Advances in Research

16(1): 1-8, 2018; Article no.AIR.42794
ISSN: 2348-0394, NLM ID: 101666096

Value Relevance of Accounting Information in Nigerian Listed Financial Companies

Adebimpe O. Umoren[1*], Paul W. Akpan[1] and Ebi V. Ekeria[1]

[1]Department of Accounting, Faculty of Business Administration, University of Uyo, Nigeria.

Authors' contributions

This work was carried out in collaboration between all authors. Authors PWA and EVE designed the study, performed the statistical analysis and wrote the first draft of the manuscript. Author AOU managed the manuscript, read and amended the first draft of the manuscript. All authors read and approved the final manuscript.

Article Information

DOI: 10.9734/AIR/2018/42794
Editor(s):
(1) Dr. Laura Corazza, Department of Management, University of Turin, Italy.
Reviewers:
(1) R. Shenbagavalli, India.
(2) Hussin Jose Hejase, Al Maaref University, Lebanon.
Complete Peer review History: http://www.sciencedomain.org/review-history/25845

Original Research Article

Received 15th May 2018
Accepted 23rd July 2018
Published 10th August 2018

ABSTRACT

This paper investigates the value relevance of accounting information (book value and earnings) on the market price of shares before and after the adoption of the International Financial Reporting Standards (IFRS) in Nigeria. It also examines whether the relevance of accounting information in Nigerian financial companies has decreased or increased over time. It used a judgemental sample of 10 quoted Nigerian Banks for 10 years (2007 – 2016) and the ordinary least square (OLS) regression. The result of the data analysis showed insignificant relationship between book value per share (BVS) and market price per share (MPS) as well as insignificant relationship between earnings per share (EPS) and market price per share (MPS) before (P=0.57 and 0.59 respectively) and after (P=0.76 and 0.54 respectively) the adoption of IFRS in Nigeria. A comparison of the results for the periods before and after adoption, indicates that the book value per share and earnings per share of banks are not more sensitive to share prices under IFRS than under the previous Nigerian SAS. It is recommended that concerted effort is required from the regulatory authorities to ensure full compliance with the IFRS.

**Corresponding author: E-mail: bimpeumoren@yahoo.com;*

Keywords: Value relevance; accounting information; Nigerian listed financial companies; international financial reporting standards.

1. INTRODUCTION

The most important source of external accounting information of any company is the financial statement. This information includes among others equity book values and earnings which ultimately contribute to the market price of shares. Despite the widespread use of financial statement and the confidence reposed on it by external auditors, the concern has been that accounting practice is yet to meet up with fast economic and technological developments which eventually affect the value relevance of accounting information. The International Accounting Standard Board (IASB) [1], in their conceptual framework stated that accounting information is only relevant if it can influence economic decision of users by enabling them to evaluate past, present, future events or confirming or correcting previous evaluations. The financial accounting standard board (FASB) [2] in their qualitative characteristics of accounting information stated that "relevant accounting information must be capable of making a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct expectations," as well as define and explain event and outcome. Accounting information has been one of the indispensable features of the financial statement which have influenced companies' performance for a long time. According to Watts [3] accounting information has been dominating accounting and financial statements since the early twentieth century when ownership was separated from the management of business enterprises.

Accounting information is important in the sense that managers have the discretion of expressing governance principles that enable interested managers to credibly convey their private, value-relevant information to market investors. Barth, Beaver & L.andsman [4] summarized value relevance as the ability of financial statement information to capture or summarize the information that affects share values. Hence, accounting information can provide value relevant private information that could not be accessed externally anywhere. When there is no relationship between firm value and numbers in the financial statement, such statement has no value relevance. Value relevance accounting information expresses a relationship between the stock market values and accounting numbers.

Nigeria has launched itself into the world financial market with the existent of its stock exchange and the establishment of Financial Reporting Council of Nigeria for the adoption of the International accounting standard. On 28 July 2010, Federal Executive Council of Nigeria approved 1 January 2012 as effective adoption date of International Financial Reporting Standards (IFRS) in three phases Nigerian listed companies and significant public interest entities (“PIEs”) were required to comply with IFRS for periods ending after 1 January 2012. Other PIEs were required to comply for periods ending after 1 January 2013 and small and medium sized entities were required to comply for periods ending after 1 January 2014. This reform was expected to improve the value relevance of accounting information in Nigeria. Since the commencement of the IFRS in Nigeria, the Central Bank of Nigeria (CBN) had taken steps to integrate the banking system into global best practice in financial reporting in order to enhance market discipline and reduce uncertainties. Despite these efforts, a crucial gap in the literature still remains. Studies have been conducted in Nigeria to ascertain the value relevance of accounting information (Abiodun [5]; Okafor & Odia [6]; Oyerinde [7]; Umoren & Enang [8]; and Omokhudo & Otakefe [9]). The question as to whether the relevance of accounting information has increased or decreased over time is yet to have an answer. Above all, there has been no effort to examine value relevance of accounting information among Nigerian listed companies before and after the adoption of International accounting standard in Nigeria.

Consequently, this study aims at investigating the value relevance of accounting information (book value and earnings) on the market price of shares before and after the adoption of the international accounting standard in Nigeria. Specifically, it seeks to ascertain if the relevance of accounting information in Nigerian financial companies has decreased or increased. The Nigerian financial companies are used in this study. This is because it is a highly regulated sector with a network of branches within and outside Nigeria.

2. LITERATURE REVIEW

Agency theory gives explanations on the relationship between owners and managers (Jensen & Meckling [10]). It is a known assumption that owners always seek to maximise profit or wealth. Managers may have interests such as good compensations, preference for the expense, building empire etc. Thomsen & Pedersen [11] say that during diversification strategy, top managers usually have personal interests in products as well as geographical diversification at the corporate level as a result of employment risk aversion, preference in expense etc. Consequently, when ownership gets concentrated, it might lead to counteracting corporate diversification thereby increasing shareholders value. Also, ownership concentration is one of the requirements to influence the manager's activities. From the studies of Thomsen & Pedersen [11], managers do not always make decisions that maximise shareholders value. The study of value relevance would assist the owners to understand the activities of managers as explained by agency theory.

The conceptual framework for preparing and presenting financial statement states that when accounting information influences the economic decisions of users in enabling them to evaluate past, present or future events or confirming or correcting previous or past evaluations, such accounting information is seen as relevant. The Financial Accounting Standard Board [2] when addressing the Qualitative characteristics of accounting information says that: "relevant accounting information must be capable of making a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct expectations," as well as define and explain event and outcome. These definitions are quite similar. Francis & Schipper [12] emphasized that the only difference is whether information must influence decisions or it is able to influence decisions. According to IASB [1] framework, the relevance of information is affected by faithful representation noting that faithful representation provides the origin of relevance point rather than being primary qualitative characteristics. Where the financial statement information does not faithfully represent summaries of economic event that took place in the company, it lacks relevance. (FASB) [2] concepts statement characterizes faithful representation as the origin but discusses it separately from relevance. The IASB [1] in its conceptual framework considers timeliness as a necessary constraint lest information would lose its relevance. Information is seen as lacking value for future actions when it is not available as at the time it is required. Such information is seen as lacking relevance and has little or no use. The conceptual framework also accepts reliability as supportive characteristics of relevance. However, if the information is not trusted and capable of being adequate for a user to rely upon in decision making such has no relevance.

Corporate finance deals with three value concepts: economic value, market value, and accounting value (Runsten [13]). These concepts are very important because first; Economic value concept of an asset affect the future cash flows of an asset that is discounted to its present value. Secondly; Market value signifies the valuation of a firm in the stock market and is based on stock market trading and investors confident. The stock price is the product of the market valuation and it serves as an indicator of the market's expectations about the future success or otherwise of the firm. Thirdly, Accounting value refers to a company's valuation and measurement procedures for economic events that correspond to accounting regulations and law. It brings up a description of the firm in attempting to measure and describe its performance and financial position. The book value of equity could be the product of accounting value found in the statement of financial position. The various concepts of value relate significantly to accounting. The essence of this information is in providing information about the financial position of companies, the performance of companies and also ensuring the value relevance of such information. Information is often assumed to be the basis upon which investors' confidence and expectations about market valuation are formed. If accounting provides a poor description of the firm, the value relevance of such information will likely be low. Accounting information conveying a good description of the firm's value results in bringing a close relationship between equity book value and market value. Runsten [13] argued that value concept can coincide in as much as strong assumptions are available. In practice, this might not be realistic. Rather than separate value systems generating identical descriptions, one type of description may in practice facilitate the functioning of another. This is why the output of accounting procedure may, for example, be used as input in the pricing procedure (Barth et al. [4]; Runsten [13]).

According to Beaver & Ryan [14], value relevance research requires an in-depth knowledge of accounting regulatory framework. They argued that differences in accounting regulatory framework between countries favour research based on the knowledge of accounting regulatory framework that is obtainable in such countries rather than doing a comparative study where the researcher has a limited understanding of the accounting regulatory framework of all countries researched. According to Holthauser & Watts [15], there are significant differences in the value relevance of harmonized and non-harmonized accounting countries. He argued that the value relevance of accounting information is also affected by choices of content. Gjerde et al. [16] investigated the value relevance of financial reporting in Norway between 1965 and 2004 to discover if the value relevance of such report has been increased by the work of legislators and standard setters. Their main findings are that the overall value relevance attributed to accounting quality has increased significantly over the period, which they confirm that public regulatory efforts have been successful at achieving more relevant financial reporting over time. They especially pointed out the positive effect on the value relevance of the Accounting Act 1998 as the overall value relevance increased in the period 1999 to 2004 after this law was enacted.

Financial reports primary purpose is to enable investors to make investment decisions from relevant accounting information. Beisland [17] defines value relevance as the ability of financial statement information to capture and summarize information that determines firms value. It is the extent to which accounting information summarizes the companies' information that is included in share values. The value relevance literature is both expansive and diverse; the various studies of value relevance is different on several platforms. These platforms range from the perspective on accounting, market assumptions underlying prior studies to research methods employed in the studies. In this context, accounting information is crucial, as existing literature has demonstrated that accounting information is related to value, and by extension, relevance (Ball & Brown [18]; Brimble,& Hodgson [19]). This approach of value relevance measures both relevance and reliability because the price reflects accounting information [4]. However, value relevance approach is an instrument to estimate the relevance quality of accounting information, which is of primary importance to shareholders' decision making. Beuselinck [20] confirms that the purpose of presenting accounting information is to facilitate decision making.

Ohlson [21] explained that Market value per share is related to book value per share and earnings per share. Overall book value is value relevant in determining market value or stock prices. Khanagha [22] examined the value relevance of accounting information in pre and post- periods of International Financial Reporting Standards (IFRS) implementation using a sample of the United Arab Emirates (UAE) companies. The results revealed that accounting information has value relevance in UAE stock market. A comparison of the results for the periods before and after the adoption of IFRS shows that value relevance of accounting information decline after the reform in accounting standards. This implies that IFRS implementation in UAE did not improve the value relevance of accounting information. Oyerinde [7] also confirmed a significant positive relationship between earnings per share and share prices of top thirty firms with highest earning yields in the Nigerian Capital market. Using accounting ratios, Vijitha & Nimalathasan [23] study the value relevance of accounting information in the Colombo Stock Exchange. The study finds a significant association of Earnings Per Share, Net Asset Value Per Share and Return On Equity, with share prices of listed firms on the Exchange. However, the incremental value relevance of the book value per share is negative during the period under study. Maman [24] discovered that earnings have a significant positive relationship with the market value of building materials firms in Nigeria. Adaramola & Oyerinde [25] also confirmed the insignificant positive relationship between earnings and market price of shares.

3. METHODOLOGY

The study makes use of a judgemental sample of 10 Banks that are listed on the Nigerian Stock Exchange (NSE) during the period 2007-2016. The information for earnings, book value and share price data were obtained from the annual reports of a cross-sectional sample of 10 listed Banks. The annual reports were extracted from the NSE website (www.nse.ng), which provides financial statements for all the listed firms in the NSE. Annual reports not found online were collected from the Nigerian stock exchange Akwa Ibom Branch, Uyo.

The importance of value relevance study is to establish a relationship between the market price of shares and accounting information in the financial statement. This can be expressed as follows:

MPS = f(AI)

Where:

MPS = market price of shares,
AI = accounting information

This research adopts the above regression equation that provides a relationship between share price and two accounting variables. The two variables used in the study consist of the earnings per share and net book value of asset per share. Therefore, the variables of value relevance of accounting information used in this study correspond with the variables used by (Banz & Breen [26]; Maman [24]; Abiodun [5]; Adaramola & Oyerinde [25]; Oyerinde [7]; Umoren & Enang [8]; and Omokhudo & Otakefe [9]). The final regression equation could be formulated as follows:

$$MPS_{it} = ß_0+ß_1BVS_{it}+ß_2EPS_{it}+\varepsilon_{it}$$

Where:

BVS = book value per share,
EPS = earnings per share,
i = company,
t = time (year),
ε = error term

The dependent variable consists of the market price of shares (MPS) that is at least three months after the end of the financial year. The three months period is represented in the financial statement as the time in which external auditors signed for the financial statement. This is to avoid the problem of time bias that was recognized by [26] in their study. Time bias problem is caused by using data which are not yet available but assumed as available. Indeed, accounting information reaches stakeholders when they actually receive the annual report of companies and not at the last date of the companies' financial year end.

The independent variables are earnings per share (EPS) and net book value of equity per share (BVS). The ordinary least square method is used and the study uses the adjusted coefficient of determination (adj. R^2) as the unit to measure the value relevance of earnings and book value on the market price of the share. The apriori expectations for BVS and EPS are positive for both variables. This research uses the IBM SPSS software version 20 to analyse the collected data (Hejase & Hejase [27]).

4. RESULTS AND DISCUSSION

The objective of this study is to investigate the value relevance of accounting information (book value and earnings) on the market price of shares before and after the adoption of international accounting standard in Nigeria. Specifically, it seeks to ascertain if the relevance of accounting information in Nigerian financial companies has decreased or increased.

From Table 1 the regression coefficient value of r = .013 and a coefficient of determination r^2 = .029 were obtained between EPS, BVS, and MPS prior to the adoption of the international accounting standard. This indicated that EPS and BVS explained only 2.9% (0.029 x 100) variation in MPS. This result shows that EPS and BVS are insensitive to the market price of shares in Nigerian banks before the adoption of IFRS.

Table 2 above indicated that earning per share (EPS) moves in the same direction with the market price of shares (MPS) whereas book value per share (BVS) moved in opposite direction with the market price per shares (MPS) prior to the adoption of the international accounting standard.

Table 1. Pre IFRS regression analysis results

Model	R	R square	Adjusted R square	Std. error of the estimate	Change statistics				
					R square change	F change	df1	df2	Sig. F change
1	.112[a]	.013	-.029	.21887	.013	.298	2	47	.744

SPSS Output (2018)

Table 2. Regression coefficient of the relationship between BVS, EPS and MPS

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.	95.0% confidence interval for B	
		B	Std. error	Beta			Lower bound	Upper bound
1	(Constant)	.664	.080		8.340	.000	.503	.824
	BVS	-.001	.001	-.083	-.571	.571	-.003	.002
	EPS	.001	.001	.079	.544	.589	-.002	.004

SPSS Output (2018)

Table 3. Post IFRS regression analysis results

Model	R	R square	Adjusted R square	Std. error of the estimate	Change statistics				
					R square change	F change	df1	df2	Sig. F change
1	.102[a]	.010	-.032	.21911	.010	.245	2	47	.784

SPSS Output (2018)

Table 4. Regression coefficient of the relationship between BVS, EPS and MPS

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.	95.0% confidence interval for B	
		B	Std. error	Beta			Lower bound	Upper bound
1	(Constant)	.646	.078		8.302	.000	.490	.803
	BVS	.000	.002	-.045	-.308	.759	-.004	.003
	EPS	-.001	.001	-.090	-.619	.539	-.004	.002

SPSS Output (2018)

From Table 3 the regression coefficient value of r = .010 and a coefficient of determination r^2 = .032 were obtained between EPS, BVS, and MPS after the adoption of the international accounting standard. This indicated that EPS and BVS explained 3.2% (0.032 x 100) variation in MPS after the adoption of international accounting standard in Nigeria.

Table 4 above indicated that book value per share (BVS) moved in the opposite direction with the market price per shares (MPS) so also earning per share (EPS) moved in the opposite direction with the market price of shares (MPS) after the adoption of the international accounting standard.

The result of the data analysis in Tables 1 and 2 showed insignificant negative relationship between book value per share (BVS) and market price per share (MPS) as well as insignificant positive relationship between earnings per share (EPS) and market price per share (MPS), with a P = 0.57 and 0.59 respectively, which means that P > 0.05. The negative relationship is contrary to apriori expectation and corresponds to the previous work by Vijitha & Nimalathasan [23], whereas the positive relationship is consistence with apriori expectation and in line with (Maman [24]; Oyerinde [6]; Okafor & Odia [7]).

From the data analysis in Tables 3 and 4 showed insignificant negative relationship between book value per share (BVS) and market price per share (MPS) as well as insignificant negative relationship between earnings per share (EPS) and market price per share (MPS), with a P = 0.76 and 0.54 which means that P > 0.05. The negative relationship is contrary to apriori expectation and it agrees with the previous study by [23], whereas a positive relationship was found in the works of (Maman [24]; Oyerinde [6]; Okafor & Odia [7]). The result indicates that there is no improvement in the value relevance of accounting information after the adoption of IFRS which is in line with the findings of [8]. This result implies that EPS and BVS are insensitive to the market price of shares in Nigerian banks before and after the adoption of IFRS in Nigeria.

5. CONCLUSION

The study investigated the value relevance of accounting information before and after the adoption of International Accounting Standards using regression analysis technique for a sample of 10 Nigerian quoted banks. The results of regression analyses indicated that there is no value relevance of accounting information among the sampled Nigerian Banks. A comparison of the results for the periods before and after adoption, based on both regression analyses shows a decrease in value relevance of accounting information after accounting reform in Nigeria. This implies that there is no improvement in the value relevance of accounting information. It is recommended that a concerted effort is required from the regulatory authorities to enforce compliance with accounting standards.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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Peer-review history:
The peer review history for this paper can be accessed here:
http://www.sciencedomain.org/review-history/25845