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Effect Of Income Statement Reporting On Financial Performance Of Firms Listed At Nairobi Securities Exchange

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Abstract
Background: *Despite the importance of accurate financial reporting for investor confidence and financial performance, there is limited understanding of how these dimensions affects firm financial performance in Kenya. The objective of this paper was to assess the effect of income statement reporting on financial performance of listed firms in Kenya at NSE.*
Materials and Methods: *Positivism research philosophy and cross-sectional research design were adopted. A target population of 57 firms was used as per NSE handbook of 2023. Stratified sampling technique was used to derive a sample of 50 listed firms. Secondary data was extracted from NSE for the period 2018-2023 using a structured data collection sheet. Descriptive methods of means, standard deviations, and percentages were applied to underpin the characteristics of the variables while correlation and panel regression analysis applied for inferences.*
Results: *Correlation results depicted a weak positive relationship between income statement reporting and financial performance of listed firms, which denotes that with changes in income statement reporting, financial performance changed in the same direction but with a lower rate. GLS random effect regression results demonstrated that income statement reporting had statistically significant effect on financial performance of listed firms since p values was less than the threshold value of .05 significance level.*
Conclusion: *A single unit change in income statement reporting had the power to explain 25.9787% change in financial performance of the listed firms.*
Key Words: *Income Statement; Financial Reporting, Dimensions, Financial Performance*

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I. Introduction

The European Union has mandated the use of International Financial Reporting Standards (IFRS) for listed companies. This harmonization facilitates comparability across member states and enhances the transparency of financial information (Pacter, 2020). There is a growing trend towards incorporating Environmental, Social, and Governance (ESG) factors into financial reports. Firms are increasingly disclosing their ESG dimensions and impacts, responding to investor demand for more comprehensive performance metrics (Grewal et al., 2020). The EU has been a leader in financial promoting reporting. The European Green Deal and the Sustainable Finance Disclosure Regulation (SFDR) require firms to disclose their financial information, risks and impacts aiming to redirect capital towards investments (European Commission, 2021).

Many Asian countries, including China, Japan, and India, have either adopted IFRS or aligned their local standards with IFRS. This has improved the comparability of financial statements and attracted foreign investments (KPMG, 2020). Financial reporting is one of the most critical business processes that accounting, finance, and the business must understand and appreciate.

The trends in the adoption of digital tools for financial reporting are accelerating in Asia to African nations. For instance, Japan has been integrating AI and big data analytics to enhance financial disclosures and promote investor communications Pricewaterhouse Coopers International Limited (PwC Japan, 2021).

South African companies are subject to strict annual reports requirements according to the King Code of Governance Principles for South Africa. These required publishing is an integrated report for all financial years ending on or after. South Africa has for many years been involved in and supported the work of IASB from previous IASC. Financial reporting standards, is no longer available as a result introduces the risks and complexities associated with the dimensions (Coetzee, & Schmulian, 2013).

Income statement is one of the commonly used financial statements giving important information on the financial performance of the enterprise. While there has been significant progress in standardizing income statement dimensions globally through the adoption of IFRS and GAAP, challenges remain. These include regulatory compliance, technological integration, the incorporation of sustainability metrics, and addressing economic disparities. Continuous efforts and reforms are necessary to enhance the quality, comparability, and reliability of income statements, thereby fostering greater transparency and investor confidence in the global financial markets. In India has either adopted IFRS or aligned their national standards with IFRS Obeki and Bila, (2018). This alignment has significantly improved the comparability of financial statements, including income statements, across the region. However, challenges remain due to varying degrees of enforcement and the influence of local accounting dimensions. Continuous efforts are required to ensure consistent application of IFRS principles, particularly in the areas of revenue recognition and expense reporting (Chen et al., 2019).

An income statement is one of the financial statements used in the business show casing the commercial revenues, expenses, gains and losses in certain period. An income statement is one of these fundamental financial statements that show financial performance for a given reporting. The economic disparities between developed and developing nations influence the quality and reliability of financial reporting. Developing countries often face challenges such as inadequate infrastructure, lack of skilled professionals, and limited access to technology, which can impact the accuracy and timeliness of income statement reporting (Omondi, 2022).

African nations have been progressively adopting international accounting standards to enhance the quality and comparability of financial reporting by income statements. Kenya and Ethiopia, in particular, have made significant strides in adopting IFRS for listed companies. The adoption of IFRS in these countries aims to improve the credibility of financial statements, attract foreign investment, and integrate into the global financial system. Similarly, Ethiopia has undertaken reforms to align its financial reporting dimensions with IFRS, although challenges such as limited technical expertise and regulatory enforcement persist (World Bank, 2020).

Despite the global move towards standardization in financial reporting, several challenges and trends persist. There is a growing emphasis on integrating environmental disclosures and social governance factors into financial statements. This trend reflects the increasing demand from investors for information on how companies manage sustainability-related risks and opportunities. Incorporating ESG metrics into income statements presents both opportunities and challenges in terms of standardization and reporting dimensions (Grewal, Hauptmann, & Serafeim, 2020). The adoption of advanced technologies such as artificial intelligence (AI) and blockchain in financial reporting is a growing trend. These technologies offer opportunities to improve the accuracy, efficiency, and transparency of income statements. However, their implementation can be complex and resource-intensive (Kokina, Mancha, & Pachamanova, 2021).

These technologies offer opportunities to improve the accuracy, efficiency, and transparency of income statements. However, their implementation can be complex and resource-intensive (Kokina, Mancha, & Pachamanova, 2021). It provides stakeholders with insights into the company's operational performance, efficiency, and ability to generate profits (Nyabundi, 2013). For instance, a positive net firm income allows the year's earnings to show a profit while the negative net farm income points to a money losing firm (Choi & Kim 2023).

Nairobi Securities Exchange (NSE) in 2023 showed a decline trend in the financial performance given by its return on assets of listed firms. Statistically evidence reveals that return on asset of listed firms decreased from 23.3% in 2019 to 18.7% in 2020. There is a decline in return on assets by 17.8% in 2020 to 15.2% in 2022 Return on assets decreased by 13.20% in 2023 from Sh 741 billion down to Sh 643 billion in 2022 (NSE, 2023).

The study done by Ochieng (2017) who examined factors determining the quality of financial reporting on performance of public sectors in Kenya. The study used primary data while this study will apply secondary data therefore, there is a methodological gap. Ojeka et al., (2015) analyzed corporate financial reporting on financial performance of Nigeria firms. The study adopted ex-post facto research design while this current study employed cross-sectional design. Malimu (2023) examined effect of financial reporting on performance of manufacturing listed firms at NSE Kenya. The study adopted secondary data using descriptive and correlation analysis, therefore panel data was applied in this paper.

II. Literature Review

Value Relevance Accounting Theory

It was started by Ball, Brown and Beaver in 1968 who added to the research in accounting indicating that it offers a robust analysis about how the market views reported information. Although significant work has been done to date in this mature research area, the literature does not fully explain or agree upon the changes in value relevance over time, with economic conditions impacts explaining value relevance to financial information (Oyetola 2024).

This theory assumes the financial accounting reporting will review three streams of the value relevance literature on value relevance of accounting manage earnings. The accounting information is valued to its relative to the item's economic conditions (Barth, 2021). Value relevance aims to provide best financial information to enable informed decisions about stock markets. This emphasizes that financial reporting can grow its importance to investors deals. Value Relevance Accounting Theory assumes further that accounting information that is relevant to investors' decision-making processes should be reflected in stock prices.

It is criticized that financial reporting dimensions provided timely, accurate, and relevant information are essential for investors to make informed decisions about buying, holding, or selling stocks. However, this theory is closely related to the concept of market efficiency, which posits that stock prices reflect all available information (Abogun, Olowokere and Kasum, 2020). Financial reporting dimensions are not the way to enhance market efficiency; this is due to other accounting standard used by ensuring accuracy of stock prices reflect economic fundamentals of companies. Companies that provide clear and comprehensive financial statements enable investors to assess the value relevance of accounting information to make best decision for investment.

Empirical Literature Review

Smith and Brown (2020) aimed to investigate income statements reporting on financial performance, specifically the reporting of sales revenue, gross profit margins and operating expenses. The study sought to establish how these components of the income statement influence the overall financial performance of firms. A quantitative descriptive research design was adopted using regression coefficients for the analysis. The study targeted 17 firms from a specific region of the manufacturing industry, selecting a representative sample of 13 out of the 17 firms. The published annual income statements of these firms were analyzed, and correlational statistical techniques were employed to examine the relationships between gross profit margins, operating expenses and net profits. The results indicated that firms with higher net profit before tax typically**,** suggesting a positive correlation between gross profit margin and performance. The regression coefficients revealed a statistically significant positive relationship between gross profit margins and net profit. Additionally, the analysis showed that firms with lower operating costs generally experienced higher net profits, with a negative correlation between total expenses and profitability. The regression model indicated that a reduction in total expenses, firms could expect an increase in net profit of approximately. Contextual gap is on 17 firms from a specific region within the manufacturing industry. The study primarily does not explore causality between the variables. This research will incorporate panel data analysis to test whether changes in profit before tax or total expenses directly lead to changes in financial performance using return on assets.

Sharma and Singh (2021) examined the influence of income statement reporting on financial performance of firms in Asia. The study aimed to establish the effects of various income statement components specifically revenue, expenses and net profit before tax on financial performance. The researchers used an empirical research design to explore the relationship between income statement variables and firm performance. Given the nature of the research, the use of secondary data was deemed appropriate, with financial reports and disclosures from a sample of 23 firms between 2011 and 2017 serving as the data source. The study employed regression analysis. The results indicated that total expenses significantly influenced financial performance, with higher revenues and better expense controls positively improve performance. The study concluded with recommendations for firms to focus on increasing revenue and controlling expenses to enhance financial performance. The study identifies that these components impact profitability, but it does not explore in-depth the theoretical reasons behind these relationships. For example, the research could benefit from incorporating agency theory (which examines how managers' actions impact financial outcomes) or stakeholder theory (which considers how transparent financial reporting affects investors' decision-making). The study primarily focuses on sales revenue and total expenses but it does not account for financial performance using return on assets. Data analysis gap is based on the way to improve the accuracy of the findings; the study could employ multivariate regression to control for these additional factors, providing a clearer picture of how income statement components independently affect financial performance.

Lee and Kim (2021) focused on the opportunities presented by income statement on financial performance of technology businesses in India. The study aimed to compare income statement and explore the understanding of financial performance of technology businesses. By examining the details of expenses and revenue recognition. The research was quantitative in nature, with data collected from 100 businesses in the industry. However, the primary data collected and analyzed for the study was quantitative. The findings of the study indicated that technology firms that actively managed expense recognition were better able to withstand the cyclicality of the industry, resulting in relative stability in their financial performance. The study emphasized that a focus on income and expense management was central to return on asset and the proper recognition of assets, contributing to financial stability. The study found that firms with well-defined expense management strategies were better positioned to navigate industry fluctuations and maintain stable financial performance. The study uses quantitative but does not provide details on the specific statistical methods or models used in the analysis. It is unclear whether the study employed regression analysis, factor analysis, or other statistical techniques to measure the relationship between expense management and financial performance. Data analysis gap will be done by this study using multivariate regression and SEM to account for multiple variables that may influence financial performance, such as firm size, capital structure, or market conditions, cash, revenue and cost incurred.

The study by Miller and Davis (2022) investigates the relationship between reporting of income statements and firm financial performance, particularly focusing on how comprehensive income affects financial performance. The primary aim was to test the hypothesis that comprehensive income, which includes gains and losses outside of normal business operations, influences stock performance. The study examined the impact of comprehensive income announcements on firm performance, specifically how such announcements can influence stock returns. Comprehensive income includes items such as unrealized gains and losses, which are not part of regular business operations (e.g., foreign currency translation adjustments, pension liabilities, or changes in the value of investments). The researchers used regression models to assess how changes in comprehensive income (both gains and losses) affected stock returns. The findings indicated that gains and losses reported outside of normal business operations (i.e., not part of regular trading activities) are of significant interest to investors and can influence their decisions. Conceptual gaps; the study focuses on gains and losses outside normal business operations but doesn't fully explore the conceptual distinction between revenue and non-operational income in terms of how investors perceive these two types of income. Contextual gap is that the study only focuses on firms in specific countries or industries, the findings may not be generalizable to firms in other regions or sectors with different financial reporting dimensions or market structures thus NSE.

The study by Aini, Anoesyirwan, and Ana (2020) provides valuable insights into how income statement components (revenues, expenses, gains, and losses) influence financial performance of listed companies. It also emphasizes the importance of income statements as a tool for monitoring and managing financial performance. The use of regression analysis can identify associations between income statement components and financial performance, but it does not provide evidence of causal relationships. Given the small sample size of 17 companies, there may be significant variability in the data that affects the results. Finding shows that there are the relationships between income statement components and performance hold consistently across firms of varying sizes or stages of growth would provide more valuable insights. Conceptual gap is that the study examines the relationship between income statement components and financial performance but does not clearly define "financial performance." Different interpretations exist (e.g., profitability, liquidity, market valuation), and the study could benefit from a clearer framework on what exactly constitutes financial performance in this context of return on asset. Without a precise definition, it's difficult to know whether the study is examining short-term profitability or long-term financial health using return on asset. The study did not provide clear information on which financial performance metrics were used (e.g., return on assets (ROA), return on equity (ROE), stock returns. The theoretical framework around conservatism theory and its effect on investor decision-making is underexplored.

Ismail (2024) conducted a longitudinal study to analyze income statement on performance of investments companies. Objective examined income statements on financial performance. Longitudinal research design was done to allow panel data analysis. Analyzed data from 12 firms listed on the S&P 500 from 2018 to 2020. Panel data analysis techniques were employed to study financial reports over the specified period. The study focused on income statement components net income, earning and revenue, cost of goods, financial stability, and overall confidence in firms. Gross profit margins, revenue collected dimensions, and expense management were identified as significant factors influencing financial performance. While the study covers the period from 2018 to 2020, it is unclear whether it is more focused on short-term financial metrics (e.g., quarterly profits) or long-term growth and stability (e.g., market capitalization, stock price trends). The income statement's components, such as net income, earnings, revenues and costs, might have different implications for short-term versus long-term performance, and the study could clarify this distinction. The study focuses on 12 firms listed on the S&P 500, which are large-cap companies with relatively mature financial structures. This sample may not be representative of smaller firms, startups, or firms in other geographical locations or industries. Expanding the sample to include firms from different sectors, regions, or market capitalizations could provide a more comprehensive view of how income statement components influence financial performance across the broader market.

Kumar and Sharma (2021) examined how income statement components (revenues, expenses, and net income) affect profitability among small and medium enterprises (SMEs) in India. The study used a sample of 50 SMEs over a five-year period (2016–2020), employing regression analysis to establish relationships. They found a positive correlation between revenue growth and profitability, with expense management showing the most significant impact. Contextual gap is that the study focused only on SMEs in India, which limits generalizability to larger firms or firms in other sectors. Conceptual gap is that profitability was the sole measure of financial performance, excluding other important indicators such as return on assets, return on equity, liquidity, market valuation, and long-term sustainability. While correlations were identified, causal relationships between income statement components and performance were not directly tested hence panel regression.

Ochieng (2020) analyzed the role of income statement items in forecasting future financial performance in the context of publicly traded companies in Kenya. The study focused on the predictive power of net income, gross profit margins, and operational expenses. Panel data analysis was conducted on 15 Kenyan firms listed on the Nairobi Securities Exchange (NSE) over 7 years (2013–2019). Findings showed that Net income found to be a strong predictor of financial performance, while gross margins showed a weaker relationship with future earnings. The analysis of the income statement reporting shows substantial variation in sales revenue, expenses, and profitability across the firms. This variation is likely driven by differences in industry, firm size, and operational efficiency. The relationship between sales revenue, total expenses, and profitability is crucial for assessing the financial health and performance of firms. Firms that generate high sales revenue and manage their expenses efficiently are more likely to report higher profits, while firms with low revenues or high costs may face financial challenges. Conceptual gap is that the study did not consider how moderator on broader economic conditions, such as inflation or currency fluctuations, government policies influenced the relationship between income statements and financial performance.

Wang *et al*. (2022) explored the influence of income statement components on financial performance across firms in Southeast Asia, including Indonesia, Malaysia, and Thailand. The study examined net income, gross profit margins, operating income, and expense management. Using data from 30 firms in Southeast Asia (10 from each country), the study employed a regression model to analyze financial data from 2015–2020. The study findings that gross profit margins and net income were significant determinants of income statement, with operating income showing regional variations due to differences in market structures. Sectorial gaps is that like other studies, it focused on publicly listed firms, which may not capture the financial dynamics of private firms or family-owned businesses in the region, hence panel data regression.

González and García (2021) analyzed the relationship between income statement components (revenues, operating expenses, earnings before interest and taxes (EBIT), and net income) and corporate financial performance in Spain. The study used a sample of 60 Spanish companies over a 10-year period (2010–2020), employing a panel data regression model to assess the influence of income statement items on ROE and ROA. Findings is that Operating income, sales revenue and EBIT were found to have the most significant impact on ROE and ROA, with expense management being a key factor in improving overall financial performance. Firms that maintain strong competitive positions and manage their costs effectively tend to report higher profits. These are key components of the income statement and have significant implications for corporate disclosures and investor decision-making. The study did not incorporate broader moderating factors (e.g., inflation, tax and interest expense) that could influence financial performance across the span of 10 years.

Chan and Cheng (2023) aimed to analyze the relationship between income statement components and financial performance across a wide range of countries, including the US, China, Germany, and Brazil. The study was focused on gross margins, net income, and operating income. The study used data from 500 companies worldwide from 2015 to 2020 and employed a global panel data analysis to examine differences between countries and sectors. Findings showed Variability in expenses can be linked to differences in the cost structures of firms. For example, firms in capital-intensive industries like manufacturing or energy may incur higher expenses compared to those in less capital-intensive industries like software or consulting total expense. Study results suggested that cost management dimensions play a key role in shaping firms' expense profiles, with firms that are more efficient in controlling costs likely to enjoy higher profit margins. A theoretical gap is that the study did not explore how regulatory differences between countries might influence how income statements are utilized. For instance, in countries with conservative accounting dimensions, income statement components may be more conservative and less volatile, therefore conservatism theory.

Li and Zhang (2022) examined the role of income statements (which includes items like unrealized gains/losses) in financial performance. It compared the relevance of comprehensive statement of income versus traditional net income across 15 countries, focusing on large multinational firms. The study used data from multinational firms listed on major exchanges like the NYSE, London Stock Exchange, and Tokyo Stock Exchange over a 6-year period (2016–2021). It applied regression models to assess how comprehensive income impacts stock returns and firm stability. The study found that income statement is a crucial tool for assessing a company's financial performance. The study noted that extremely high sales revenues, likely due to large-scale operations, market dominance, or successful product offerings. The large variation in sales revenue could be influenced by factors such as company size, industry, and market maturity. Firms in high-demand sectors or with successful business models may generate large revenues, while smaller firms or startups may have limited sales. This study will employ methodologies (such as panel, Granger causality tests or instrumental variable techniques) to better establish causality. Few studies address the role of comprehensive statement of income especially how these affect investor behavior or stock returns in different countries.

III. Material And Methods

Research Philosophy

The study used positivism paradigm was adopted in this study because of it permits a scientific approach to the research and deductive and inductive logic would be applied to derive meanings of situations. Further hypotheses could be tested to confirm the nature and significance of interrelationships between them.

Researchers adopting a positivist epistemological stance believe in objective, observable truths that can be systematically revealed through empirical methods (Smith, 2021). The stance of impartial approach was adopted in this study to advance the interest of objectivity. Ontological approach of realism was employed while adopting the axiological maxim of value free.

Research Design

The study used descriptive and cross-sectional research designs. Cross-sectional design is useful in establishing the relationships and models that interlink the variables under the study.

Johnson (2023), argue that cross-sectional aid in reducing data to manageable form and provide a good explanation and situation of the variables under study.

Target Population

The study focused on companies listed on the NSE, which are primarily based in Kenya. However, some of these firms may have operations and markets extending beyond Kenya into the broader East African region and internationally. The target population was 57 companies listed in Nairobi Securities Exchange, Kenya.

Sample and Sampling Procedure

Sample Size

Sampling allowed for data collection from a smaller subset, significantly reducing costs. Sampling allows researchers to gather and analyze data more quickly than a census. This is particularly important in dynamic fields like finance, where timely insights can inform decision-making. A sample simplifies the data management process, making it easier to perform analyses and draw conclusions. In large populations, such as all firms listed on the NSE, conducting a census may be impractical. Sampling makes the research feasible while still yielding representative insights. A sample can be statistically representative of the broader population, allowing researcher to make generalizations about financial reporting dimensions and financial performance without needing to survey everyone. It allows researchers to adjust their methods based on initial findings or emerging trends, which can be challenging in a census where data collection is fixed and extensive. A sample of 50 firms was employed in the current study.

Sampling Procedure

The sampling frame defines all sets of units or items sampled under the study and contain all elements in the entire population for the study. It will be used to classify members who have the same characteristics and are not homogeneous into subgroups (Kothari, 2004). The Nairobi Securities Exchange categorized into 13 sectors that are distinctly divided, and a sample of listed firms were selected. Every firm must satisfy the requirement of publishing annual reports, and the firms must be listed for the entire financial years from 2018 to 2023. This enabled the researcher to generalize all listed firms at the NSE.

Data Collection Procedures

These are the research steps taken before data collection commences. The researcher enhances these steps with a thorough understanding the process during the entire period (Ragab and Arisha 2018). A research permit was obtained from NACOSTI to authorize collection of data from the NSE listed Companies.

Data Analysis

Data was analyzed by using means, minimums, maximums, standard deviation and percentages. This was geared to understand the feature and patterns of the variables and indicators in the study. Karl Pearson Product Moment of Correlation technique was used to establish the nature and strength of the relationship between the variables in the study. Through this the researchers contributed to the discussion on the relationship between income statement reporting and financial performance.

Model Specification

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

Interactive Random Effect Model

$FP_{it}= \beta_0 + \beta_1 + X_{1it}, +\beta_2 X_{2it} + \beta_3 X_{3it}, +\beta_4 X_{4it}, + u_{it} + e_{it}$……………………….(iii)

Where β_0 in the y intercept; $\beta_{1....}\beta_4$ represents the coefficients of the independent variables; $X_1 \ldots X_4$ represents the independent variables, t represents time and i represent the company

IV. Results

The results used key financial indicators such as Sale Revenue, Total Expense, and Net Profit Before Tax. The researcher examined these indicators to gain insights into the overall revenue generation, expense management, and profitability of the firms in the study. These indicators are crucial for understanding the income statements and operational efficiency of listed firms.

Descriptive Statistical Analysis

To characterize the variables methods of mean, standard deviation, minimums and maximums were adopted. The results were presented in table 1.

Table 1 Income Statement Reporting

Variable	Obs	Mean	Std. dev.	Min	Max
Sale Revenue	258	3.27e+07	5.40e+07	13148	3.17e+08
Total Expense	258	1.52e+07	2.78e+07	4216	1.71e+08
Net profit before tax	258	1.75e+07	3.61e+07	-2.71e+07	2.24e+08

Source: Field Data 2025

The average sales revenue had a mean of (M=32,700,000, SD=54,000,000). The mean is the average sales revenue Ksh 32,700,000, indicating that, on average, firms in this sample generate substantial sales from their core activities. The standard deviation of Ksh 54,000,000 is very high, suggesting significant variability in sales revenue. Some firms are generating much higher revenues compared to others, likely reflecting differences in firm size, industry, and market position. The minimum value of Ksh 13,148 indicates that some firms have very low or minimal sales, possibly because they are small, new, or in niche markets. The maximum value of Ksh 317,000,000 is substantial, indicating that some firms have extremely high sales revenues, likely due to large-scale operations, market dominance, or successful product offerings. The large variation in sales revenue can be influenced by factors such as company size, nature of the industry, operating approaches, and market maturity. Firms in high-demand sectors or with successful business models may generate large revenues, while smaller firms or startups may have limited sales. Research on corporate performance, such as by Penrose (1959), highlights that firms with greater market power and resources tend to generate higher revenues.

The average total expense had a mean of (M=15,200,000, SD=27,800,000). The mean presented the average total expense of Ksh. 15,200,000, showing that firms on average incur significant costs to operate their businesses. The standard deviation of Ksh 27,800,000 advocates that there is considerable variation in total expenses, with some firms incurring much higher expenses than others. This could be a reflection of differences in operational scale, industry, and cost structures

The minimum value of Ksh 4,216 is very low, which might indicate that some firms are either in the early stages of development, have minimal operations, or operate in industries with lower cost structures. The maximum value of Ksh 171,000,000 indicates that some firms have extremely high operating costs, possibly due to large-scale operations, extensive labor forces, or capital-intensive industries. Variability in expenses can be linked to differences in the cost structures of firms. For example, firms in capital-intensive industries like manufacturing or energy may incur higher expenses compared to those in less capital-intensive industries like software or consulting. Studies by Abor (2005) suggest that cost management practices play a key role in shaping firms' expense profiles, with firms that are more efficient in controlling costs likely to enjoy higher profit margins.

The net profit before tax had a mean of (M=ksh17,500,000, SD=ksh 36,100,000). The net profit before tax of Ksh 17,500,000, suggest that, on average, firms in the sample are profitable before accounting for taxes. The standard deviation of Ksh 36,100,000 is also quite high, reflecting substantial variability in financial performance. Some firms are highly profitable, while others are less so or even report losses. González and García (2021) noted that firms, which maintain strong competitive positions and manage their costs effectively, tend to report higher profits.

The minimum value of Ksh -27,100,000 indicates that some firms are operating at a loss before tax, possibly due to poor sales, high expenses, or other financial challenges. The maximum value of Ksh224,000,000 indicates that some firms are generating large profits, likely due to strong sales, efficient cost management, and successful business costs. Profitability before tax reflects a firm's operational efficiency, pricing strategies, and cost management. Negative net profit before tax can indicate financial distress or operational inefficiencies. Equally, high profits may reflect financial performance, effective cost control, or high demand for the firm's products.

Correlation Analysis

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

There was a weak positive correlation between net profit before tax and financial performance of firms listed in the NSE (r= .114). The finding agrees with the work of Smith and Brown (2020) which investigated income statements reporting influence on financial performance, specifically the reporting of sales revenue, gross profit margins and operating expenses. The study established a correlation between net profit before tax and performance. In the study by Kumar and Sharma (2021) which examined how income statement components (revenues, expenses, and net income) affect profitability among small and medium enterprises (SMEs) in India, it was opined that, there is a positive correlation between revenue growth and profitability, with expense management showing the most significant impact.

Wang *et al*. (2022) explored the influence of income statement components on financial performance across firms in Southeast Asia, including Indonesia, Malaysia, and Thailand. The study found that gross profit margins and net income were significant determinants of income statement, with operating income showing regional variations due to differences in market structures. This confirms that there is a positive relationship between net profit before tax and performance of listed firms.

Effect of Income Statement Reporting on Financial Performance

The paper sought to determine the effect of income statement reporting on financial performance of NSE listed firms. Income statement reporting was measured by the using net profit before tax. The results are as indicated in table 4.16.

Table 2: Income Statement Reporting and Financial Performance

LnROA	Coefficent	Std. err.	Z	P>Z	95%conf.	Interval
LnNPBT	.259787	.221362	1.17	.041	-0171075	.0693649
Const.	-.3780562	.4236452	-0.89	.372	-1.208386	.45227332
Chi2(1) =.03 Prob > chi2 = .8639						

Source: Field Data 2025

The coefficient of .259786 in the findings shows that net profit after tax can account for 25.9787% of the changes in ROA. This means that income statement reporting has the potential to explain 25.9787% of the variation in financial performance of listed firms in NSE. It also implies that 74.213% of the changes in financial performance of the listed firms can be explained by other extraneous factors. Further it was established that the effect of income statement reporting on financial performance was statistically significant since the p value of .041 was less than .05 probability level. Generalized least squares random effect was preferred over the fixed effect because the probability value p=.8639 derived from Hausman test was greater than .05 significance level. In the case of zero changes in income statement reporting then financial performance will decline by 0.3780562 units.

The regression model derived from table 4.16 was $Y= -0.3780562+0.259787X_2$

V. Conclusion

Income statement reporting had a statistically insignificant effect on financial performance of the firms (z=0.94, p=0.347) since p>.05 when all variables are combined. Despite insignificant effect there was positive correlation between income statement reporting and financial performance. Change in income statement reporting by 1 unit leads to 2.052159unit change in financial performance. The findings indicate that, on average, firms generated substantial net profits before tax (mean = 17,500,000). However, these profits were often offset by significant losses in some firms, high tax liabilities, and high interest rates on borrowed funds. The high standard deviation (36,100,000) highlights considerable variability in profitability across firms, influenced by exceptional business challenges and prospects.

Correlation analysis revealed a weak but positive relationship ($r = 0.1141$, $p < 0.05$) between income statement reporting and financial performance, suggesting that changes in income statement reporting result in corresponding changes in financial performance, albeit to a limited extent. The Hausman test validated the use of the GLS random effects model, which confirmed that income statement reporting has a statistically significant effect on financial performance ($p = 0.041 < 0.05$). The regression coefficient (0.259787) indicates that a unit increase in income statement reporting leads to a 25.98% increase in financial performance.

Though, further regression analysis established a statistically insignificant effect ($z = 0.94$, $p = 0.347$), despite a positive coefficient (2.052159). This suggests that while income statement reporting influences financial performance, its impact may not always be substantial or consistent across all firms. Overall, the findings suggest that income statement reporting plays a role in shaping financial performance, though its effect is relatively weaker compared to other financial reporting dimensions.

VI. Recommendations

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

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

Companies should invest in training financial managers and executives on best practices in financial reporting and asset management. Understanding financial data and its impact on performance will enable better strategic planning and risk management. Firms should adopt clear and accessible communication networks to engage investors and stakeholders effectively. Regular investor briefings, detailed financial reports, and clear financial projections will enhance trust and market valuation. By implementing these recommendations, NSE-listed firms can improve their financial reporting quality, optimize asset management, and ultimately enhance their financial performance.

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