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Effect of Capital Allowance Incentives on the Financial Performance Oflisted Consumer Goods Companies in Kenya

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ABSTRACT
The Consumer goods sector has been a major driver of industrial growth, leading to some international firm to
enter the market thus increasing existing investment in recent years. However, their financial performance is lowlands
ubpar. The companies have experienced a decline on the contribution to the country's GDP from 5.0% in 2017 to 4.1% in the manufacture of food, beverages and tobacco sector. Nevertheless, there is paucity of empirical and conceptual knowledge on the phenomenon influence of capital allowance incentive on the financial performance. This study was anchored on the Agency cost theory. Descriptive cross-sectional design was used. The study used secondary data which was collected using a checklist and was extracted from the Nairobi Security Exchange (NSE) reports between the year 2017-2021. The target population of the study comprised of the thirteen listed consumer goods companies in the Nairobi Securities Exchange as at 31st December 2021. The study used census technique. Data analysis was done with the aid of SPSS version 25.0. The study used correlation analysis and multiple regression to determine the relationship between capital allowance incentives and financial performance. To test the statistical significance, t-statistic at 95% confidence level was used. Data was presented using tables and figures. Further, it was found that capital allowance had positive regression coefficient of (0.739, p-values of 0.0463). The study will be useful to listed consumergoodscompaniesto institute more robust capital allowance incentives. The study will also contribute to the body of knowledge to both researchers and academicians.
Keywords: Capital allowance incentive, financial performance and consumer goods companies.

INTRODUCTION

Capital allowances incentives are allowed bylaw under the Income Tax Act and can be claimed as tax deductions for the wear and tear of qualified fixed assets (Syuki, 2020). As a result, the capital allowance is a relief provided to everyone who had incurred a qualifying capital expense during a basis period. It is calculated using statutory rates, and its application is uniform and consistent for alltax payers (Olajide, 2019; Ahakiri, 2017). For example, in Kenya,Capital expenditure incurred by companies engaged in manufacturing(Plantand machinery)and in industrial building and agricultural building and works enjoy the investment deduction at rate of 100% for businesses that run outside ofthe counties of Nairobi and Mombasa (Nduati, 2020; Finance Act, 2021). This significantly improves these organizations' ability to maintain liquidity and a positive cash flow (Finance Act, 2021).

It should be highlighted that capital expenses are not deducted from a company's profits according to accounting standards. The Income Tax Act of 2010's Section 16 states that a person cannot deduct capital expenses from their gross income. On capital expenses made for commercial objectives, however, investors are given a capital allowance as an incentive. Nduati (2020) asserts that the majority of governments permit tax breaks, such as the invest men deduction, to encourage business investments and economic activity.

These governments employ these incentives to channel specific economic activity into crucial economic areas where it is either barely perceptible or non-existent(Kaplan,2001).

Investorsarealsogiventax exemptions in Kenya to encourage them to list their shares on the Nairobi Stock Exchange. According to Pauline (2023), a company that quotes its shares at the Nairobi Stock Exchange is eligible for tax exemptions at the following rates: 20% of issued shares are subject to 27% corporation tax for the first three years,30% of issued shares are liable to corporation tax; for the first five years, 25% of issued shares are; and for the first three years, 20% of issued shares are. (Oeta *et al*. 2019). Additionally, any financial exemptions to income, property, or other transactions from taxes that would otherwise be levied on them are prohibited by the South Africa's Income Tax Act (Oguttu, 2022). However, the exemptions either grant complete tax relief, offer lower rates,

or simply apply to a portion of the items (Njuru *et al.*,2015). Twesige and Gasheja, (2019) noted that the profitability of businesses is increased by exemption from a number of taxes, most often those imposed at the border, such as tariffs, excises, and VAT on imported inputs, exemption from some taxes, frequently those imposed at the border, such as tariffs, excises, and VAT on imported inputs increase the profitability of firms. It entails tax subsidies that favour an industry, class of people or inactivity effected through a tax system as opposed to through loans, grants or any other form of favor from the government. Tax-exempt offers corporation's countless benefits that are subtracted from their total tax obligation. Thus, the tax-exempt status allows consumer goods companies to report higher after-tax earnings, assisting in the repayment of capital expenditures, particularly those made during the current period of subpar performance.

According to Gofwan (2022) financial performance is a measure of how well a corporation can use the resources in its primary business line to create revenue. It can be compared to other businesses in the same sector and is largely used to evaluate a company's long-term financial health (Gofwan, 2022). Several measures have been applied by Tax planning researchers globally to measure performance. Peter and Irokwe (2015)used profitaftertax,returnonequity,andreturnoninvestmenttogaugefinancialperformance.AccordingtoKayodeandFo lajinmi's(2020)analysis,returnon equity, earnings per share, return on assets, and return on investment, capital employed to measure financial performance. Mauda and Saidu (2019) used ROA to measure financial performance and Akinyemi (2016) used profitability to measure financial performance.

Revenue, earnings, return on equity (ROE), return on investment (ROI), and earnings per share (EPS) are some examples of financial performance measurements (Choiriyah *et al.*, 2020). Profit is the excess of the selling price ofgoods over their cost (Choiriyah *et al.*, 2020). Revenue is the money generated from normal business operations (Choiriyah *et al.*, 2020). According to Herrmann (2008), return on equity (ROE) is a variable that is frequently taken into account when calculating executive compensation and measuring the performance of senior management. ROE is calculated by dividing net income (income available to common stockholders) by stockholders' equity. The return on equity (ROE), which stands for the return on owners 'equity, should be as high as possible. The better the EPS, or earnings per share, which is a measure of how much money is made for each common share. According to Herrmann (2008), the price-to-earnings (P/E) ratio, which calculates how much investors are willing to pay for each dollar of earnings, is a good indicator of investor confidence.

The effectiveness of management's utilization of a company's actual investments and resources to generate profit is gauged by the term "return on total assets"(ROA).It is defined as net income after taxes divided by total assets, and it shows how effectively management uses the firm's real investment resources to generate profit (Ongore & Kusa,2013). The profitability of a business in relation to its assets is gauged by return on assets. Normal range for return on assets is 10%to 12%, according to Nyabwanga *et al*.(2013), who also claim that return on assets must be positive. A higher ROA is preferable since it means that the company is making a greater return on its capital. Indicating how well a company is able to generate profits from its available assets, the return on investment (ROI) is considered by ROA.This study utilized ROA because, according to Ray (2021); Purdianto *et al*., (2022) and other sources, it provides investors with a trustworthy image of management's capacity to generate returns from the assets and endeavors into which it decides to invest.

Most arguments for the necessity of ROA in tax planning for the measuring of an economic unit's financial performance are based on empirical evidence (Ogundajo & Onakoya. 2016); Zhang *et al.*, 2016; Chukwudi *et al*.,2020). A quantitative study among the European listed consumer goods firms established tax planning savings and financial performance have a positive correlation (Khaoula & Moez, 2019). However, a study in Indonesia disputed the findings by determining that the firm size has the strongest correlation between tax planning and financial performance. (Firmansyah & Bayuaji, 2019).

With a market size expected to increase from USD 1.9 trillion in 2020 to USD 2.3 trillion by 2027, at a compound annual growth rate (CAGR) of 3.0% (Can, 2022; Bednarz & Orelly, 2020), the consumer packaged goods (CPG)industry, also known as the fast-moving consumer goods(FMCG) sector, ishome to some of the largest businesses in the world (Bednarz & Orelly, 2020). According to global opportunity analysis and industry focus 2018 -2025, thefood and beverage segment accounted for the bulk of the FMCG market and is likely to continue to hold a large part of the global market throughout the forecast period. FMCGs are typically inexpensive goods with a limited shelf life that customers frequently buy. Retailers typically only make a small profit on these items, so they try to make upfront by selling vast quantities of
them (Maluleke, 2019). Customer loyalty is heavily reliant on product availability, andtheconsumergoodsbusinessischaracterizedbycomplicatedsupplychains that are fueled by the abundance of similar product lines (Mvumbu & Naude, 2016).

According to Statistica (2019), the top 8 FMCG companies globally ranked by net sales are; Nestle AG, the largest food company in the world among the top on the 2017 Fortune 500 list with a totalof2000 brands worldwide having head office in Switzerland; Johnson & Johnson, which deals with consumer healthcare, medical devices, and pharmaceuticals with 90 brands and headquartered in New Jersey, United States having almost 250 subsidiaries in almost 60 countries worldwide. In addition, Pepsi, an American multinational

food and beverage company with over22 brands and revenue of 67 billion US Dollars in 2019; Procter & Gamble, founded 2 in 1837 making it one of the

oldest Fortune 500 companies based in Cincinnati in the US and carrying about 105 brands. Statistica (2020) also discovered that Unilever, an Anglo-Dutch company with over 300brands and presenting around 190 countries having its headquarters in the United Kingdom and Netherlands; Anheuser-Busch In Bev, a
Belgian-Brazilian company selling transitional beverages and regarded to be the largest beverage firm intheworldwithmorethan500brandsandoperating internationally with its headquarters in Leuven. Belgium; JBS, the world's second largest food company formed in Brazil with more than 300 production facilities in different countries and over 20 sales offices worldwide with an extensive product portfolio, producing chiefly frozen meat & poultry; and Coca Cola, the biggest beverage corporation in the world, with over 500 non-alcoholic beverage products distributed in over 200 nations (Statistica,2020).

According to a detailed analysis carried out by Statistica (2019), the U.S. consumer goods market was the largest in the world in 2019, with an estimated $635 billion in sales. In terms of product innovation, production, branding, and marketing for consumer goods, the United States leads the world (Select USA,
2020). The consumer goods
Industry in the United States is made up of a variety of businesses, and there are opportunities in all of the subsectors that
makeup the consumer products landscape for both large and small businesses. Consumer demands and purchasing
patterns are changing rapidly in Europe, which is forcing manufacturers to choose which consumer segments to target,
whether to produce branded goods, private-label products, or both, and which retail channels to give priority to (Krings et al.,2016). U.K. FMCG. However, Asia is also a great challenge as the market is as diverse as it is vast; with different sizes, stages of development, coupled with varied cultural and ethnic backgrounds. The FMCG market in India accounts for 2.15% and is the 4th largest sector of the Indian economy (The Sterling Choice, 2017).

In 2016, the Indian FMCG sector recorded a 16% increase in sales, although it only accounts for 0.685 of the globalFMCG market. Food products are the leading segment (43%) with personal care (22%) and fabric care (12%)following (Bednarz & Orelly, 2020). The Sterling Choice (2017) notes that accounts for 14% of all manufacturing in the nation and is the largest manufacturing sector. Global brands like Mars, L'Oréal, Cadbury, and Coca-Cola predominate in the UK's FMCG market, but as the organic, clean eating, and vegan food movements gain traction, more specialized, smaller businesses are starting to emerge. The rapid growth of the Asia-Pacific area is expected to alter and have an impact on regional consumption patterns. The middle class's rising consumption in Asia is a major driver of this. According to The Sterling Choice (2017), Asia is home to around half of the world's middle-class populations. By 2030, Asia will account for 60% of global consumption, while North America and Europe together will only account for 12%. By 2030, Asia will account for 60% of middle-class 3 consumptions, while North America and Europe combined will account for just 30%. This creates a significant opportunity for fast-moving consumer goods enterprises (Bednarz & Orelly, 2020).

A country's economic policies, institutional framework, and current legislation have a substantial impact on the FMC G markets and the business environment overall,
according to a Klynveld Peat Marwick Goerdeler (KPMG) study on FMCG in Africa. Governments set economic policies to affect trade, employment, price, and
investments as well as economic growth(KPMG,2014). Given their enormous markets and potential for increased household wealth, African countries have the greatest potential for the expansion of their FMCG sectors. Angola, Ethiopia, Ghana, Kenya, Morocco, Mozambique, Nigeria, Rwanda, Tanzania, Uganda, and Zambia have the best prospects for
growth in the FMCG sector over the following five to ten years, taking into a account the sector's characteristics and African countries'' demographic profiles, income levels, and potential for economic growth (KPMG, 2014).

The industry in Kenya has been a major factor in the country's economic progress, as seen by the introduction of foreign companies into the market and the expansion of already

established companies like Coca-Cola, Unilever,Procter & Gamble, and Johnson & Johnson (Wendot, 2021). In exchange for job opportunities, infrastructure development, technology transfer, and spill over to local firms, Kenya has been very welcoming to multinational FMCG companies (Kenya Association of Manufacturers, 2016). Kenya offers them incentives like reduced taxes and administrative support. Future growth could be hampered by

shifting tax laws, persistent currency fluctuations, depreciation, and a more intensely competitive environment. A change in the value-added tax(VAT)billanda change in the excise tax both had an impact on the alcoholic beverage industry in Kenya, according to the consumer goods sector report (2019) and decrease in tax benefits and increase in excise duty which resulted in closure of many outlets (KPMG, 2019). The cost of taxes is significant for firms, and if they are not planned for and managed appropriately, they can negatively affect cash flow and investment capacity (Africa Capital Market, 2021). The Nairobi Security Exchange has a total of 66 listed institutions out of which 13 classified as listed consumer goods firms through the Capital Markets Act (Africa Capital Market, 2021).

The Capital Market Authority manages its member firms and offers a trading platform for listed securities (CMA,2021). These include companies; BAT Kenya - manufactures and sells of cigarettes and tobacco products, Eaagads –deals with growth, processing and selling of coffee, East African Breweries – manufactures alcoholic and non-alcoholic beverages, Eveready East Africa - Manufactures and sells of dry cells, batteries, flashlights and other products, Kakuzi– focuses on developing forestry and macadamia nut
plantations, cultivating, packing, and selling avocados, pineapples, tea, and cattle farming. Kapchorua Tea Kenya– operations involve cultivation, manufacture and sale of tea, Kenya Orchards–company deals with Limuru Tea's operations include farming, manufacturing, selling, and marketing its teas. Similarly CMA (2021),Limuru Tea also distributes processed fruits, vegetables, and other food items locally and abroad, Mumias Sugar Co–manufactures and sells sugar, energy, and ethanol, Sameer Africa(wide range of products including but not limited to processing of agricultural products and tyres, Sasini–deals
withUngaGroupmanufacturesandmarketsawidevarietyofhumannutrition,animalnutrition,a ndanimalhealthpro ducts in addition to the manufacturing, processing, and marketing of tea and coffee and Williamson Tea Kenya–
operationsrangefromcultivation,manufactureanddistributionoftea(CMA,2021). Currently, the consumer goods sector's GDP contribution has increased over time declining trend, from 5.0% in 2017 to 4.1% in 2021 (Pauline *et al.,* 2023).

A research by Mauda and Saidu (2019) to evaluate the impact of tax incentives on the financial performance of listed consumer products businesses in Nigeria. Information for the research was acquired from the selected businesses publicly available annual reports and financial statements, in addition to tax-related submissions from the Federal In land Revenue Services and Investment Promotion Commission. Using multiple regressions and Pearson's correlation, the study assessed the impact of the tax incentive on the financial performance of the selected businesses. For purposes of calculating tax incentives, the total capital allowance (CAL), investment allowance (INVAL), endless relief incentives (LRI) awarded to the corporations were used. Capital allowance had a greater influence on the performance of the evaluated businesses than investment allowance, which had only modestly beneficial impact and loss relief showed significant positive outcomes. The study used information that affected financial performance of the sampled organizations.

Inordertoestablishtheinfluenceofcorporatetaxplanningonthefinancialperformanceoflistedco mpaniesinKenya, Thuita (2017) conducted a study. A checklist was employed to collect secondary information from NSE website, websites of individual companies, and NSE reports. It was established that capital investment allowances had a statistically noteworthy beneficial impact on return on assets. The study focused on capital allowance, debt, and tax law as the moderating variable comparing with current which focused on capital allowance incentive, investment in tax exempt incomes and moderating variable of firm size.

The government should increase several tax incentives, especially capital allowances, excise tax incentives, and custom duty incentives, per descriptive research by Ngure (2018) on tax incentives and the financial performance of sampled manufacturing enterprises in Kenya because their effects on these firms have not yet been felt to the same extent as those of corporate income tax incentives. The results demonstrated that
capital allowance incentives had a good and considerable impact on the performance of these industrial companies. In contrast to the current study, which concentrate noncapital allowance, investmentintaxexemptincomes, and tax compliance, the study's designs included custom duty incentives and excise tax incentives that mostly deal with imported items.

Using data from Nairobi County, Onyango (2015) sought to understand how tax incentives impacted the Profitability of five-
Star hotels. Statistical descriptive design was employed in the study. The population used in the study consisted of all
sevenFive-StarhotelsinNairobi County.AllsevenoftheFive-Starhotelsconducted censuses
using questionnaires. The study came to the additional conclusion that wear and tear allowances had a favourable financial impact on Nairobi County's five-star hotels. The current analysis was done on consumer

products companies instead of the seven-star hotels, which make up a minor percentage of the hospitality players in Nairobi County. The current study concentrated on tax planning using capital constructions, whereas this study concentrated on tax-exempt incomes, capital allowance incentive, and tax compliance.

Agundu and Ohaka (2013) investigated degree to which the capital allowance acted as a real enticing investment incentive for participants in the Nigerian manufacturing firms. Measures used to evaluate the
financial performance of the corporation were profit after tax(PAT), return on total assets (ROA), and return on shareholders' equity(ROE). On the Nigerian Stock Exchange(NSE),58 manufacturing companies' financial data was acquired in order to complete this research. The statistical outcomes of the process, including the connection and determination coefficients,

supported the power of capital allowance because it was closely associated to PAT, ROE and ROA. Professionally listing and profiling their ventures in admissible organization's properties in compliance with current levy guidelines was crucial for finance and accounting administrators in Nigerian industrial enterprises as a result of analytical findings, to qualify for capital allowance payments.

Olaleye *et al*. (2015) performed research on foreign direct investment and capital allowances in listed industrial firms in Nigeria. Primary objective of the research was to ascertain the impact of Capital Allowance on Foreign Direct Investment (FDI) in Nigeria's listed industrial enterprises. 74 listed manufacturing enterprises, which collectively employ more than 56,000 people, were the study's target group. Descriptive research methodology was employed. According to the research, tax authority should implement a policy allowing investors to roll over unused investment allowance to the following year in order to lower their tax liability. According to the correlation analysis, capital allowance incentives and foreign direct investment had a significant favourable linear association.

To determine the impact of capital allowances, tax holidays, export promotion incentives and Value Added Tax (VAT
) avoidance of the financial performance of Kenyan's local airlines, Chege (2020) conducted a study. The research employed a descriptive research design and a census as its primary data source. Information was gathered
from individual company's audited yearly financial records, which were available on the business 'website and library.
Data were gathered for the study during a five-year span, from 2014 to 2018. Inferential and descriptive statistics, for example standard deviation, mean, regression, and measures of changes, was employed to analyse data in the study. From the investigation, it was determined that Kenyan domestic aviation businesses' financial performance was directly impacted by capital allowances incentives.

Nkpolu (2018) looked at the connection between the capital allowance and net profit margin of listed agro-allied companies in Nigeria. Data was gathered using primary and secondary sources. The information was gathered and examined by use of Statistical Package for Social Science. To assess frequency of the research
variables, descriptive statistical methods
were specially used. The null hypotheses were put to the test using the Spearman's rank correlation coefficient. Regression analysis was used to evaluate the influence of explanatory variables on dependent variable. It was established that there was a direct and advantageous association amongst the effective capital allowance and net profit margin of publicly traded Nigerian agro-allied enterprises.

Njoroge (2021) undertook a study to find out how tax incentives, for example capital deductions, VAT incentives, and corporate income tax incentives, affect performance of EPZ companies in Mombasa County, Kenya. An explanatory research methodology and panel data covering the ten-year period 2010–2019 were employed in the study. By the Export Processing Zone Authority (EPZA) in Mombasa Country as of 2019,
there were 28 registered and permitted firms. Utilizing secondary EPZA data that was gathered and assessed using multiple regression on analysis, a correlation amongst specific tax incentives and the performance of EPZ companies as measured by net profit was established. Study's outcomes demonstrated that the capital deduction, the VAT incentive, and corporate income tax significantly and favourably affected the incentive performance of EPZs' business in Mombasa.

The impact of capital allowance on the financial results of quoted manufacturing enterprises in Kenya was the subject of a research by Nduati (2020). All nine of the manufacturing companies registered on the NSE were included in the population of the study, which employed a quantitative descriptive approach. Between 2010 and 2019, data was acquired using a standard information gathering method for each of the nine manufacturing companies listed on the NSE. Additionally, data from earlier economic statements and tax returns submitted to the KRA in the years 2010through 2019 were used. To find out the connection amongst capital allowances and financial success, data collected was assessed using a variety of regression models. The results of the investigation show that capital allowances improve the financial performance of manufacturing companies at the NSE.

The impact ofcapitalallowance on the expansion of listed manufacturing enterprises in Kenya was subject of a study conducted (Syuki,2019).Panel data regression model was estimated in the research.SPSS Version.24,

astatisticaltoolforsocialsciences,wasemployedforalloftheanalysis.Byusingtheanalysisofvariance(ANOVA)to determine availability of statistical significance amongst the noticed and predicted outcomes and the Pearson Chi-square to determine the level of importance of the relationships, the study questions were established. To ascertain the kind of link that existed amongst independent and dependent variables, multiple regression analysis models were employed in multivariate analysis. The research came to the conclusion that capital allowance incentives positively impacted the expansion of particular Kenya's manufacturing enterprises.

Gumo (2013) carried out research to determine how tax incentives affect Kenyan manufacturing companies 'performance. The research employed descriptive research design and was descriptive in nature.

Secondary sources was employed to collect information on tax advantages and foreign direct investment, such as the Kenya Revenue Authority. Data from the Kenya National Bureau of Statistics was acquired to add depth. The study also gathered primary data utilizing structured questionnaires in order to provide quantitative data. The study's outcome revealed that, Kenya provides a variety of tax incentives, that is,
capital investment deductions such as the Industrial Building Allowance(IBA) for domestic enterprises. Capital investment allowances were given on capital costs incurred during the building of an organization plant. Furthermore, Kenya offers a deduction on investments that is made on each ventures made.

Research conducted in Enugu state, Nigeria, by Eke *et al*. (2021) to determine how capital allowances Affected industrial firms there. Primary source of information was employed for this research, which used a survey
research methodology as its framework. The questionnaire was given to 45 employees of three accounting department
of three manufacturing enterprises in the Nigerian state of Enugu. With employment of SPSS, or the Statistical Package for Social Sciences, the study used the Z test statistical tool to examine its research hypotheses. Results of this study showed that annual allowances significantly affect the profitability of manufacturing firms in state of Enugu. Additionally, the research showed that starting allowance had no impact on efficiency in the state of Enugu of manufacturing companies.

In order to better understand how capital allowance incentives, affect EPZ enterprises' performance in Kenya, Kuria*et al.* (2018) performed research. Descriptive and explanatory research design was employed in the research. Given that there were 4 strata for the number of EPZ businesses in Kenya, the research's sample strategy was stratified. According to the Export Processing Zones Authority (EPZA), 86 registered EPZ firms in Kenya made up the total number of businesses used in the research. A census survey design
was employed for the investigation. Because of small scope of the population of interest, census survey was employed. The86 registered EPZs businesses comprised the study's sample size. Utilizing questionnaires, primary data was collected secondary information from the registered companies was gathered regarding ROA, the quantity and worth of new occupations, as well as how long the firms 'stays. The secondary data was gathered from the annual report of EPZ companies operating in Kenya.

Kuria *et al.'s* (2018) study evaluated the performance of EPZ businesses in comparison to tax incentives from which they had established for the last 10 years. For the purpose of information analysis, the research combined descriptive and inferential statistics. Frequencies, percentages, standard deviations and means, were among the descriptive statistics, but correlations and regression analysis were inferential statistics. At a 5% degree of significance, the research's findings showed that the capital allowance tax incentive had a significant with positive link in the performance of EPZ enterprises as evaluated by ROA, the number of jobs created, and length of stay. The research found that raising the capital allowance tax incentive brought about increases on the firms' ROA, as well as in the amount of occupations and how long the company operates.

The objectives of the study was to investigate the effect of capital allowance incentives on financial performance of listed consumer goods companies in Kenya**.** The null hypotheses was that there is no statistically significant relationship between capital allowance incentives and financial performance of listed consumer goods companies in Kenya.

METHODOLOGY

The study adopted descriptive research design since it facilitated in choosing and grouping of the components and features of object. The study covered all the 13 consumer goods companies listed at the Nairobi Securities Exchange(NSE). Census technique was used since the population was small. Data was collected using a checklist. Descriptive and Inferential statistics were used to analyse data. Simple and Multiple linear regression analyses were then conducted using SPSS software version 25.0 in order to address study objective. Assumption of linear regression model of normality, multicollinearity, multicollinearity and heteroscedasticity were tested before analyzing data.

RESULTSANDDISCUSSIONS

Diagnostic Tests Test for Normality

Shapiro-Wilk Test was used to test for normality (Aczel & Sounderpadian, 2002). The p-value of Shapiro Wilk Test was 0.972 which is greater than 0.05 (insignificant) hence a conclusion that the residual was normally distributed.

Autocorrelation

DurbinWatsonstatistic has a0to4range.DurbinWatson statistic below 2 usually indicate positive serial correlation while statistic above 2 usually indicates presence of negative serial correlation.1.5to2.5intheDurbinWatsonstatisticis considered appropriate to conclude absence of autocorrelation. The Durbin Watson statistic results was presented in Table 1.

Table 43: Durbin Watson Statistic

Variable	DW statistic
Capital allowance	1.739

Dependent variable: ROA Source: Author (2023)

Table 1 shows that Durbin Watson statistic for all the independent variables fell within the range of 1.5 to 2.5 which is the accepted range to conclude that there is no serial correlation.

Multicollinearity Test

Incidence and degree of multicollinearity if any was tested using Variance Inflation Factor(VIF). The VI value was
1.060
lessthan10 therefore, multicollinearity was absent. Multicollinearity may lead to wrong results due to its effect of
inflating the predictor variables (Cooper & Schindler 2003).

Heteroscedasticity Test

The Breusch-Pagan test was used to examine the null hypothesis that homoskedasticity characterizes the variance of the residuals. Table 2 displays the findings.

Table44: Heteroskedasticity Tests

	Tax Planning Test statistic	P Value	Total Assets Test statistic	P Value
Variables: fitted valuesofROA	6432.5	0.153	54.6	0.242

Source: Author(2023)

According to Table 2 there was no heteroscedasticity because the variance of the residuals was constant (p-value
>0.05). According to this, the data was homoscedastic, as it has a constant variance, and hence it was suitable for further
regression analysis.

Descriptive Statistics

Table 3

displays

		N	Min	Max	Mean	Std.Dev
Allowance(000000)	descriptive	65	0.001698	17,289,462.239994	678,689.1234574	2,659,844.6
ROA	resultspertaining to the variables.Table 45: Descriptive Statistics	65	-2.554	5.807	.07525	.836928

Source: Author (2023)

Thestudyanalyzeddatafor5yearsfromthe13firmswhichtranslatedto65observations.Themeancapitalallowance was678,689.1234574millionwhichimplythatconsumergoodscompaniesbenefitfromcapitalallowanceincentives. Mean ROA was 0.7525 ranging from -2.554 to 5.807.

Effect of Capital Allowance on Financial Performance

The research's objective was to ascertain the influence of capital allowances on financial performance. According to Table 4's findings, the capital allowance coefficient was (0.739, with a p-value of 0.0463 <0.05). This suggested that the alternative hypothesis had been accepted in place of the null hypothesis (capital allowance does not have substantial influence on financial performance). As a result, it was determined that capital allowance affects ROA statistically significantly. The results are presented in Table 4.

Table46: Effect of Tax Planning on Financial Performance

Variable	Coef.	Std.Err.	T	P>t
Cons	0.024	0.0808	2.97	0.0354

Capital allowance	0.739	0.2658	2.78	0.0463

Source: Author (2023)

Additionally, according to the positive coefficient (0.739) of the data, capital allowance has a favourable link with financial performance. According to this, an increase in capital allowance of1%wouldleadtoariseinROAof73.9 %, which would result in an improvement in overall financial performance. These findings support a study by Saidu etal. (2019) that revealed a positive and favourable influence of capital allowance on financial performance.

Capital allowance had favourable influence on financial performance, according to(Thuita,2017).Onyango(2015), however, found that there was an adverse association between ID, IBD, and the financial performance of five-star hotels in Nairobi County. Similarly, this results contradict those of Mauda and Saidu, (2019) who found that it also showed that, not all incentives are directly related to improving the productivity of the consumer goods companies.

DISCUSSION

The study's goal was to ascertain the financial impact of capital allowances on Kenya's publicly traded consumer goods companies. The results show that ROA's measurement of financial success has a statistically significant relationship with capital allowance. A positive association between capital allowance and financial performance was also found in the research.

CONCLUSION

Capitalallowancehasafavorablemajorimpactonlistedconsumergoodscompanies'financial performance.

RECOMMENDATION

The study suggests that businesses should raise their qualifying fixed assets in order to boost their financial performance and qualify for capital allowance incentives. To increase financial performance, businesses should take use of their asset efficiency.

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