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VALUE RELEVANCE OF ACCOUNTING INFORMATION AND STOCK PRICE OF NIGERIAN BANKS

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Abstract

This study ascertains the relationship between value relevance accounting information and share price of listed manufacturing companies in Nigeria. The research design that employed in this study is Ex-Post Facto research design. The population of the study comprised of eight (8) banks quoted on the Nigerian Exchange Group. Data were sourced from publications and the annual report and accounts of the sampled banks from 2012 to 2020. This study employed Ordinary Least Square (OLS) estimate. The study found that there is significant negative relationship between book value of equity per share. Based on the findings, the study recommended among others that listed manufacturing firms on the Nigerian Exchange Group should display their Book Value per Share conspicuously in their presentation to investors and analysts. This will, on the long run, assist financial analysts and other interested parties in easy determination of firm's share prices.

Keywords: Accounting information, Book value per share, and share price

1.0 Introduction

The fact that listed companies rely heavily on financial statements as a means of communication with shareholders and the general public serves as the impetus for value relevance research. Markets typically rely on the management of such businesses' financial reports (Khanna, 2014). According to Barth, Cram, and Nelson (2001), for financial reporting to be effective, the information in the reports should be accurate and relevant. According to FASB (1978), information is deemed reliable if it can be relied upon to faithfully represent the transactions or events that it aims to represent without any undue error or bias. Information is considered relevant when it influences users' decisions to form predictions or helps in confirming or correcting past evaluations. According to Bello (2009), accounting is a type of information infrastructure that economic units use to make a variety of economic decisions.

According to Suadiye (2012), the statistical relationships between information presented in financial statements and stock market values or returns can be used to measure value relevance.

According to Balasundaram (2014), financial information, non-financial or accounting information, and non-accounting information are all components of a company's financial statements. According to Uwuigbe, Uwuigbe, Jafaru, Igbinoba, & Oladipo (2016), management is primarily in charge of preparing and presenting financial statements for their companies. As a result, they must ensure that the statements accurately reflect the company's actual financial situation. Corporate accounting and external reporting systems measure and publicly disclose audited quantitative data regarding the financial position and performance of publicly held businesses to produce financial accounting information. International financial reporting standards (IFRS) stipulate four primary qualitative characteristics for these financial statements to fulfill their intended function: relevance, dependability, comprehension, and comparability. According to the International Accounting Standard Board (IASB) Framework (2011), accounting information is only relevant if users are able to evaluate events from the past, the present, or the future when making economic decisions.

Owners, managers, or staff members might be these users. Accounting offers a crucial service to a wide range of users. Information from financial accounting is used by investors to make investment decisions; It is needed by government agencies primarily for tax purposes, and regulatory agencies use it to check, among other things, whether or not existing statutory pronouncements are followed. According to Bankole and Ukolobi (2020), accounting plays a significant role in the idea of companies creating and communicating wealth. The most important source of information about a company that can be accessed from the outside is still its financial statements. However, in light of the most recent accounting scandals and economic collapse, in which billions of naira worth of investment and retirement wealth vanished, the value relevance and integrity of financial accounting information have been called into question. Value relevance studies, according to Bankole & Ukolobi (2020), are not intended to evaluate the usefulness of accounting numbers. Instead, they assess how well particular accounting numbers reflect information that investors use to value a company's equity value.

Value relevance is the most reliable indicator of the quality of accounting reporting because it shows that accounting information is actually useful to people who use it in the capital market. A wide range of researchers are becoming increasingly interested in the connection between accounting information's value relevance and share prices. Ivica and Marijana, 2014; Olubukola Uwalomwa, Jimoh, Ebeguki, and Olufemi, 2016; Ijeoma, 2015). Furthermore, empirical results can vary; Contrary results are presented in the literature. As an illustration, (Adaramola and Oyerinde, 2014; While (Jinadu, 2016; Mayadunne, 2017) discovered an increasing trend in the value relevance of accounting information, Muhammed, 2017) discovered evidence of accounting information's decreasing value relevance to equity shares. Given the aforementioned issues, this study examines the value relevance of book value of per share on stock price of banks in Nigeria.

2.0 Conceptual Review

2.1 Value Relevance of Accounting Information

The dissemination of useful information to users of financial statements in order to assist them in making various informed decisions is the focus of financial reporting. Mbekomize & Popo (2020) state that in order for the information to be useful to users, it must possess two essential qualitative characteristics: relevance and dependability. Reliability has been replaced by faithful representation in recent conceptual frameworks of financial reporting, particularly those of the Financial Accounting Standards Board (2010) and International Accounting Standards Board (2018) (Brain Mass, n.d.). The ability of information to influence user decisions is referred to as the relevance attribute.

The ability of the reported information to display the content it intended to provide is referred to as the characteristic of faithful representation. In addition, the degree of uncertainty with which the information was determined affects whether it is regarded as complete, neutral, and error-free. Users can place their faith in the reported information because it accurately reflects what took place. Comparability, verifiability, timeliness, and understandability are said to increase information's usefulness (Financial Accounting Standards Board, 2018). According to Mbekomize & Popo (2020), the quality of comparability entails that the user would find the information reported useful if the user could identify similarities or differences between similar items reported by different entities or provided by the same entity during different reporting periods. According to the Financial Accounting Standards Board (FASB), 2010; the quality of verifiability is when multiple knowledgeable and independent users would arrive at the same conclusion that the reported information accurately depicts what it purported to depict.2018 by the International Accounting Standards Board Making information available to users in time to influence their decisions is referred to as the trait of timeliness. According to Alexander, Britton, & Jorissen (2007), the term "understandability" refers to the fact that the manner in which information is presented ought to take into account the knowledge and ability of users to comprehend it.

The evaluation of the relationship between accounting information and capital market values (market values) is the focus of a value relevance study. According to Beaver (2002), the theoretical foundation of value relevance studies that employ a measurement approach is a combination of valuation theory and accounting theory—contextual accounting and financial reporting arguments—that enables the researcher to predict the behavior of accounting variables and other information pertaining to market value. Nilson (2003) says that value relevance of accounting information is about how useful financial statements are for valuing stocks. According to Beaver (2002), it investigates the relationship between a security price and a set of accounting variables. According to Scott (2003), accounting data is considered value relevant if it influences investors' decisions to invest in a particular company's stock. Accounting data must, among other things, respond quickly to the needs of users, particularly investors, in order to be relevant.

2.2 Book Value of Equity per Share (BVPS)

The market value to the book value ratio (MBV) compares the company's market value to the book value of each share. According to Olanrewaju & Tabitha (2017), one of the primary sources from which the costly external financing theory derives its inspiration for interpreting decisions regarding capital structure is the market-to-book ratio. Since the main goal of this study is to find out how financial performance affects the choice of capital structure for NSE-listed companies, this variable was chosen well. A company's book value is an important factor that tells you how much a company is worth. Ohlson (2001) notes that book values play a significant role in the valuation analysis of businesses. According to Aras and Yilmaz's (2008) research, market to book multiple plays a significant role in stock returns forecasts for 12 nations using cross-sectional data analysis from 1997 to 2003.A model for predicting the impact of price to book value on stock price prediction is presented in the study.

Market to book value ratio is a valuation ratio that investment advisors, fund managers, and investors use to compare a company's market value (market capitalization) to its book value (shareholders' equity), as stated by Marangu and Jagongo (2014). An indicator of how much shareholders are paying for a company's net assets is the market to book value ratio, which is expressed as a multiple of the number of times a share is trading per share in comparison to the book value per share.

A ratio known as book value of equity per share (BVPS) divides the value of common equity by the number of outstanding common stock shares. A factor that investors can use to determine whether a stock price is undervalued is the book value of equity per share. Investors may view the stock as more valuable if the company is able to raise its BVPS, which may result in an increase in the stock price.

The following is how the book value of equity per share (BVPS) is calculated: Book value of equity per share (BVPS) is an accounting measure that enables investors to evaluate a company's financial health.

BVPS = Value of Common Equity/ Number of Shares Outstanding. Using a snapshot of the stock's current common equity and shares outstanding, the BVPS can determine whether the stock is undervalued or overvalued (Setven, 2015). Divide a company's total number of outstanding shares by its common equity value to arrive at the BVPS. Take, for instance, the scenario in which company YZ has ten million outstanding shares and a common equity value of N100 million. The book value of each share of the company will be exactly $10, or N100 million/10 million.

2.3 Stock Price

The price of a single share of a company's saleable stocks is known as the share price or stock price. According to Lo & MacKinlay (2008), the stock price is, in layman's terms, the highest or lowest price at which a unit of stock can be purchased. According to Chasanah & Sucipto (2019), investors should analyze the factors that can influence stock price before making investment decisions regarding stocks. Before deciding whether they can profit from the shares they bought, investors need information. One of the most important pieces of information that investors ought to be aware of is a company's financial situation (Chasanah & Sucipto, 2019). According to Ergun (2012), decision-makers must use the financial statement to assess the company's profitability, liquidity, operational effectiveness, and solvency. According to Ergun (2012), financial ratios from various statements are typically used in financial statement analysis. According to Arkan (2016), a financial ratio is the sum of two or more numbers found in a company's financial statements. The financial ratio is a meaningful and useful indicator of financial information that can be used by a variety of users of financial information, particularly stock market investors (Wang, Fu, & Luo, 2013; Dahmash, Nu'aimat, and Kabajeh, 2012). The profitability, liquidity, operation efficiency, and leverage ratios are the four main categories that can be used to classify these financial ratios.

Analysts use random walk analysis methods to model and predict stock market share prices in economics and financial theory. This practice is based on the idea that investors are objective and rational and can instantly estimate a stock’s value based on their anticipated future returns. The random walk share price analysis says that every piece of market information has an effect on the stock price, which can only change when new information comes out. According to Ehrhardt and Brigham (2010), new information influences stock price at random and appears in the stock market at random.

2.4 Empirical Review

There is currently a body of research that looks into the value relevance of accounting information to the price of stocks, and various scenarios were found in various studies. Using trend analysis, Adaramola and Oyerinde (2014) investigated the value relevance of accounting information for Nigerian quoted companies. The Nigerian Stock Market annual data and the Nigerian Stock Exchange Fact Book served as sources for the secondary data. The study reveals that the value relevance of accounting information for Nigerian quoted companies does not follow a particular trend during the time period under investigation. In contrast to the other times, when there were political crises brought on by military dictatorship (from 1992 to 1998) and a global economic crisis (from 2005 to 2009), the value relevance was low. Manisha (2014) looked at the changes in accounting data produced by companies listed on the S&P BSE-500 from 2006 to 2010 and their combined, individual, and incremental value relevance. According to the study, BSE-listed companies' share prices are significantly influenced by earnings per share and book value per share, accounting information that is relevant to value. Musa, (2015) used data from the Nigerian Stock Exchange fact book for annual reports of the firms and the daily price list on the Cash Craft website from 2007 to 2013 to investigate the value relevance of accounting information in listed Industrial Goods firms in Nigeria. Additionally, it was discovered that the combined value relevance of accounting information represented by earnings per share and book value per share. Initially, the tools of analysis were the Ordinary Least Square (OLS), Fixed Effects (FE), and Random Effects (RE) models; however, after conducting relevant tests, REM is used to test the study's hypotheses. The findings demonstrated that the explained variable is significantly and statistically influenced by each of the explanatory variables. Umobong and Akani (2015) looked into the differences in accounting information quality between manufacturing companies in Nigeria before and after IFRS adoption. For the five years 2009-2013, secondary data from the financial statements of a sample of four listed cement manufacturing companies and seven listed breweries companies was gathered. To compare pre- and post-IFRS, the accounting variables were subjected to multiple regression analysis and a t-test for equality of mean. Using earning management, value relevance, and timely loss recognition as independent variables, their study reveals a decline in accounting quality. Earnings and equity book value are found to be less relevant to value, and loss recognition is less timely in the post-IFRS period than it was in the pre-IFRS period. Samuel and Pradeep (2016) set out to discover the factors that companies use to set their share market prices. The statistical tool known as multiple regression analysis was used to look at the secondary data on the companies., Dividend per share, earnings per share, and the price-earnings ratio were the study's independent variables, and share prices were the study's dependent variable. According to the study, the price-earnings ratio, dividend per share, and earnings per share account for approximately 57.8% of market share price changes. This study's findings suggest that firms can increase price-earnings, dividends per share, and earnings per share to create value for shareholders. The value-relevance of accounting information regarding share prices was evaluated by Philip and John (2016). For the purpose of the study, twelve (12) banks that are banks that are listed on the Nigeria Stock Exchange were chosen. The random effect model and correlation and panel data regression analysis statistics were utilized to test the study's hypothesis. The study found that earnings per share, dividend per share, and book value per share had a significant impact on market prices. It was discovered that earnings (EPS) and dividend per share (DPS) had a significant positive relationship with bank share prices on the Nigeria Stock Exchange. Mayadunne (2017) looked at how accounting data affect investors' decisions about a company's value. The goals of the study were to determine the connection between the market price and the value relevance of accounting information, as well as the effect that accounting information has on the decisions made by investors. A sample of 21 banking, financial, and insurance companies from the Colombo Stock Exchange in Sri Lanka were used for this study over a five-year period from 2009 to 2013.The conclusion was that the relationship between market price and return on equity, earning per share, and net assets value per share is significant and positive. Furthermore, there is no significant connection between market price and earning yield. Muhammad (2017) investigated the effect of IFRS adoption on accounting information's value relevance. A price regression model based on Ohson's (1995) model was used in the study. The dependent variable, market share price, was regressed with the independent variable, accounting information proxy by book value per share, earnings per share, dividend per share, Cash flow from operations, and IFRS adoption, using ordinary least square regression. The study used sampled data from 20 insurance companies that were listed on the Nigeria Stock Exchange between 2009 and 2014.While the study's findings indicate that the adoption of IFRS has reduced the combined value relevance of accounting information for the listed insurance companies, the independent variables that were not influenced by the adoption of IFRS were: After the adoption of IFRS, book value per share, earnings per share, dividend per share, and cash flow from operations have a positive relationship with the price of a market share. Ezejiofor (2018) looked at the extent to which Nigerian manufacturing companies' value relevance of financial information has improved since IFRS was implemented. From manufacturing companies listed on the Nigerian Stock Exchange between 2008 and 2015, a sample of 54 was chosen at random. The annual reports and accounts of the sampled companies served as the source of the study's data. With the help of SPSS version 20.0, the data were analyzed and validated using the Chow test and regression analysis statistical tools. According to the study, manufacturing companies in Nigeria's cash flow, market share price, book value per share, and Earnings Per Share have all increased as a result of the adoption of IFRS. Busari and Bagudo (2018) looked into the relative importance of financial information for financial institutions' consolidated and separate financial statements. As independent variables, they used earnings per share, book value per share, dividends per share, and cash flows per share. Although consolidated financial information was more value relevant than separated financial information, they observed that overall, accounting information on both consolidated and separated financial information were relevant to value. Mbekomize and Popo (2020) used data from companies listed on the Botswana Stock Exchange from 2012 to 2018 to examine the statistical relationship between four sets of accounting information and market share prices. Accounting data and market prices came from annual reports and the Botswana Stock Exchange – Equity Statistics data bank, respectively. The data were analyzed using the Ordinary Least Squares regression technique. According to the findings, the most value-relevant information for share prices is earnings, followed by dividends and book value. Operating cash flows did not explain changes in share prices in the Botswana equity market, despite the fact that book value yielded a low value relevance. More so than any other accounting amount combination, the combination of dividends and earnings was more relevant to value. Bankole and Ukolobi (2020) looked at the value reliance on accounting information in 20 financial service companies listed on the Nigerian Stock Exchange between 2012 and 2018.The data that was collected for this study was analyzed using E-views 10. We used the least square regression method to make our statistical choices. The Hausman Test revealed that the random effect model is more suitable than the fixed effect model. Share price and company size are positively and significantly correlated. DPS, EPS, CFO, BVS, and SP all have a negative but non-significant relationship, according to the study. Rahmana and Liua (2021) looked into the connection between the change in stock prices and the release of financial accounting data. The 1,272 listed companies' A-share markets in Shanghai and Shenzhen Stock Exchange provided the data. The closing share prices from 2009 to 2019 and selected companies' annual reports from 2008 to 2018 were used to compile the data. A stepwise regression model was used in this study to select variables that have the potential to have significant effects and to examine the regression of additional variables and stock price. The conclusion was that the reaction of the stock price is positively correlated with the value relevance of accounting numbers, profitability, liquidity, and operational efficiency.

3.0 Methodology

3.1 Research Design

The research design that was employed in this study is *ex-post facto* research design. An Ex-Post Facto research determines the cause-effect relationship among variables

3.2 Population and Sample Size

The population of the study comprised of eight (8) commercial banking license with international authorization as at end of 2020 financial year. These banks are; Access bank, First bank, Fidelity bank, FCMB, GTB, Zenith bank, UBA and Union bank.

3.3 Source of Data

This study primarily makes use of secondary data. The data were sourced from publications of the Nigerian Exchange Group annual report and accounts.

3.4 Model Specification

The researcher adopted Ohlson (1995) price model from two financial reports indicators (financial position and comprehensive income) is being used to test the value relevance of financial reporting. This was used to explore the relationship between market value with two main financial reporting variables; the book value per share which represents financial position and earnings per share which represents comprehensive income.

By the Ohlson (1995) Model:

$MKTPjt = \beta0 + \beta1\ BVSHjt + \beta2\ EPSjt + ejt$

Where: MKTPjt = the market price per share (SP) of firm j at time t

BVSHjt = Book value per share of firm j at time t

EPSjt = Earnings before extraordinary items per share of firm j at time t

$\beta0$ = Constant or intercept.

$\beta1\text{-}3$ = Coefficients of explanatory variables.

εjt = Error term.

In the empirical models, share price is a linear function of Book Value of Equity per Share, Earnings per Share, Dividend per Share. Significant (positive or negative) estimates of regression co-efficient for the accounting variables indicate the relationship between the variables. The researcher therefor modified the Ohlson (1995) Model as follows:

$SP_{it} = \beta o + \beta_1 BVPS_{\ it} + \pounds_{it}$ - - - - - - -i

Where:

SP_{it} = stock price for firm $_i$ at the end of year t

BVPS = book value of equity per share for firm $_i$ in year t

£ = error term (part of the share price which is not interpreted by the model)

βo = the intercept

β_1 is the coefficient of explanatory variable.

3.5 Method of Data Analysis

This study employed Ordinary Least Square (OLS) estimate from 2012 to 2020 covering a period of nine (9) years for 21manufacturing firms, to estimate and provide evidence on the nature of relationship between accounting information and share price. This was carried out with the aid of E-view 9.0 statistical software, using coefficient of correlation which is a good measure of relationship between two variables, in order to show the strength of relationship and the direction of relationship as well.

3/6 Decision Rule

Accept the alternative hypothesis (H_1) if the p-value of the test is less than 0.05, otherwise reject.

4.1 Data Analysis and Result

Table 1: Descriptive statistics

	SP	BVPS
Mean	1.190889	4.303333
Median	0.894000	3.980000
Maximum	2.354000	9.660000
Minimum	0.174000	1.560000
Std. Dev.	0.888250	2.336349
Skewness	0.172440	1.317583
Kurtosis	1.274425	4.235916
Jarque-Bera	1.161206	3.176846
Probability	0.559561	0.204247
Sum	10.71800	38.73000
Sum Sq. Dev.	6.311899	43.66820
Observations	9	9

Source: Researcher's computation using E-Views 9.0, 2022

From the above table, SP = stock price for firm, BVPS = book value of equity per share.

The descriptive statistics for the variables shows that the mean SP has mean of 1.190 in the sampled banks. Firstly, it was observed that on the average over the nine (9) years periods (2012-2020), the sampled banks were characterized by positive accounting information (BVPS = 4.303). The large difference between the maximum and minimum value of the book value per share (BVPS), show that the sampled banks in this study are not dominated by with large stock price.

The Jarque-Bera (JB) which test for normality or the existence of outlier or extreme values among the variables shows that all our variables are normally distributed and significant at 5% level and the result could be generalized. This also implies that a least square regression can be used to estimate the regression models.

3.2 Test of Hypothesis

Ho_1: There is no significant relationship between Book Value of Equity per Share and Stock Price of banks in Nigeria.

H_1: There is significant relationship between Book Value of Equity per Share and Stock Price of banks in Nigeria.

Table 2: Regression analysis output for SP and BVPS of quoted banks in Nigeria

Dependent Variable: SP
Method: Least Squares
Date: 10/08/22 Time: 11:50
Sample: 2012 2020
Included observations: 9

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.505327	0.681729	2.208103	0.0630
BVPS	-0.073068	0.141018	-0.518148	0.6203

R-squared	0.036937	Mean dependent var	1.190889
Adjusted R-squared	-0.100643	S.D. dependent var	0.888250
S.E. of regression	0.931876	Akaike info criterion	2.889897
Sum squared resid	6.078755	Schwarz criterion	2.933724
Log likelihood	-11.00454	Hannan-Quinn criter.	2.795317
F-statistic	0.268478	Durbin-Watson stat	1.763191
Prob(F-statistic)	0.620325		

In table 2, a panel least square regression analysis was conducted to test the relationship between share price and book value per share. Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the table 2, the value of adjusted R squared was 0.100, an indication that there was variation of 10% on stock price due to changes in book value per share, while 90% was explained by unknown variables that were not included in the model. The probability of the slope coefficients indicates that; P(x_1= 0.620>0.05). The t-value = -518 and Coefficient = -0.073 implies that BVPS is negatively related to SP, though not statistically significant at 5%.

The Durbin-Watson Statistic of 1.763191 suggests that the model does not contain serial correlation. The F-statistic of the BVPS regression is equal to 0.268478 and the associated F-statistic probability is equal to 0.620325, so the null hypothesis was accepted and the alternative hypothesis was rejected.

3.3 Decision

Since the Prob(F-statistic) of 0.620 is higher than the critical value of 5% (0.05), then, there is a no significant relationship between book value of equity per share and stock price of Nigerian banks, thus, H_1 is preferred over Ho.

4.0 Conclusion and Recommendation

This study examined the relationship between value relevance of accounting information and stock price of Nigerian bank for 2012 - 2020 periods. The hypothesis one of this study was concerned with establishing the relationship between book value per share (BVPS) and share price (SP) of manufacturing firms listed in the Nigeria stock price. The test result revealed that there is insignificant negative relationship between book value per share (BVPS) and stock price (SP) of banks in the Nigeria stock market. This result is in disagreement with Adaramola & Oyerinde (2014); Oyerinde (2011); Khanagha et al., (2011) who has identified book value per share (BVPS) as an important accounting measure that have a significant positive association with market value of a firm, proxy by share prices, while it is in line with the findings of Mwila, (2015) who found that book value per share have negative relationship and statistically insignificant with share price and Okuns & Peter, (2015) who found that book value was related to share price but however, not statistically significant.

As disaggregated components, book value of equity per share, exerted significant positive relationship with stock price. T His study came to the conclusion that accounting information's value relevance has no statistical impact on stock price. In light of this, the study advised banks to prominently display their book value per share when presenting to analysts and investors. In the long run, this will make it easier for financial analysts and other interested parties to determine the share prices of the company.

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