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IMPACT OF ACCOUNTING THEORY ON FINANCIAL REPORTING IN KENYA.

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SECTION 1: INTRODUCTION

Why do rockets need so much power to lift off? Why do humans walk on two legs? To answer these questions, we are likely to call upon the theories of gravity and evolution. These theories are generally held in high regard for their powers of explanation and prediction, but what is it that gives them their authority? In fact, what is a theory? Furthermore, what is the relevance of accounting theory to accounting?

In a perfect financial world there is no demand for published accounting reports and hence any accounting theory. We would simply look up freely available prices for the value of assets, revenues, or the costs of all inputs (including managerial costs). In such an Arrow-Debreu economy all this information is available now and for all future time periods. But we do not live in such an economic world. Instead there is a demand for financial information to fill gaps in our knowledge and to reduce uncertainties about current and future values. This demand comes from a wide range of stakeholders - both internal and external. In accounting theory a major issue is related to questions around measurement. In general, how should assets and liabilities be measured? By their historic cost, their selling price, updated by current costs to buy, or by the present value of future cash flows? Should we recognize all internally generated intangibles or only recognize them when they are evidenced by an external transaction, such as in a takeover price? Then again, what is the impact of implementing different measurement systems on the economy or market or on each individual stakeholder?

The term 'theory' can be used in different ways. As such, it can take on several meanings. One definition is that a theory is a deductive system of statements of decreasing generality that arise from an agreed or hypothesized premise. Another is that a theory is a set of ideas used to explain real-world observations. In his classic text on accounting theory, Hendriksen offered definitions of 'theory' and 'accounting theory' which are appropriate to this paper. These are defined in points 1 and 2 below, respectively:

1. . . . the coherent set of hypothetical, conceptual and pragmatic principles forming the general framework of reference for a field of inquiry.
2. . . . logical reasoning in the form of a set of broad principles that (1) provide a general framework of reference by which accounting practice can be evaluated and (2) guide the development of new practices and procedure. Theory can be described simply as the logical reasoning underlying the statement of a belief. Whether the theory is accepted depends on: how well it explains and predicts reality how well it is constructed both theoretically and empirically how acceptable are the implications of the theory to a body of scientists, professionals and society as a whole.

It is important to understand that accounting theory is not simply an abstract process. It is not divorced from reality. In fact, its main objectives are to explain why and how current accounting practice evolved, to suggest improvements, and to provide the basis for developments in such practice.

Accounting theory", which could be interpreted to mean either speculative interpretations or empirical explanations depending on the preparation of the researcher (Glautier, and Underdown, 1997). Many authors argue that there is no generally accepted "accounting theory" currently even though many attempts have been made to formulate one (Riahi-Belkaoui 2004). According to Hendriksen (1982), "Accounting theory may be defined as logical reasoning in the form of a set of broad principles that (1) provide a general frame of reference by which accounting practice can be evaluated, and (2) guide the development of new practices and procedures, the reality is that accounting theories provides a general frame of reference by which accounting professionals can be judge and also guide the way to development of new principles and procedure Wood and Sangster(2002). Accounting theory may also be used to explain existing practices or to obtain a better understanding of them. But the most important goal of accounting theory should be to provide a coherent set of logical principles that form the general frame of reference to the evaluation and development of sound accounting practice".

Theories sometimes gives rise to misunderstanding, and may mean different things to different people. This arises because explanations are made at different levels. At one extreme, explanations are purely speculative, resulting in speculative theories. To the natural scientist, speculative theories are not generally theories at all and explanations have to be conclusive before they are given the status of theories. To this end, their assumptions require verification by the test of experience. Empirical theories are constructed by the process of verifying assumptions, or hypotheses, through the test of experience. This process is known as the "scientific method" (Glautier et al 1997)

How organization present information in its financial statements is very important because financial statements are a central feature of financial reporting, and this is, a principal means of communicating financial information to the various stakeholders aside from the investors.

Globalization and transnational business expansion has resulted in an increased need for uniform rules so that the financial statements in different countries are prepared on a similar basis, and there would be no opportunity for interpretation. Although, at an international level different professional accounting organizations have made efforts to harmonize financial reporting rules, there has been a lot of criticism on the address of financial statements for many reasons. Firstly, there are too many alternative ways to report financial information in the financial statements (IASB, 2008). This makes it difficult to compare the financial statements of different entities, and provides opportunities to false conclusions about

the success of the activities of the entity. Secondly, the entities in different countries have different demands on how to draft financial statements (European Commission, October 2011).

This situation complicates the interpretation of the entities‟ financial results and comparisons of financial reports at the international level. Thirdly, the financial reporting requirements set on companies often do not take into account the size of the company and this raises the question of the need for differential reporting (Cole, Branson, & Breesch, 2012; Evans, Gebhardt, Hoogendorn, Marton, di Pietra, Mora, Thinggard, & Vehmanen, 2005; Collis, Dugdale, & Jarvis., 2001). Fourthly, what users review in the financial statements differs, and therefore, when drafting the financial statements, the company should bear in mind the interests of the most significant user groups (Cole, Branson, & Breesch, 2012, Sian and Roberts, 2009).

Concise presentation of the problem.
Over the years, accounting theories have helped to strengthen various assumptions and principles in the financial reporting policies of most organizations. However, despite this advantage, some researchers and globally recognized standard setting bodies, still see some of these accounting theories as contradictory. According to IASB, (2008), the presence of so many alternative in theories, has resulted in several criticism, and this has made it difficult to compare various organizations financial report. Also according to European Commission, (2011) most of the preparers of these financial reports do not give adequate consideration to the different peculiarities in some organizations operations before publishing most of these accounting theories, and this has made it difficult for these organization to adopt these theories. The problem of this study is to examine if some specific theories (e.g normative and positive theory) also have controversial meaning to organization.

Research objectives
I. To what extent does positive accounting theory have effect on information contained in financial statement?
II. What impact does normative accounting theory have on information contained in the financial statement?

Research Hypotheses
Ho_1 Positive accounting theory does not have effect on information contained in the financial statement
Ho_2 Normative accounting theory does not have impact on information contained in the financial statement

SECTION 2. MAIN SECTION: LITERATURE REVIEW
Section 2 a. Theoretical Part.
Presentation of the theoretical foundations and review of the specific theoretical literature on the paper.

Normative and Positive Accounting Research
The period 1956-70 is labelled the 'normative period', because it was a period when accounting theorists attempted to establish 'norms' for 'best accounting practice'. During this period researchers, such as Edwards and Bell in 1961 and Chambers in 1966, were less concerned about what actually happened in practice and more concerned about developing theories that prescribed what should happen. In the years before 1956, several authors produced preliminary normative works which related mainly to issues surrounding the appropriate basis for the valuation of assets and owners' claims. These theories made adjustments for the impact of inflation and specific increases in asset prices. The normative period was one of significant debate. It degenerated into a battle between competing viewpoints on the ideal approach to measuring and reporting accounting information. During this period, the debate was predominantly about measurement rather than the actual practice of recording and reporting information. However, the end result was no clear choice for changing practice to one ideal system of (inflation or price adjusted) accounting, leading to the continued use of the historical cost method. The accounting profession in Australia has been reluctant to reignite the debate about recommending on a specific and ideal measurement system and has failed to issue comprehensive measurement guidelines. Instead, in 2005 the profession adopted the measurement guidelines contained in the International Accounting Standards Board's (IASB) conceptual framework. The IASB has rather an unstructured approach, with the accounting standards allowing adoption of current value measurement concepts to be mixed with historical cost.

Normative theories are distinguished because they adopt an objective (ideal) stance and then specify the means of achieving the stated objective. They provide prescriptions for what should occur to achieve their stated objective. As mentioned, the major focus of the normative accounting theories during the period 1956-70 was the impact of changing prices on the value of assets and the calculation of profit (such theories were often seen as a consequence of the record levels of inflation experienced during this period) . Two groups dominated the normative period - the critics of historical cost accounting and the conceptual framework proponents. There was some overlap between these two groups, especially when historical cost critics tried to develop theories of accounting where asset measurement and profit determination depended on inflation and/or specific price movements.

During the normative period, the idea of a 'conceptual framework' gained increased popularity. A 'conceptual framework' is a structured theory of accounting. Such frameworks are meant to encompass all components of financial reporting and are intended to guide practice.

1. For example, in 1965 Goldberg was commissioned by the AAA to investigate the nature of accounting. The result was the publication of An inquiry into the Nature of Accounting, which aimed at developing a framework of accounting theory by providing a discussion of the nature and meaning of accounting.

Ll. One year later, the AAA released A Statement of Basic Accounting Theory, with the stated purpose of providing 'an integrated statement of basic accounting theory which will serve as a guide to educators, practitioners and others interested in accounting'. These frameworks had a common logical approach. They first stated the objective (purpose) of accounting and then worked downwards to derive accounting principles and rules that fulfilled that objective.

The normative period began drawing to an end in the early 1970s, and was replaced by the 'specific scientific theory' period, or the 'positive era' (1970-). The two main factors that prompted the demise of the normative period were: the unlikelihood of acceptance of any one particular normative theory the application of financial economic principles, increased supply of data and testing methods. Because normative accounting theories prescribe how accounting should be practiced, they are based on opinions of what the accounts should report, and the best way to do that. Opinions as to the appropriate goals and methods of accounting vary between individuals, and most of the dissatisfaction with the normative approach was that it provided no means of resolving these differences of opinion.

Henderson, Pierson and Brown outline the two major criticisms of normative theories in the early 1970s:
Normative theories do not necessarily involve empirical hypothesis testing. Normative theories are based on value judgements.

Further, the underlying assumptions of some normative theories were untested, and it was unclear whether the theories had strong foundations or assumptions about the purpose of accounting. Pragmatically, it was also difficult to obtain general acceptance of any particular normative accounting theory.

The dissatisfaction with normative theories, combined with increased access to empirical data sets and an increasing recognition of economic arguments within the accounting literature, led to the shift to a 'new' form of empiricism which operates under the broad label of 'positive theory'. In effect, positive theory was hardly 'new', as it was based on the empirical approach, which formed the basis of the general scientific period.

Positive theory sought to provide a framework for explaining the practices which were being observed; that is, whether what practicing accountants produced had a decision usefulness objective, whether it filled other roles, and whether it was inferior or superior to proposed alternatives.

The objective of positive accounting theory is to explain and predict accounting practice. An example of a positive accounting theory is the theory that leads to what is known as the 'bonus plan hypothesis'. This theory relies on managers being wealth maximises who would rather have more wealth than less, even at the expense of shareholders. If managers are remunerated partly with bonuses based on reported accounting profits, the managers have incentives to use accounting policies that maximise reported profits in periods when they are likely to receive bonuses. This theory leads to the prediction (hypothesis) that managers who are remunerated via bonus plans use profit-increasing accounting methods more than managers who are not remunerated via bonus plans. Such theories are important since they explain the economic, or wealth, effects of accounting and why accounting is important to various parties such as shareholders, lenders and managers - all of whose personal wealth is affected by accounting decisions. It is also important in assisting in the design of contracts based on accounting numbers that control such behaviour.

By explaining and predicting accounting practice, Watts and Zimmeiman consider that positive theory has given order to the apparent confusion associated with the choice of accounting techniques. They argue that positive accounting theory helps predict the reactions of investors in the market (such as current shareholders) to the actions of management and to reported accounting information. One benefit of such research is that it enables regulators to assess the economic consequences of the various accounting practices they consider. The problem with this approach is that wealth maximization became the answer to every question. Basically, whatever the observed practice, it could be construed as a means of maximizing wealth (normally for the firm, but sometimes for management). To give the argument symmetry, the reverse argument could also be applied - namely, that the observed practice was to minimise the impact of costs or some external event on the value of the firm. The positive literature involves developing hypotheses about reality which are subsequently tested by observation of impact, usually based upon the assumption of wealth maximisation. The approach has attracted criticisms which are largely based on the seemingly narrow approach that concentrated on agency theory and assumptions about the efficiency of markets. The potential role of positive accounting theories in explaining and predicting behavior.

The major approaches used to perform financial accounting research are the normative and the positive approach. The positive approach is also called the empirical approach, because it is concerned with empirical research. The normative approach is based on the classical theory, which is characterized by the thought that there is only one truth. Furthermore the classical theory claims that the true economic reality cannot be expressed and the users of accounting information

accept this information at face value (Ryan 2002). The normative approach prescribes how things should be done so it can be characterized as a prescriptive approach.

The positive approach obtains information from empirical research and is based on facts and neutrality. The positive approach could also be used to test the hypotheses which are a basis for the normative approach empirically. In contrast with the normative approach, which is a prescriptive approach, the positive approach is concerned with prediction and explanation (Ryan,2002). Positive accounting theory is important, because it can predict and explain the consequences for parties (e.g. financial analysts and investors) who make decisions on accounting information, (Watts and Zimmerman 1986).

Market Based Accounting theory

The market based accounting approach emerged from several studies which investigated the predictive ability of accounting information. Under this approach the market reaction to reported accounting statements is tested (Ryan 2002), so this can be considered as research, studying the information content of these accounting statements. The market based accounting research approach is a statistical approach and is used in many studies (e.g. Basu, 1997; Balachandran and Mohanram, 2011) to measure accounting conservatism.

Important in market based accounting research are the Efficient Market Hypothesis (EMH) and the Capital Asset Pricing Model (CAPM). The CAPM is used to make a prediction for the expected return on securities. The EMH and the CAPM also have an important role in the development of positive accounting research. Because of the important role of the EMH in accounting research the hypothesis will be discussed more comprehensively.

Efficient Market Hypothesis theory

Before the existence of the EMH the assumption was that accounting reports were the only source of company information (Watts and Zimmerman 1986). Because managers were flexible in choosing the accounting procedures, researchers assumed that managers could report the earnings they want and as a consequence could mislead the stock market. Based on this assumption and the absence of a single concept for measuring earnings, researchers argued that earnings numbers were useless (Watts and Zimmerman 1986). As a result, researchers claimed that accounting procedures should be the same for all companies to make earnings useful.

The EMH led to another view of accounting reports. The EMH criticize the assumptions discussed above and conclude that accounting earnings could be useful if they are associated with stock prices.

Ball and Brown (1968) investigated if accounting earnings and stock prices were associated and found empirical evidence for an association between these variables. The association between earnings and stock prices could imply that earnings reflect factors which are already incorporated in stock prices, but could also imply that the announcement of earnings convey information to the stock market. If the earnings announcement conveys information to the stock market the earnings have information content. Ball and Brown (1968) found evidence for both of these effects of earnings on stock prices.

The EMH states that all publicly available information is reflected in stock prices and that capital markets react in an efficient and unbiased manner to this information. The market is efficient if stock prices reflect immediately and fully all available information.. The EMH gives three possibilities, the weak, the semi-strong and the strong form. Under the weak form stock prices only contain historical info on share prices. Under the semi-strong form stock prices contain all publicly available information and under the strong form stock prices reflect all available (publicly and insider) information at that time. According to Watts and Zimmerman (1986) and many other researchers, the existing evidence is consistent with the semi-strong form making this form the most likely one. As a result, in this paper it will be assumed that the market is efficient in the semi-strong form.

The EMH is important for research to accounting conservatism. Given the similarities that exist between accounting earnings and stock prices and the EMH researchers began to investigate predictions and explanations of accounting choices. For example, Watts (2003a, 2003b) explains why managers choose for conservative accounting procedures instead of non-conservative accounting procedures.

Furthermore, based on the evidence for an association between accounting numbers and stock prices, several studies measure the level of conservatism by analysing the association between these variables. For example, Beaver and Ryan (2000) use the book-to-market ratio to measure the level of conservatism and Basu (1997) measures conservatism by investigating if accounting earnings incorporate positive stock returns faster than negative stock returns. Basu (1997) uses negative stock returns as a proxy for bad news and positive returns as a proxy for good news, based on the EMH that stock prices immediately and fully reflect all available information.

Section 2b. Practical Part. Empirical Review

Historically, some accounting theories did not show clear method of calculating profit. Infact, depreciation was virtually absent including method of drawing up a balance sheet,now statement of financial position (Edey, 1970). Perera and

Mathews (1996), had a strong view that the initial development of double entry book keeping theory in the Italian city states experienced long period of stagnation, probably because of its non-acceptance in Europe; England, Germany, France and in Italy the home country itself.

Commercial activities at these periods were inactive, though due to size and type of business, which also encouraged the use of single and double entry bookkeeping, without regular closing of entries and income determination (Baxter, 1981). The side effects of these changes on accounting were profound in the development of recording, measuring and disclosure requirements in factories, railways and aggregation of labour and capital equipment. New system of production, ownership and control of assets including methods of providing for depreciable assets were based on accounting assumptions, (Ola, 1985).

Furthermore, Chatfield (1977) like Omolehinwa (2004) observes that where depreciation was not charged, costs were understated, profit overstated and dividends were paid out of capital. Prior to company taxation, the early theories of depreciation including replacement cost accounting contend that there was no need for depreciation if the assets were maintained in good condition. This theory however, would produce as many problems as it was meant to solve (Paul, 1985).
Stoner, Freeman. and Gilbert, (2002), did observe also that the emergence of labour in factories led to the need for the development of systems on how to pay wages, overtime, bonuses, piecework and as well as managing the large number of employees that were necessary for the new industries. Akanni (1998), observes that in every organization, both the employers and employees have sworn to be enemies, though one cannot do without the other because employees need wages and employers need labour for production. Accounting systems for wage and production must be designed for that purpose.

The economic and legal changes resulting from industrial revolution, particularly to the aggregation of capital, labour and company legislation brought pressure on the accounting systems that would put the various parties at par. Accounting system that could address aggregation of capital, methods of labour remunerations, depreciable assets, production cost, and income determination was developed, (Dopuch and Sunder, 1980).

METHODOLOGY

This study is based on survey research approach, which is based on distribution of questionnaire, The sampling technique used for this study is stratified sampling technique, which involves dividing the quoted companies into sectors and selecting the 31 companies proportionally across the sectors, these sectors include the following Agricultural, Automobiles and Accessories, Banking, Commercial and Services, Construction and Allied, Insurance, Investment, Investment Services, Manufacturing and Allied, Telecommunication and Technology, Real Estate Investment Trust and Exchange Traded Fund while the sample size was determined using purposive sampling technique, while the sampling size, for the questionnaire respondent was determined by using infinite population formula, this formula was chosen because of the large number of shareholders and other investors involved in the quoted companies selected for this study. The formula is computed as follows;

$$\frac{SS = Z^2 \times (p) \times (1-P)}{C2}$$

SS = Sample Size
Z = Z-value (e.g., 1.96 for a 95 percent confidence level)
P = Percentage of population picking a choice, expressed as decimal
C = Confidence interval, expressed as decimal ($0.05^2 = 0.0025$)
The Z-values for confidence levels (i.e. ∞ to z)
1.645 = 90 percent confidence level
1.96 = 95 percent confidence level
2.576 = 99 percent confidence level

$$\frac{SS = 1.96^2 \times 0.5 \times 0.5}{0.0025}$$

= 3.8416 x 0.5 x 0.5
= 0.0025
= 384.16 Approximately = 400

The four hundred (400) questionnaires were distributed among the various user of accounting information interested in financial reporting and financial performance of quoted companies

Model Specification

This model is based on the description of the relationship between the dependent and independent variables of this research work.

$$Y = f(X) \text{ ----------(i)}$$

Where Y = dependent Variable - Financial Reporting represented by information on the financial statement.
X = Independent Variable is Accounting Theories represented by Normative and Positive accounting theories

The multiple linear regression model for this study is defined as:

$$Y= \beta0 + \beta1X1 + \beta2X2 + e \text{ ---------- (ii)}$$

Regression line equation: $InfonFst = \beta_0 + \beta_1 NmAthry + \beta_2 PstAhry + e$
Where: β_0 = Constant
InfonFst = Information on the financial statement
NmtAhry = Normative accounting theory
PstAhry = Positive accounting theory
$\beta_{1 \text{ and }} \beta_{2:}$ Regression parameters.
e = error term

ANALYSIS, DISCUSSION AND EVALUATION
Test of Hypotheses
Decision Rule
Accept Alternative hypothesis if the P-Value obtained by ANOVA, coefficient of regression using SPSS is lower than 5% which is the benchmark value specified in SPSS for this analysis, but, if otherwise, reject the Alternative hypothesis and accept the Null Hypothesis.

Statistical Analysis for Hypothesis One
$Ho_{1:}$ Positive accounting theory does not have effect on information contained in the financial statement

Table 1. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.943[a]	.889	.888	.53982

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	346.265	1	346.265	1.188E3	.003[a]
	Residual	43.128	399	.108		
	Total	389.393	400			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.746	.103		-7.221	.000
	Accounting Theory	1.150	.033	.943	34.471	.003

The Regression analysis above shows that the Model summary statistics reveals that Pearson correlation coefficient represented by letter ''r'' is 0.943 which indicate that there is strong positive correlation between positive accounting theory and information contained in the financial statement. Also, the regression analysis result, reveal that the value of the R Squared is 89% (i.e.0.889) and this implies that 89% of the variation in the independent variable can be accounted for by the dependent variable, while the remaining 11% can be accounted for by other factors outside the model. This

means that positive accounting theory have great impact on the information contained in the financial statement. Also, the result of the analysis of variance statistic (ANOVA) reveal that positive accounting theory has significant impact on information contained in the financial statement. This is because the P-value obtained (i.e. 0.003) was lower than the significance value of 5% specified in SPSS for this analysis. Hence, according to the decision rule the null hypothesis will be rejected while the Alternate hypothesis will be rejected. This interpretation was also supported by the result of the coefficient of regression, since it, show that that P-value obtained is (0.003), and this also establish that there is statistical significant relationship between positive accounting theory and information contained in the financial statement.

Statistical Analysis for Hypothesis two
Ho_2 Normative accounting theory does not have impact on information in the financial statement

Table 2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.844[a]	.712	.710	.82392

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	248.706	1	248.706	366.370	.001[a]
	Residual	100.468	399	.252		
	Total	349.173	400			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.071	.157		.451	.653
	Accounting Theory	.963	.050	.844	19.141	.001

The Model summary above indicate that the value of Pearson correlation coefficient represented by letter „"R"" is 0.844 which indicate that there is strong positive correlation between the dependent and independent variable, and this indicates that normative accounting theory have strong statistical impact on information contained in the financial statement. Also, the regression analysis result, reveal that the value of the R Squared is 71.2% (i.e.0.712) and this implies that 71% of the variation in the dependent variable can be accounted for by the independent variable , while the remaining 28.8% (i.e. 28.8%) can be accounted for by other factors outside the model. This, also support the fact, that a change in the normative accounting theory will also lead to significant change in the information contained in the financial statement. Furthermore, the result of the analysis of variance statistic (ANOVA) also lend credence to the fact that an increase in the use of normative accounting theory will lead to significant changes in the information contained in the financial statement. This is because the P-value obtained (i.e.0.001) using SPSS was lower than the significance value of 5% specified in SPSS for this analysis. Hence, according to the decision rule the null hypothesis will be rejected while the Alternate hypothesis will be accepted. This means that normative accounting theory has direct influence on information contained in the financial statement. This was also corroborated by the result of the coefficient of regression, because it shows a P-value of (0.001), which also establishes that there is statistical significant relationship between normative accounting theory and information contained in the financial statement (financial reporting).

Discussion of Findings
The finding of this study confirms that accounting theory has significant relationship with the financial reporting of quoted companies in Kenya. This is because positive accounting theory has significant impact on information contained in the financial statement, and this was confirmed by the P-value obtained (0.003) from the statistical analysis. The findings of the study also shows that normative accounting theory has significant effect on information contained in the financial

statement, because the P-value obtained (0.001) was lower than the benchmark value of 5% specified in this analysis. This findings are similar to the interpretation given by (Ryan, 2002) (Watts and Zimmerman 1986), who emphasized that both normative and positive theories have significant impact on accounting records of organization.

SECTION 3. CONCLUSION

FOCUSED SUMMARY, OWN ASSESSMENT AND EVALUATION

This study conclude. That positive accounting theory has significant impact on information contained in the financial statement, and this was confirmed by the P-value obtained (0.003) from the regression analysis. The findings of the study also shows that normative accounting theory has significant impact with information contained in the financial statement, and this because the P-value obtained (0.001) was lower than the benchmark value of 5% specified in this analysis.

FURTHER ASPECTS AND OUTLOOK

-Quoted organization should ensure there are consistency in the accounting theory adopted in preparation of their records, since this study has established statistically that accounting theory has significant relationship with financial reporting.

-Also, quoted companies must ensure that accounting theories adopted by them are not contradictory, that is, they must adopt accounting theory that are comparable with companies that are in same line of business with them.

-Companies are also advised to engage professionals in the process of preparation and presentation of their financial statements in line with current practice in Kenya for adoption of International Financial Reporting Standards (IFRSs).

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