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Current Ratio and Stock Market Price of Non Financial Firms Listed at Nairobi Securities Exchange, Kenya

Abstract

Analysts of financial statements and investors at the stock market consider a multiplicity of factors and metrics when making decisions on what stocks to invest in. This study set out to establish the effect of current ratio on market price of shares of non financial firms listed at the NSE. Not much is known about the effect of current ratio, as a measure of liquidity, on changes in stock market prices of firms listed at the NSE. Studies on current ratio have mostly been carried out in developed capital markets with little emphasis on its applicability in developing securities markets such as the NSE. This occurrence has been the basis of great interest in the issue by capital market researchers in accounting. Correlational research design was used. A census of all non financial firms listed at the NSE was conducted and secondary data collected through computation of average rate of change in market price of shares and computation of current ratios of non financial firms listed at the NSE for the financial years 2012 to 2016. Panel data was analysed using descriptive statistics and inferential statistics. Inferential statistics involved development and testing of predictive ability of current ratio panel data regression model. It was established that the mean current ratio of non financial firms listed at the NSE was positive and greater than unit (i.e. 2.382025). The implication was that non financial firms listed at the NSE had current asset values that were more than two times the value of current liabilities. It was also established that current ratio was not statistically significant in influencing the market price of shares of non financial firms listed at the NSE.

Keywords

Current ratio, Average rate of change in market price of shares

Primary author: OBULEMIRE, Alex Tom (UNIVERSITY of KABIANGA P.O Box 2030 20200 Kericho)

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