

**EFFECT OF CREATIVE ACCOUNTING ON SHAREHOLDERS WEALTH  
IN LISTED PUBLIC COMPANIES IN KENYA**

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## ABSTRACT

The purpose of this study is to determine the effect that creative accounting has on shareholders' wealth among companies listed on NSE. Creative accounting practices are attributed and treated to bad corporate governance. It is carried out with an objective of making the company appear to be more financially stronger or weaker depending on the managements' aspirations. Accountants use strategies that enhance the picture of the organization using profit eroding mechanisms which lead to drastic consequences. These consequences include corporate failure both locally and internationally as in the case of WorldCom and Enron. In Kenya most companies are over-reporting their financial position and performance to meet the targets of the demanding shareholders. There has been corporate failure which has become a major issue with respect to firms all over the world which has been caused by excessive practice of creative accounting. The study considered tax avoidance, accelerated depreciation and income smoothing as part of the major creative accounting practices that influence financial performance of public limited firms. Secondary data was extracted from the annual financial reports for the respondent companies, NSE database, journals and other publications. Data was arranged and grouped according to the research questions. The researcher analyzed the financial statements of the selected firms so as to establish discretionary accruals which are one indicators of creative accounting. The researcher carried out regression analysis to test the relationship between the independent variable (shareholders' wealth) and the dependent variable (creative accounting) on listed companies at the NSE in Kenya. SPSS (Statistical Package for Social Sciences) Version 16.0 was one of the model to be used to analyze and measure data by the use of standard deviations, central tendencies and percentages. The study recommends that local investors should embrace shareholder value concept as an excellent model for value creation to increase insider trading meant to boost investor confidence and sense of security as guaranteed by mutual interests in growth of shareholder value. Further research should be carried out on other employees who could be involved in creative accounting therefore indirectly affecting shareholders' wealth. The limitation of the study was that it was carried out under a tight schedule. It was undertaken within a short time and was carried out while having lectures and private studies.