported, particularly focusing on optimizing operating cash flow to enhance financial performance. The data analysis gap to use panel data analysis to explore and provide a deep analysis of how cash flow components impact financial performance across different firms listed. Adebayo and Olayemi (2020) explored cash flow statements and its impact on financial performance of Nigeria banking sector. The study aimed to explore on cash flow statements and how it influenced financial performance of banking industry. Theory of agency underpinned the study by explaining cash flow statements on financial performance in banking sectors. Exploratory and correlational design was used on 145 Nigerian banks. The study used questionnaire to gather data from 15 respondents. The descriptive statistical methods and correlational analysis were used. The study findings is that banks that Investing and financing cash flows also play significant roles, with financing cash flows indicating a firm's ability to raise capital and manage debts. Moreover, the limited number of respondents (only 15) significantly undermines the generalizability of the findings across the entire banking sector hence large sample gap. Instrumental gap to focus on using secondary data alongside primary survey data will provide a more comprehensive analysis of cash flows. While the study found a correlation between cash flow and financial performance, it focused mainly on basic financial indicators without breaking down which specific financial performance using return on equity and profits margin were most significantly impacted. A more return on assets of different performance measures would help pinpoint the specific areas of financial performance that benefit most from cash flow statements. Given the complexity of financial performance, employing regression analysis or structural equation modeling SEM will provide deeper insights into the specific impact of cash flows on different aspects of financial performance using return on assets as a conceptual gap.

## 3. Research Methodology

The study used positivism paradigm to examine empirical study and theoretical aspect of literature through conceptual framework and testing research hypotheses. This research philosophy enable the researcher to examine conceptual framework for measuring data underlying assumptions.

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. The study used both descriptive and crosssectional design. 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 utilized secondary data, characterized as cross-sectional time series and longitudinal data spanning from 2028-2023 from 49 firms as contained in published financial statements.

## 4. Results and Discussion of Findings

### *4.1 Cash flow Statement Reporting*

Table 4.1 depicts the results for cash flow statement reporting. These measures provide insights into the cash inflows and outflows from a firm's operating, investing, and financing activities. Understanding these cash flow components is crucial for assessing the liquidity and financial health of a company. The four measures under examination are Operating Cash Flow, Investing Cash Flow, Financing Cash Flow, and Net Cash and Cash Equivalents.

Table 4.1 Cash flow Statement Reporting

| Variable | Obs | Mean | Std. dev. | Min | Max |
|---|---|---|---|---|---|
| Operating cash flow | 258 | 1.09e+07 | 3.09e+07 | -1.54e+07 | 2.44e+ 08 |
| Investing cashflow | 258 | -5329390 | 1.87e+07 | -1.89e+08 | 2.31e+ 07 |
| Financing cashflow | 258 | -2400219 | 1.00e+07 | -7.40e+07 | 3.21e+ 07 |
| Netcash and cash equivalent | 258 | 3139318 | 2.17e+07 | -4.04e+07 | 2.46e+ 08 |

Source: Field Data 2025

The average operating cash flow is Ksh 10,900,000, indicating that, on average, firms in the dataset generate positive cash flow from their core operations. The standard deviation of Ksh 30,900,000 suggests that there is significant variability in operating cash flow across firms. Some firms are generating much higher operating cash flows than others. The significant variation in operating cash flow across firms suggests diverse operational efficiency and profitability levels. Firms with negative operating cash flow may be facing operational difficulties, while firms with high operating cash flows may be better positioned to reinvest and grow.

The minimum value of –Ksh 15,400,000 indicates that some firms are experiencing negative operating cash flows, which could reflect poor operational efficiency. The maximum operating cash flow of Ksh 244,000,000 is substantial, indicating that some firms are generating large amounts of cash from their operations. Positive operating cash flow is essential for a firm's sustainability and growth, as it reflects the company's ability to generate cash from its core business activities. Negative operating cash flow can signal operational inefficiency or an inability to convert revenues into actual cash, potentially leading to liquidity problems. Studies like those by Pomupatham and Vichitsarawong (2023) show that firms with higher operating cash flow tend to have greater financial flexibility

The study showed that investing cashflow had mean (M= Ksh 5,329,390, SD= Ksh18,700,000). The mean indicated average investing cash flow is –Ksh 5,329,390, suggesting that, on average, firms are investing more cash into assets or capital expenditures than they are receiving from the sale of assets. The standard deviation of Ksh18,700,000 highlights considerable variation in investing cash flows. Some firms are making large capital expenditures, while others may be receiving substantial inflows from asset sales.

The minimum value of Ksh 189,000,000 shows that some firms are making significant investments, possibly in expansion, acquisitions, or capital projects. Negative investing cash flow is typical for firms investing in long-term assets, such as property, plant, equipment, or acquisitions. The maximum value of Ksh 23,100,000 indicates that some firms have received cash inflows from the sale of investments or assets. Positive investing cash flow could indicate asset sales or divestitures. As argued. By Phuong (2023), firms with high levels of investment may face liquidity challenges but can potentially increase future profitability by acquiring productive assets or expanding operations.

The study showed that financing cash flow had a mean of Ksh -2,400,219, indicating that, on average, firms are using more cash for debt repayments or repurchasing shares than they are receiving from new debt or equity issuance. The standard deviation of Ksh 10,000,000 suggests significant variability in financing activities, with some firms raising substantial amounts of capital while others are reducing their debt or equity. The negative financing cash flow suggests that most firms are reducing debt or repurchasing equity, which could indicate a strategy of deleveraging or returning capital to shareholders. Firms raising capital through new debt or equity are likely using this funding for expansion or investment purposes.

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The minimum value of Ksh -74,000,000 suggests that some firms have made large repayments of debt or have repurchased significant amounts of equity, which could reflect efforts to reduce leverage or return capital to shareholders. The maximum value Ksh 32,100,000 shows that some firms are raising substantial amounts of capital through new debt or equity issuance. Financing cash flow is crucial for understanding how a firm is managing its capital structure. Pomupatham and Vichitsarawong (2023) noted that Negative financing cash flow is common for firms paying down debt or repurchasing shares, while positive financing cash flow indicates that the firm is raising new capital. Financing cashflows, including debt issuance or equity financing influenced by the firm's market conditions.

Net cash and cash equivalents had (M= Ksh 3,139,318, SD=Ksh 21,700,000). The average net cash and cash equivalents is Ksh 3,139,318, indicating that firms generally maintain a modest amount of cash and cash equivalents relative to their size. The standard deviation of Ksh 21,700,000 highlights a wide variation in the cash and cash equivalents position across firms. Some firms hold much larger cash reserves than others.

Net cash and cash equivalents had the minimum value of -40,400,000 and the maximum value of Ksh 246,000,000. The minimum value of - 40,400,000 suggests that some firms may have negative cash balances, possibly due to overdrafts, high short-term liabilities, or a lack of liquidity. The maximum value of Ksh 246,000,000 is significant, indicating that some firms maintain very large cash reserves, possibly for liquidity, expansion, or strategic investments. This implied that the cash balance is a crucial indicator of a firm's liquidity position. A positive cash balance allows firms to meet short-term obligations, invest in opportunities, or return value to shareholders. Conversely, negative cash balances can signal liquidity problems. Firms that maintain high cash reserves may be preparing for future investments. The wide range in net cash balances indicates that firms maintain varying levels of liquidity. While some firms have negative cash balances, others hold significant cash reserves, possibly reflecting differences in financial reporting approaches to liquidity management.

### *4.2 Testing of Panel Data Regression Assumptions*

#### 4.2.1 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 4.2 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

*4.3 Cash flow statement reporting and Financial Performance*

The third objective sought to determine the effect of cash flow statement reporting on financial performance of firms listed in NSE. Net Cash and Cash Equivalent was used as the proxy for cash flow statement reporting. The results are presented in table 4.4

Table 4.4 Cash flow statement reporting and Financial Performance

| LnROA | Coefficient | Std. err. | Z | P>z | 95% Conf. | Interval |
|---|---|---|---|---|---|---|
| LnNCCE | -.0336799 | .2794638 | -1.19 | 0.232 | -.881419 | .2140591 |
| Const. | 13.22311 | 4.166187 | 3.17 | 0.002 | 5.057531 | 21.38868 |
| Chi2(1) =0.01 Prob > chi2 = .9303 | | | | | | |

Source: Field Data 2025

The results in table 4.4indicate that net cash and cash equivalent accounted for 3.36799% of the changes in return on assets. This implies that cash flow statement reporting can explain 3.36799% of the variation in financial performance of firms listed in NSE. Further p=0.232 which is higher than .05 significance level demonstrate that the effect of net cash and cash equivalent on ROA is statistically insignificant. Generalize least square random effect regression model was preferred instead of fixed effect because the Prob>chi2=.9303 which is greater than .05 probability level. In case of no changed in cash flow statement reporting then financial performance will increase by 13.22311 units

The regression model derived from table 4.4 was $Y=13.22311-.0336799X_3$

## 5. Conclusions and Recommendation

The third objective explored the effect of cash flow statement reporting on financial performance. The results showed that cash flow reporting had a weak negative correlation with financial performance, suggesting an inverse relationship. However, regression analysis revealed that cash flow reporting did not significantly affect financial performance. Despite the slight positive coefficient, the impact was statistically insignificant. Overall, the findings indicate that cash flow statement reporting has little to no meaningful effect on the financial performance of firms.

Based on the findings, it is recommended that firms listed on the Nairobi Securities Exchange (NSE) enhance the quality, consistency, and timeliness of their cash flow reporting to improve its usefulness for decision-making. While the current reporting practices may meet regulatory requirements, the lack of significant influence on financial performance suggests a need to shift toward more strategic use of cash flow information; particularly in planning, budgeting, and investment evaluations. Regulators such as the Capital Markets Authority (CMA) should also consider issuing more detailed guidelines and monitoring frameworks to ensure that cash flow statements are not only compliant but also informative for stakeholders. Additionally, training finance personnel on how to interpret and apply cash flow insights to operational strategies could help firms better leverage this financial tool to drive performance

Future research can examine the relationship between financial reporting transparency and firm performance to determine how board composition, audit committees, and regulatory compliance affect financial outcomes.

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