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EFFECT OF ACCOUNTING MEASUREMENTS ON THE VALUE RELEVANCE OF FINANCIAL STATEMENTS OF LISTED COMPANIES IN NIGERIA

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ABSTRACT
This study interrogate the effect of accounting measurements on the value significance of financial statements of listed companies in Nigeria. Specifically, the research intended to investigate how fair value and historical cost accounting affect value significance of financial reports. Using a cross-sectional data of 20 selected listed companies drawn from both the financial sector and non-financial sector of the Nigerian Exchange Group for the period 2013 – 2022, and analyzing the data gotten from their yearly reports and other relevant secondary sources, via Panel Estimated generalized least squares, results indicated that there is an affirmative and substantial effect of earnings per share (which served as proxy of fair value measurement) and book value per share (which represented historical cost measurement on market value per share (which was the measure of value significance of financial statement used). Legislators should therefore enact strict regulations that will improve the value and relevance of financial reports in order to increase accountability and responsibility in the development and implementation of accounting standards, which will bolster investor trust.

KEYWORDS: *Fair value accounting, Historical cost accounting, value relevance.*

INTRODUCTION

In general, the goal of financial reporting is to guarantee that the financial reports are helpful for making decisions and that they are accountable for doing so. The accrual and cash bases are the two main methods of accounting for achieving this goal. Similar to this, there are a number of accounting metrics for financial reporting, such as fair value accounting (FVA) and historical cost accounting (HCA). For centuries, accountants have used the HCA, which has been methodically defined as the crucial foundation for determining, recording, and communicating the company's economic and related operations (Abdullahi & Ma'aji, 2017). Consequently, financial reports produced in line with HCA's generally accepted accounting principles require that the majority of assets and liabilities be valued and reported at the time of purchase. In order to accurately document and disclose the financial performance of a company, it has become imperative to consider a range of technical obstacles. Nevertheless, there has been a recent contention that the evolving economy, especially in the high-tech sector, has diminished the relevance and utility of HCA in guiding user decision-making. As a result, there have been significant calls for companies to adopt a more modern measurement approach in their reporting process (Osazevbaru, 2020). But there are two schools of thought that, particularly when it comes to financial accounts, have distinct hypotheses on whether one measuring technique is more relevant than the other.

According to Adwan et al. (2020), there are two schools of thought: the first believes that earnings have greater value relevance than the book value of equity, while the second school holds that the book value of equity has greater value relevance than profits. In support of this viewpoint, Mashoka (2022) notes that financial firms, that is, businesses that concentrate on delivering financial services and own significant amounts of investments and financial assets, depend on fair value assessments for their assets, which means they are more driven by profits. As a result, they base their assessment of profits' relevance on the use of fair value measurement. However, since they make significant investments in real estate and equipment, non-financial firms, that is, businesses that produce, sell, or provide non-financial services like lodging, education, and transportation, rely on historical cost accounting to determine their asset value. They believe that the book value of equity is more valuable than profits because they base their measuring methodology on historical cost accounting. That raises the issue, therefore, of what value relevance is and how value is measured in accounting statistics (Akadakpo & Mgbame, 2018).

Value relevance, according to Akadakpo and Mgbame (2018), is concerned with how valuable financial statement data is for equity valuation. It addresses the measurement accuracy of accounting data as well as the data that is used to forecast value characteristics. Therefore, the capacity of financial report data to collect that influences equity value may be used to ascertain the value and significance of such information. They go on to say that although value relevance and quality of accounting data are not the same thing, the value significance idea is one of the key components of high-quality accounting information. According to Tahat et al. (2021), research on the value and significance of financial reports is motivated by the fact that financial statements are a primary means of communication for listed firms with their equity shareholders and the public. For example, in Nigeria, the directors of all firms quoted are required under the companies and allied matters act and its later revisions to compile and publish the financial statements on a yearly basis.

The relative crucial role of measurements in assessing the value significance of financial reports in Nigerian companies notwithstanding, there has been very little or nothing done in that regard whether in Nigeria or in developed economies, to the best of the knowledge of this researcher. It is imperative to point out that the bulk of research on value significance and financial statements has been conducted in industrialised countries, where financial statements are disclosed at the conclusion of the fiscal year, while there is a dearth of literature on the relationship accounting measurements have on value significance of financial reports in Nigeria, in particular and the world at large. This study therefore is concerned with the Nigerian situation with respect to accounting measurements (particularly historical cost measurement and fair value measurement) and to establish if indeed there is an association among accounting measurements and value significance of financial reports of corporations registered on the Nigerian Exchange Group. Specifically, however this study intends to interrogate: the association among historical cost measurement and market value; and the association among fair value measurement and market value of corporations quoted. It is on the basis of these specific objectives that hypotheses are formulated and tested subsequently.

1. LITERATURE REVIEW

Conceptual Review

Concept of Value Relevance

The phrase "value relevance" has been described in different ways. Francis and Schipper (1999), cited in Mashoka (2022), defined value significance as the capacity of accounting data to condense any information that affects stock prices. Its focus is on providing investors with an informed summary of accounting data that influences stock prices. Value relevance is the capacity of accounting data to help investors make wise choices, according to Abdullahi and Ma'aji (2017). Value relevance, according to Palea (2019), is a sign of the reliability and applicability of accounting data. A positive association among market and book values frequently demonstrates this, which may indicate how useful accounting data is for investors' decision-making processes. According to Abuaja and Ukpong (2022), value relevance may be defined as the financial statements' accounting numbers' capacity to explain stock market measurements. Accounting figures like earnings, book value, dividend, retained earnings are seen to be value relevant if they are significantly related to share price or abnormal return.

According to Mashoka (2022), there are four distinct perspectives that contribute to fully understanding value relevance in different aspects. The first perspective is the fundamental view of the value significance, which emphasises the use of accounting data in valuing equities. This approach involves finding a firm’s value without using its share price on the stock market. Second is the prediction view of the value significance, which emphasizes relevant variables that need to be used for valuation purposes and focuses on how to predict relevant variables.

Thirdly, the stock market is deemed to be efficient when statistical correlations are used to determine whether investors depend on the accounting information when making investment decisions. It is theorised that accounting information is useful if it changes investor expectations about future cash flows from the company, which in turn affects the stock price. The last perspective is the measurement view of the value relevance. Under this view, accounting measures are considered to be of relevance if they encapsulate information that has an influence on the share price of a firm (Mashoka, 2022).

Fair Value Accounting and Value Relevance of Financial Statements

The prediction capacity of fair value is one way that its usefulness to consumers has been assessed, according to a study of fair value information literature by Akadakpo and Mgbame (2018). Research by Fodio and Salauden (2012) showed that fair value information outperforms HCA information in predicting the object of interest (bankruptcy, takeover, etc.). A further method of assessing the significance is by observing how the stock market responds, with share prices fluctuating in response to the availability of market-driven inflation-adjusted information. These are evaluated according to the Capital Asset Pricing Model's (CAPM) theory's relative information content. Accounting's main objective is to make making choices easier. The effectiveness of inflation-adjusted accounting in achieving this goal has been the subject of numerous research studies, the majority of which conclude that it aids in decision-making (Akadakpo & Mgbame, 2018).

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The essential goal of any variation of the inflation-adjusted accounting system is to provide the most recent value for the assets shown in the balance sheet at inception and to avoid unintentional capital loss. In these comments, money is employed as a measure of many things. Capital upkeep is another issue that is resolved in both statements. According to Abdullahi and Ma'aji (2017), depending on the kind of capital one desires to keep, an income measure is a derivable after capital is maintained. Additionally, it is important to note that capital cannot be preserved unless assets are accurately and promptly valued in the financial statement. There is nonetheless disagreement over which kind of capital—financial or operating or physical—one should preserve. As per the (IASB, 2008), the kind of capital to be maintained should be determined by the requirements of the people who will be using the financial statements.

Theoretical Review

The Ohlson clean surplus theory, serves as the foundation for this investigation. This theory was developed by J. A. Ohlson (1995) in his research paper "Earnings, Book Value and Dividends in Security Valuation" developed a valuation model. The Ohlson (1995) estimates a firm's worth by taking into account its book value of assets, profits, and a variety of other data points. The model applies a mix of the book value of assets technique and the discounted cash flow methodology in the context of fundamental research. This is accomplished via the model, which adds abnormal profits to the book value of assets in recognition that any more future earnings will increase the company's worth and use the assets book value as a stand-in for the regular earnings section of the company. The value of accounting to specific customers was the focus of capital market research in accounting throughout the 1960s. The proven relationship between accounting information and security market price may be shown, notwithstanding the challenges involved in performing trials to evaluate the implications. Their research, nonetheless, was based on then-current ideas of financial markets. Even though many econometric techniques were used in subsequent studies, the tests' underlying theory remained incomplete.

Numerous empirical studies have been conducted using the model to compare the income statement components and the balance sheet in terms of valuation significance. In his seminal work, Ohlson (1995) constructs an intricate residual income valuation framework that incorporates future profits, book values, and dividends. This model, which draws inspiration from the dividend discount model, serves as a foundation for his analysis. This study is expanded upon by Feltham and Ohlson (1995, 1996), who emphasise the consequences of biassed accounting for net operating assets. Since then, a large number of empirical studies evaluating and expanding these theories in many contexts have been published.

The Ohlson (1995) model has been more popular in value significance research because it incorporates both of the financial reports' bottom line items, total profit and net total assets, into the valuation process by employing the clean surplus relation. As a result, the approach lends the financial statements legitimacy as being related to value (Akadakpo & Mgbame, 2018).

Empirical Review

Mashoka (2022) set out to investigate the financial statement's significance. In particular, this study explored the relative significance of profits and the book value of equity for companies that rely increasingly heavily on fair-value accounting. All listed companies on the Amman Stock Exchange, which are divided into two primary categories: financial and non-financial, comprised the study's sample. The findings demonstrated that, for financial organisations, the statement of financial position has a greater value significance than the income statement. The findings also demonstrated that companies with fewer financial assets have income statements that are more relevant and rely more heavily on historical accounting. The findings showed that a company's reliance on fair-value accounting increases with the amount of financial assets; as a consequence, investors find the balance sheet to be more valuable than the income statement.

Research by Akadakpo and Mgbame (2018) examined the effect of promptness on the value and significance of accounting information utilizing data from 17 firms that were listed between 2011 and 2014 on the Nigerian Stock Exchange. Using the panel data, the gathered data was analysed. The study's conclusions showed that market value is substantially impacted by the book value of assets, negatively and non-significantly impacted by dividends, negatively and non-significantly impacted by cash flow, and positively and significantly impacted by earnings per share. The research came to the conclusion that legislators need to enact strict regulations that would enhance the value and significance of accounting data.

The study by Karunarathne and Rajapakse (2010) delved into the complex relationship between the size of an enterprise and the significance of cash flow and profitability as determinants of stock prices. The authors found that the price model demonstrated a greater degree of explanatory capacity for earnings per share compared to the return model. This conclusion was drawn after employing both models to evaluate the value and significance of accounting information.

In a contrasting vein, the scholarly work of Belesis and Sorrs (2010) unearthed a noteworthy correlation between book values and profits, positing that these two metrics possess comparable significance and could potentially elucidate the fluctuations observed in share prices. The task of extrapolating the research's findings solely to the banking, finance, and insurance sectors presents a challenge, as the data encompasses a comprehensive range of businesses. This presents a significant constraint.

In a scholarly empirical study, Abubakar (2010) conducted an investigation into the accounting information pertaining to new economy firms that are publicly listed in Nigeria. The key goal of this research was to ascertain the level of significance and value associated with such information, employing the widely recognised Ohlson model as the analytical framework. The purpose of the study was to establish the degree to which book value and earnings per share influence the valuation of a corporation's stock. According to the research findings, individuals seeking accounting data may find limited utility in the context of Nigerian organisations. These enterprises can be classified as telecommunication, media, and technology (TMT) firms operating within the new economic paradigm. It is worth noting that a significant portion of their assets are intangible in nature and are not explicitly reflected in the financial reporting.

The value and applicability of accounting information in the Nigerian corporate landscape were the subjects of Abiodun's (2012) study. This investigation employed logarithmic regression models alongside fundamental descriptive statistics as the analytical tools of choice. The aforementioned study, conducted over the course of a decade spanning from 1999 to 2009, employed a sample size comprising forty distinct companies hailing from diverse sectors within the Nigerian economy. Upon careful examination of the data, it becomes evident that the financial gains derived from a company's operations hold a more significant influence on its overall worth when compared to its book values. This suggests that in Nigeria, data from the balance sheet (which shows book values) is not as important as data from the income statement (which shows profits).

Rahman's groundbreaking work from 2012 does a thorough study of how book value of equity and profits affect price and return models for a small group of Jordanian industrial firms from 1992 to 2002. The study looks at both profits and the book value of equity separately and together. From this research, we have derived two primary conclusions. In light of the pricing model, it is noteworthy that the book value and earnings have exhibited individual increments in their respective values. However, it is rather intriguing that their collective worth has experienced a decline. In addition, the above-mentioned return model shows a clear drop in book value along with a noticeable rise in the importance of profits, both individually and as a whole, as a way of understanding and assigning value. In a broader context, the empirical evidence suggests that the explanatory control of earnings surpasses that of book value in elucidating the fluctuations observed in share price and return. The findings further elucidate that, within the framework of the pricing model, the importance of earnings and book value is heightened when considered in isolation from each other. Conversely, the efficacy of the return model is contingent upon the collective influence of these variables. According to the empirical analysis conducted, it can be inferred that the market valuation of industrial enterprises in Jordan is more aptly characterised by their profitability. The integration of pricing and return models within a singular study represents a pioneering endeavour in the context of Jordan, as evidenced by this particular body of work.

Methodology

This research employed the ex-post facto design because the data necessary for the research are historic in nature in that they were obtained from annual reports and other secondary sources. The population of the research consist of 20 registered corporations on the Nigerian Exchange Group. The 20 companies consisted of 10 companies from the financial service sector and 10 companies from the non-financial service sector. This population size equally represented the sample size. The annual reports (which served as secondary data) for a 10-year period between 2013 and 2022. The research used panel data as its primary data source. The integration of time series with cross-sectional data allows for the augmentation of data quality and quantity beyond the limitations imposed by each dimension in isolation.

Model Specification

The model used in this research is formulated with careful consideration of the distinctive features of the business climate in Nigeria. The research focuses on the share price as the dependent variable, with the independent variables being earnings per share (EPS), which serves as a measure of fair value accounting, and book value per share, which represents the dimension of historical cost accounting. The econometric formulation of the two models is stated as follows:

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MVit = EPS + BV

MVit = EPSit + BVPSit + it

Where:
MVit = Market value for firm,
EPSit = Earnings per share
BVPSit = Book value per share,
Stochastic term, i = Number of sampled cross-sectional firms,
t = Time period of the sampled companies (2013-2022)

2. RESULTS AND DISCUSSION OF FINDINGS

Descriptive Statistics

Table 1: Descriptive Statistics

	EPS	BVPS	MV
Mean	137799051	4.31E+082	83.506324
Median	179259672	1.19E+081	9.575
Maximum	987000000	2.12E+093	1200
Minimum	-8.19E+084	1002900	1.27
Std. Dev.	1.07E+081	5.92E+081	212.8918
Jarque-Bera	8355.7654	25.66446	817.6414
Probability	0.000	0.000003	0.000
Observations	200	200	200

Based on the descriptive statistics shown in Table 1, it can be noted that the variable EPS has a mean value of 13,779,905. The upper and lower bounds were recorded as 98,700,000 and -8.19e-084, correspondingly. The observed Std. Dev., which is 1.07E+08, indicates a substantial degree of dispersion in earnings values across the sample firms relative to the mean. The data shown in the table indicates that the average value for the book value per share (BVPS) was 4.31e+08, with a Std. Dev. of 5.92e+081. The highest recorded value was 2.12e+09, while the lowest value observed was 1002900.

The average value for MV is 83.506324, with a Std. Dev. of 212.8918. The highest recorded value is 1200, while the lowest recorded value is 1.27. The Jacque-Bera statistics, together with their corresponding p-values, all indicate values < 0.05, which implies a probable lack of outliers within the distribution.

Table 2: Results of the Regression analysis

Variable	**Fixed effects Estimation (FE)**	**Random effects Estimation (RE)**	**Cross e**	**-section effects**
C	81.752 {0.779} (0.000)	92.769 {28.608} (0.002)	1= 2= 3=	-75.99427 -15.56683 163.4779
EPS	0.0000000127 {1.716} (0.003)	0.0000000661 {1.30E-07} (0.613)	4= 5= 6= 7=	-79.04415 62.76967 756.8214 -50.25358
BVPS	4.50E-09 {7.70E-10} (0.000)	-2.05E-08 {4.70E-08} (0.665)	8= 9= 10= 11= 12=	-62.87278 -78.81109 77.53464 -70.47707 68.86102
R^2	0.962	0.083	13=	-81.52441
Adjusted R^2	0.947	0.023	14= 15=	-79.35142 -79.75667
D.W	2.018	1.19	16=	-82.61318
Mean of Dep.Var	292.679	83.506	17= 18=	-80.40791 83.53764

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				19= 20=	-80.25510 -81.41637
S.E of Regression	72.663		82.190		
F-stat	60.993 (0.000)		0.786 (0.602)		
	Regression Diagnostics				
LM TEST	0.318		0.412		
Ramsey reset	0.421		0.954		
ARCH	0.290		0.410		
	Identification test				
Hausman test	0.043				

Table 2 presents the outcomes of the panel-estimated generalised least squares (EGLS) regression analysis. The fixed effects estimation was undertaken in order to demonstrate the inherent value significance of financial statements. Upon careful observation, it is evident that the R^2 stands at an impressive value of 0.962. This implies that the fixed effects model is successful in elucidating approximately 96% of the systematic fluctuations in the dependent variable. Furthermore, the adjusted R^2 value of 0.947 further solidifies the model's efficacy in accounting for these variations after considering the number of predictors involved. The statistical analysis reveals that the F-statistic, with a value of 60.993 and a p-value of 0.00, provides evidence that supports the hypothesis of a substantial linear association among the dependent and independent variables.

This finding remains valid even at a significance level of 5%. Furthermore, the Durbin-Watson statistic, with a value of 2.018, indicates that there is little likelihood of serial correlation among the residuals within the model. Upon careful examination of the explanatory variables, it has been duly noted that earnings per share (EPS) exhibit a positive coefficient of 1.27e-08, signifying its influence on the market value. Furthermore, this effect has been deemed substantial with a p-value of 0.003, thereby establishing its credibility at a 5% level of significance. The book value per share exhibits a noteworthy and statistically substantial influence on the market value, as indicated by a positive coefficient of 4.50e-09 and a p-value of 0.000, which surpasses the conventional threshold of 5%.

The analysis also encompassed the application of random effects estimation, yielding outcomes that indicate an R2 value of 0.083. This finding implies that the random effects model accounts for approximately 8.3% of the systematic fluctuations observed in the dependent variable, with an adjusted value of 0.023. The F-statistic (0.786) and p-value (0.602) provide evidence to reject the null hypothesis that there is a significant linear association among the dependent and independent variables at a significance level of 5%. Additionally, the Durbin-Watson statistic of 1.19 suggests that there is no first-order autocorrelation present within the error term of the model. Upon careful examination of the explanatory variables, it has been duly noted that the earnings per share (EPS) exhibits a negative coefficient (-6.16e-08) in relation to the market value. However, a p-value of 0.613 at a confidence level of 5% indicates that this effect is not considered to be significant. The book value per share (BVPS) exhibits a noteworthy and adverse impact, with a negative coefficient of -2.050e-08, on the market value. A p-value of 0.665 at a 5% level of significance indicates that this effect is statistically significant. Based on the utilisation of Hausman's Chi-square statistics, specifically the identification test, with a value of 0.032, it can be concluded that the fixed effects result is deemed reliable and has been employed in the present study.

The diagnostic tests conducted on the regression outcomes reveal a lack of heteroskedasticity in the model. As a precautionary measure, the residuals were subjected to the Breusch-Pagan-Godfrey test. The obtained results indicate probabilities surpassing the threshold of 0.05. This forces us to reject the idea that the residuals are heteroskedastic. This means that the estimates are bias-free since we can state with confidence that the residuals' uniform variance is true. Rejecting the null hypothesis, the LM test for high-order autocorrelation shows that autocorrelation is statistically significant in the residuals. Consequently, the regression estimates can be considered unbiased, as the associated probabilities exceed the conventional threshold of 0.05. The Ramsey RESET test was conducted with the aim of ascertaining the presence of potential specification errors. The findings indicated a notable likelihood, with probability values surpassing the threshold of 0.05, thereby suggesting a lack of substantial evidence supporting the presence of misspecification.

The utilisation of cross-sectional effects dummy variables pertaining to individual effects implies that in the absence of explanatory variables, the market value of fourteen out of the twenty firms in the sample would exhibit a downward trajectory, while only six would demonstrate a positive market value. The outcomes align with the discoveries of Fodio and Salauden (2012) as well as Akadakpo and Mgbanme (2018).

Discussion of Findings

The panel estimated generalised least squares (EGLS) regression findings are shown in Table 2. The fixed effects estimate was used to show the value significance of the financial statements. The F-statistic (60.993) and p-value (0.00) support the hypothesis that there is a substantial linear association among the dependent and independent variables, and they cannot be rejected at the 5% level. Upon analysing the explanatory variables, it was shown that EPS positively (1.27e-08) and significantly (p = 0.003) impacted market value at the 5% level. BVPS affects market value in a significant (p = 0.000) and favourable (4.50e-09) way at the 5% level.

The F-statistic (0.786) and p-value (0.602) rule out the hypothesis that there is a substantial linear association among the dependent and independent variables at the 5% level. When the explanatory factors were evaluated, it was found that, at the 5% level, EPS had a substantial (p = 0.613) negative impact on market value (-6.16e-08). Additionally, at the 5% level, BVPS has a substantial (p = 0.665) negative influence on market value (-2.050e-08). Consequently, we draw the conclusion that the market value per share of the firms under investigation is positively and significantly impacted by both book value per share and profits per share. The findings align with the research conducted by Fodio and Salauden (2012) as well as Akadakpo and Mgbanme (2018).

3. CONCLUSION AND RECOMMENDATIONS

Examining the influence of historical cost and fair value accounting on the value significance of quoted companies in Nigeria was the aim of the study. The results of the analysis showed that, at a 5% level, market value is positively and significantly impacted by earnings per share and book value per share. Financial reporting, which is a crucial component of transparency, aids investor decision-making. This suggests the ability of accounting information to influence investors' judgements.

Due to the significance and use of accounting data, market efficiency has been the main area of study for over 40 years. To put it another way, for the past forty years or so, the focus of accounting research, particularly capital market-based research, has been on evaluating the accounting figures' content to ascertain whether or not accounting data (obtained from financial statements) is valuable and helpful in explaining changes in share prices. The results of this research lead us to propose that because financial organisations depend more on fair-value accounting due to their larger holdings of financial assets and investments, while non-financial firms, which invest heavily on fixed assets, rely more on historical cost accounting, and both approaches to accounting measurement have an affirmative and substantial consequence on the value significance of financial reports of companies, companies should be encouraged to continue to use them as they deem fit.

However, accounting regulatory bodies should make it mandatory that companies should consistently apply their chosen method for a period of at least five years, in line with the consistency concept of accounting, and disclosure to that effect be made in their financial statements. In addition, policymakers should enact rigorous regulations supported by law to improve the value significance of financial reports. The execution of enhanced accountability and responsibility in the development and implementation of accounting standards is expected to bolster investors' trust in the Nigerian stock market.

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