

## **ABSTRACT**

This study was meant to establish whether accounting variables can be used in explaining the profitability and stock returns of sample companies that are also listed at the NSE.

Financial reports were obtained from the CMA library for the years 2006 to 2012, the share respective share prices were obtained from the Nairobi Securities Exchange. From the data extracted, various analysis and tests were conducted in order to fulfill the objectives of the study.

With regard to the first objective of establishing the relationship between the accounting variables and profitability, the results showed that accounting variables do indeed explain the profitability of the firms under study. This is consistent with prior studies which have concluded that the accounting information and variables can be used to predict profitability of firms.

In respect to the second objective of establishing the relationship between the accounting variables and stock returns, the study found no relationship between accounting variables and stock returns.

This is consistent with the Efficient Market Hypothesis (EMH) theory of the semi strong which states that publicly available information of any nature is already reflected in share prices. The study also supports prior studies that have shown that NSE exhibits characteristics of Semi Strong Market Efficiency.