

## Accounting Information and Market Value of Quoted Manufacturing Firms: Panel Data Evidence from Nigeria

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### Abstract

This study the relationship between accounting information and the market value of quoted firms in Nigeria. The general objective was to examine if accounting information have any effect on market value of quoted firms. Cross sectional data was sourced from financial statement of 23 manufacturing firm from 2008-2017. Market value of the firms was modeled as a function of earnings per share, return on equity and dividend per share. Ordinary least square method of cointegration, unit root and granger causality test was used to determine the extent to which human resource cost affect quality of financial report. After cross examination of the validity of the pooled effect, fixed effect and the random effect, the study accepts the fixed effect model. The study found that the independent variables explained 79 percent variation on the market value of the quoted firms. The beta coefficient of the variables indicates return on equity; earnings per share, dividend per share have positive effect on the market value of the quoted firms. From the regression summary, the study concludes that there is significant relationship between accounting information and market value of the quoted firms. The study recommends that management of the firms should formulate dividend policy that enhances the market value of the firms. Corporate strategies should be directed toward internal and external factors that affect earnings per share.

**Keywords:** Accounting Information, Market Value, Quoted Manufacturing Firms, Panel Data, Nigeria.

### I. Introduction

In the absence of adequate financial information, investors would not be in a position to make wise investment decisions, because it will be difficult to distinguish between potentially successful and unsuccessful businesses (Sharma, 2014). Existing and potential equity share investors often use accounting information to make investment decisions: they often use corporate financial information to review its financial health and operational profitability. This provides information about whether or not investing in the equity share of the company is a wise investment decision. The investors' decisions to buy or not to take stock depend upon financial information and the more investors use financial information, it is expected that rational decisions are made (Shehzaand & Ismail, 2014).

The stock market reaction to information disclosure has been tested in many occasions in developed markets such as the United State of America and United Kingdom. The evidence reported in these studies is largely consistent with the information content hypothesis and efficient market hypothesis, which is that earnings announcements contained value-relevant information and that stock markets react quickly and efficiently to this information (Sharma, 2014). The increasing rate of corporate scandals such as Eron, Worldcom, Parmalat, Command, flowtax, Oceanic Bank, Intercontinental Bank questions the

relevance of financial information, these scandals illustrate clearly that it is not sufficient to rely on documents as contained in financial information (Ibanichuka & Alasin, 2018).

There have been divergences among scholars on factors that determine market value of quoted firms. The Random Walk hypotheses are based on the assumption that investors adjust prices rapidly to reflect on the effect of new information. Believing in the efficiency of the market, therefore assert that stock prices are essentially random and there is no chance for profitable speculations in the stock market (Gupta & Basa, 2004). Other theories such as Capital Assets Pricing Model (CAPM) and Arbitrage pricing methods (APM) attempt to explain internal determinants of asset prices. From the perspective of agency theory as presented by Jensen & Macklin (1976), managers could be incapable of maximizing shareholders' wealth because of conflict of interests. Retained earnings can be invested in low risk projects because of manager's interest which may not affect share price as the policy incentive.

However, the validity of EMH has been questioned as several recent studies have reported evidence of significant abnormal returns generated by trading on the basis of public information. For example, Kausar & Taffler (2006) found that stocks of UK firms in distress have a publicized going concern audit report which tended to experience significant negative price reactions ranging between -24% and -31%. Sponholtz (2005) using the event study method, examined the information content of annual earnings announcements in the Danish stock market. Utilizing data from 1999 to 2001, Sponholtz found significant abnormal price reactions in the period surrounding the announcement.

Factors that determine market value has well been documented in literature. The study of Lucky, Akani and Anyamaobi (2015) examined internal and external factors that determine equity prices of commercial banks in Nigeria, the findings of the study proved that some variables have positive effect while others have negative effect on equity price. Olugbenga & Atanda (2014) explored the functional relationship between earnings, book values, dividends, cash flow and equity share investment decisions in Nigeria the findings was mixed among the independent variables. Dastgir *et al.* (2009) investigated the association between components of income statement, components of cash flow statement and stock returns. Glezakos *et al.* (2012) examined the impact of earnings and book value in the formulation of stock prices and stock investors decisions. From the above problems, divergences and knowledge gaps this study examined the effect of accounting information on the market value of quoted Nigeria manufacturing firms.

## 2. Literature Review

### 2.1 Accounting Information

Accounting information can be seen as the outcome of accounting systems that measure and routinely disclose audited, quantitative data concerning the financial position and performance of an enterprise. Audited balance sheets, income statements, and cash-flow statements, along with supporting disclosures, form the foundation of the financial accounting reports to investors and indeed a wide range of accounting information users. Financial statements have the ability to perform a number of functions. They basically provide financial aid to managers in decision making, measurement or evaluation of a firm's performance, and also to portray a firm's value. Thus, for disclosed financial information to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable (Conceptual Framework, 2010).

Financial information supplies a key quantitative representation of Individual Corporation that supports a wide range of contractual relationships. According to the American Institute of Certified Public Accountants (AICPA, 2005), financial statements must properly reflect the organization's financial and economic reality, so that the users are not induced to take decisions on misleading information. Financial information also enhances the information environment of the reporting entity and those associated with it. The quality of financial disclosure can impact on firms' cash flows directly, in addition to influencing the cost of capital at which the cash flows are discounted. Financial information, such as that conveyed in publicly disclosed accounting reports, is also critical to the analysis of temporal liquidity positions of equity markets.

Financial information is information which describes an account for a utility. It processes financial transactions to provide external reporting to outside parties such as to stockholders, investors, creditors, and government agencies etc. For financial reporting to be effective, accounting information should be completed as relevant and reliable (Hendricks, 1976). The primary purpose of the financial statements is to provide information about a company in order to make better decisions particularly the investors (Germon & Meek, 2001).

### 2.2 The Concept of Market Value

Market value is the cost of purchasing a security on an exchange. It is affected by a number of factors including volatility in the market, current economic conditions, and popularity of the company. According to Ronen and Yaari (2008), the invention of double entry book keeping in the 14th century led to company's valuation which is based upon ratios such as price per unit of earnings (from income statement), price per unit of net worth (from balance sheet) and price per unit of cash flow (cash flow statement). The next advance was to price individual price shares rather than the whole company. A price per dividend was the

next advancement. Analysts find it appropriate to use discounted cash flow that is based on time value of money to estimate the intrinsic value of share rather than price per dividend of share prices.

Market value is based on supply and demand. It is used to refer to as a company's market capitalization value. It is calculated by multiplying the number of shares issued by the price of the company's share. A company's share price is determined by daily trading between buyers and sellers on the relevant stock exchange. Market prices are easy to determine for assets as the constituent values, such as stock and futures prices, are readily available. A valuation would have to be prepared using different methods (Ngerebo-a, 2007).

Market value is the value of an asset/security as determined by the forces of demand for and supply of the assets. It is the perceived or observed value of an asset on the market. It is also known as current value. It is in fact the mutually accepted worth (cost or price depending on the individual) of the asset after negotiation. Most assets that have market values have their values determined by specialized markets such as the stock exchange. The acceptance of any asset depends on the perception of the potential investor after comparing the market value to the intrinsic value. An asset is undervalued or under-priced or favorably priced if the market value of the asset is less than the intrinsic value. If the intrinsic value of the asset is less the market value, then the asset is overvalued, over-priced or favorably priced. Where the latter occurs, the investor would ordinarily be acquiring an asset at more expensive value than he would ordinarily have paid. An investor would acquire an overpriced asset if he expects the asset to record a bullish price movement such that if the anticipated price movement crystallizes, the investor can make capital gain.

### 2.3 Earnings per Share

Earnings per share are considered the most frequently used accounting information in value relevance studies used to examine its significant relationship with share. Most of the studies on value relevance of earnings per share and share price results reported to be significant and positive related with share price, this supported by the results found by Pathirawasam (2010) in Sri-Lanka observed earnings per share to have positive value relevance on the market share price of 129 companies selected from 6 major sectors listed at Colombo stock exchange and other study done by different researchers including (Tharmila, 2013; Vijitha, & Namalathan (2014) in Sri-Lanka, by Ragab (2006) in Egyptian market, Miah(2012) in Bangladesh, (Thompson & Adah , 2012; Olugbenga & Oyerinde, 2014) in Nigeria and Shamki & Rahman (2012) in Jordan reported the same results. The most important component of financial reports is the income statement (Kallunki, 1996) as it indicates the result of operation of the period.

Empirical findings by Ball and Brown (1968) indicated that fifty percent of all available information is embedded in the income statement. Value relevance of earnings is ascertained by regressing stock returns on accounting earnings (Ball and Brown, 1968) or the abnormal stock return on expected earnings (Beaver, 1968). While regression of share price on earnings measures the sensitivity of share price to earnings, the other measures the relations of unexpected portion of share price change and earnings (Edwards & Bell, 1961).

Change in the value relevance of earnings has been investigated by several studies. Collins, Maydew & Weis (1997) employed a cross sectional regression over a period of 40 years, found that the incremental value relevance of earnings declined over the time period 1953-1993. They adduce the declined in value relevance of earnings to the shift in value relevance to book value from earning to increasing average size of the firm. Lev Zarowin (1999) support the finding of declining value relevance of earnings. Cheng *et al.* (1996) found that both earnings and earnings change are value relevant. They employed both levels and changes to examine the effect of earnings performance on the information content of cash flows. They argue that markets look to cash flow as alternative sources of information where earnings number proves insufficient. Lipe (1990) concluded that poor retained earnings association is due to lack of earnings persistence. They conclude that current earnings innovations contain information about the future as well as current equity benefits. The lack of timeliness for accounting numbers may also explain the low earning return association. Timeliness is the extent to which current earnings incorporate current period economic income (Ball *et al.*, 2000). Timeliness earnings may be affected by demands of accounting standard of objective and verifiability. These demands reduce the timeliness of earnings and thus reduce the association between earnings and stock returns. Their results show that stocks are not sensitive to earnings innovations. Easton & Harrist (1991) argue that extent research lacked a long term perspective, that poor earnings -return association may due to use of short-term data. They content that poor timeliness of earnings may occur in short run, but over the long term the correlations between earnings and return increases, if long term data is employed. They show that expanding the return interval and earnings aggregated over long time intervals. There are increases in the return-earnings association. They provide confirmation of correlation between earning and return increase using long term accounting data.

Beaver, McAnnally & Stinson (1997) offer different explanation of misspecification of statistical model as responsible for the poor earning return relationship. They argue that price earnings relation is a system of simultaneous equation, thus the explanatory variable (earnings) and the dependent variable (share price) act as if both are endogenously determined as they are affected by information which is difficult to specify. They provide evidence that changes in both variables are endogenous

implying that the short coming of single equation bias can be mitigated via joint estimation. Liu & Thomas (2000) support the thesis of misspecification of model as accounting for low Earnings Response Coefficient (ERC).

Using a model in which additional regressors were included in the model in order to reflect information contained in forecast revisions and discount rate change occurring during the year. Compared to simple regression model this significantly increases the ERC. Earnings are made up of two components a cash flow component regarded as an objective part of earnings and accruals which is more inclined to subjective judgment and thus easily manipulated. Earnings management refers to the reasonable and legal management decision making and reporting intended to achieve stable and predictable financial results. Marquardt & Wiedman (2004) investigate the how earnings management impact upon value relevance. Using a sample of firms for which there is a priori expectation of earnings management they examine how earnings management impairs the value relevance of accounting information. In situations where managers participate in secondary issues of share, there often exist incentives and opportunities to manage earnings. Discretionary accruals are significantly positive in the years of secondary stock offering in firms where managers sell their shares in secondary offering (Marquardt & Wiedman, 2004). They also provide evidence that discretionary accruals are more positive in the year of secondary offering for firms whose manager participates in secondary offering than firms in which managers do not.

There is significant decrease in estimated coefficient of net income and decrease in R2 during year of secondary offering of share for those firm participating managers (Marquardt & Wiedman, 2004). In situations where the incentives for earnings management is greater, earnings announcement are less informative to investors according to Christensen, Hoyt and Patterson (1999). Studies of value of earnings across countries show interesting results. Ball *et al.* (1994) examine the value relevance of earnings in seven countries. They show that accounting earnings indicate significantly greater timeliness in common-law countries relative to code-law countries, this they attribute to income conservatism.

Ali & Lee-Sheok (2000) examine the relationship between country specific characteristics and measures of value relevance. Their study show that value relevance is higher in countries exhibiting features of the British-American model in which tax rules impact on accounting measurements, relative to countries exhibiting features of continental accounting model. They also find that countries that spend more on external auditing services have higher value relevance. The higher use of accrual accounting as opposed to cash flow accounting results in lower value relevance in countries with weak shareholder protections (Mingyi, 2000) but for countries with strong shareholder protection there is no significant negative relationship between the use of accrual accounting and value relevance of accounting information.

#### **2.4 Book value per share**

Value relevance of accounting information before and after the reforms of International reporting standard (IFRS) examine by Karđin, S (2013) and reported improvement in the value relevance of book value during the post-IFRS period (2005-2011). The results found to be consistent compared to the study done by Bilgic & Ibis (2013). Bilgic and Ibis used a sample of 113 companies listed in Istanbul stock exchange reported value relevance of book value increase after the adoption of new accounting standards. But Khanaga (2011) reported value relevance of book value per share declined by using portfolio and regression approach after the forms in accounting standards in Bahrain and United Arab of Emirates.

On the other hand value relevance of accounting information reported to be weak during the period of global economic crisis (2005-2009) and during political crisis caused by military dictatorship (1992-1998) in Nigeria by Olugbenga & Oyerinde (2014). But during stock market crisis in Nigeria Thompson & Adah (2012) reported book value per share to have positive and significant relation with share price of cement manufacturing companies listed at Nigeria stock exchange. On the other hand during post-recession period book value per share reported to have positive relationship and insignificant impact on the stock prices of BSE 200 companies.

#### **2.5 Theoretical Review**

The theoretical approach to the relationship between financial accounting information and equity share investment can be discussed in terms of, accounting theories and theory of equity share investment. There are many financial accounting theories. Theories of financial accounting consider such things as people's behavior or people's needs as regards financial accounting information, or the reasons why people within organizations might elect to supply particular information to particular stakeholder groups (Deegan, 2006). This study looks at Efficient-market hypothesis (EMH), information perspective theory, accounting theory, decision usefulness theory of accounting information and signaling theory of accounting information among others theories.

#### **2.6 Efficient Market Hypothesis**

Efficient-market hypothesis (EMH) asserts that financial market is informationally efficient. There are three major forms of the hypothesis: "weak" semi-strong", and "strong". Weak EMH claims that prices on traded assets (for example, stock bonds, or property) already reflect all past publicly available information. Semi-strong EMH states that prices reflect all publicly available



information and that prices instantly change to reflect new public information. Strong EMH additionally claims that prices instantly reflect even hidden or "insider" information. Efficient market theory implies that market will react quickly to new information (Goddy, 2010). Thus, it is important to know when the accounting report first became publicly known. The accounting report is informative only if it provides data not previously known by the market.

### 2.7 Information Perspective

Informational perspective measures the usefulness of accounting information to individual users without much emphasis on the precise structure of the relationship between accounting data and firm value (Bernard, 1995). Most of the studies on information perspective assume that information content or usefulness can be determined by observing stock market reactions to specific accounting information items (Ball & Brown, 1968; Benston, 1967; Anderson, 1975). These studies further assert that the degree of usefulness can be measured by the extent of volume or price change following release of the information.

Until the last few years, the information perspective has dominated financial accounting theory and practice. The information perspective relies on a single-person decision theory, where it is the responsibility of an investor to predict future firm performance and make investment decisions. It also depends on efficient securities market theory, where the market can interpret information from any source (Beaver, 1973). In this theory, it is Accountant's role to supply useful financial statement information to assist investors. Ball & Brown (1968) study is the first to document statistically a share price response to reported net income and their methodology is still employed today. The emphasis of information perspective is on contemporary associations between accounting earnings (or book value) and market returns or prices. In particular, it investigates capital market reactions to public disclosures such as earnings announcements, other firm-specific news and economy-wide macroeconomic news. This is synonymous with information content school.

### 2.8 Accounting Theory

Accounting theory is defined as the basic assumptions, definitions, principles, and concepts that underlie accounting rule made by a legislative body and it also includes the reporting of accounting and financial information (Deegan, 2006). The basic theories of accounting are held together by the conceptual framework of accounting. The conceptual framework establishes objectives of financial reporting by businesses. By understanding how some basic accounting theories fit into the conceptual framework, one can determine the theoretical underpinnings of financial accounting rules and principles (Freedman, 2015).

Financial Accounting Standards Board (FASB, 1976) defines accounting theory as a coherent system of interrelated objectives and fundamentals that can lead to consistent standards. Watts & Zimmerman (1986) posit that accounting theory seeks to explain and predict accounting practice. Hendriksen (1982) describes an accounting theory as logical reasoning in the form of a broad set of principles that (1) provide a general frame of reference by which accounting practice can be evaluated and (2) guide the development of new practices and procedures. According to him, an accounting theory should provide a general frame of reference against which sound accounting practices can be evaluated. A theory encompasses a set of statements or propositions connected by rules of logic or inferential reasoning. The statements must include testable hypotheses or premises and a conclusion, although one or more of the premises may be based on explicit value judgments. The primary test of a theory, however, is its ability to explain or predict (Quintus, 2007).

### 2.9 Empirical Review

Ibanichuka & Alasin (2018) examined audit reports and value relevance of accounting information in Nigeria quoted commercial banks. Data was sourced from financial statement of Commercial Banks. Two multiple regressions were formulated to investigate the effect of audit reports and audit characteristics on stock prices of the commercial banks. The data analysis technique employed is the multiple regression model based on Statistical Package for Social Sciences version (22.0). The Durbin Watson statistics show the presence of multiple serial autocorrelation. The result shows collinearity that corresponds with the Eigen value condition index and variance constants are less than the required number, while the variance inflation factors indicate the absence of auto-correlation. The result from model I found that all the audit report variables have positive impact on value relevance while model II found that audit compensation, audit familiarity and corporate governance have positive effect and audit independence, joint audit and audit size have negative effect on stock prices. The study concludes that the independent variables have significant relationship value relevance of accounting information of Nigeria quoted commercial banks.

Hung *et al.* (2018) examined the impact of accounting information on financial statements to the stock price of energy enterprises listed on Vietnam's stock market. By using the OLS regression model and quintile regression model, the author studies the influence of factors such as return on assets (ROA) capital structure (LV), enterprise size (size), current ratio (CR), and accounts receivable turnover (turnover) to stock prices. Data from this study were collected from 44 energy enterprises during 2006-2016. The results show that Roa, enterprise size (size), current ratio (CR), and accounts receivable turnover (turnover) are positively correlated with the stock price, with an explanation level of 48.47%. Capital structure (LV)

does not affect stock prices. Based on the research results, the authors propose some recommendations for investors and enterprises and suggest other research directions as well as adding new factors to the stock price.

Abayadeera (2010) tested for the value relevance of financial and non-financial information in high-tech industries in Australia with a sample size of 91 companies running through various sectors of the Australian economy. His studies showed that value relevance declined in earnings but increase in book value and the book value is the most significant factor and earnings are the least significant factor in deciding equity share investment in high-tech industries in Australia.

King & Langli (1998) examined accounting diversity and firm valuation carried out a study on the relationship between financial accounting information (book value of the equity and the earnings per share) and the stock prices of listed companies in three European countries, Germany, Norway and the United Kingdom. The results of their study revealed that both the book value and the earnings per share have significant relation with the stock price and hence equity investment decision. Investigating the difference between the inspected countries they found that book value was more relevant in Germany and Norway, whereas earnings per share were the more relevant factor in the United Kingdom.

Omoje & Eriki. (2014) examined the effect of corporate governance mechanism on earnings management of 130 listed companies in Nigeria over the period 2005-2010. The study revealed that companies in Nigeria prefer to use high earnings management practices. The study also showed that board independence has significant positive influence on the probability of companies that adopt high earnings management.

Muhammed (2014) investigated the relationship between some sets of corporate governance mechanisms and unethical accounting practice of 25 listed manufacturing firms in Nigeria. The study found that board composition, institutional shareholding, managerial shareholding and audit committee significant negative relationship with earnings quality. Augustine (2014) examined the effect of audit quality on market value per share (MPS) of companies in Nigeria. Panel data were extracted from the annual reports of 57 companies quoted on the Nigerian Stock Exchange (NSE) from 2006 to 2011. Audit quality was estimated using audit firm size, audit fees, Auditor tenure and audit client importance. The results of the multiple regression showed that audit quality has significant influence on the MPS of quoted companies in Nigeria.

Adaramola (2014) examined the value relevance of accounting information in the Nigerian stock market. The study used secondary data extracted from the annual accounts of 57 firms from 1991 to 2010. The Generalized Least Squared (GLS) regression method was employed and the result showed a significant relationship between accounting information and share prices of companies in Nigeria.

Ajide *et al.* (2014) examined the effect of earnings management on dividend policy in Nigeria for the period 2012. The findings showed that earnings management has negative relationship with dividend policy of a firm and it is not significant in the determination of dividend payout of every firm. Alexandra (2015) investigated the level of income smoothing and its impact on the informativeness of earnings in United Kingdom, France and the Netherlands. The results showed that companies in United Kingdom show less smooth earnings compared to companies in France and the Netherlands.

Junjie Gang & Chao (2013) empirically analyzed the relationship between accounting information and stock price with a few accounting information indexes. The results, based on 60 listed companies in Shanghai Stock Exchange for 2011, reveal: (1) positive relationship exists between accounting information and stock price, but the significant degree varies; (2) earnings per share and return on equity have the most significant correlation.

Ngoc *et al.* (2017) analyzed the relationship between accounting information in the financial statements and the stock returns of listed firms in Vietnam Stock Market. Using OLS, FEM, REM, GLS, and GMM regression models, the study examines the relationship of earnings, volatility in the rate of return, size, leveraging ratios and growth rates to the stock returns of 274 firms in the period from 2012 to 2016. Findings from the study show that the rate of return, the change in the rate of return, gearing ratio and growth rate are positively correlated to the stock returns, while the size of firm by assets is negatively related to stock returns. Based on the research's results, the authors also provide some recommendations for investors, firm management and policy makers.

Mgbame & Ohiorenuan (2013) ascertained if accounting information contributes to stock volatility in the Nigerian Capital Market. Specifically, the study examines if Book value per share, Dividend per share and Earnings per share have a sign effect on stock volatility in Nigeria. To capture stock returns volatility clustering, leptokurtosis and leverage effects on the share price series, the GARCH models were used. Specifically, the GARCK (1, 1), TGARCH (1, 1) and EGARCH (1, 1) were utilized. Using the simple random sampling technique, a sample size of 10 quoted companies was selected using the simple random sampling technique for the period 2000-2010 and this gives a total of 100 company years/data points. Secondary data retrieved from the financial statements of the sampled companies were employed for the study. E-views 7.0 was utilized for data estimation. Findings reveal that there are enough evidences to reject the assumptions of conditional normality in stock prices data series and accept the existence of stock volatility in Nigerian stock market. In addition, an evaluation of the three models shows that BVS as a determinant of stock volatility appeared to be significant in the TGARCH (1, 1) and EGARCH (1,1). Also EPS appeared to be significant in the TGARCH (1,1) and EGARCH-1( 1,1) while DPS as a determinant of stock volatility appeared to be significant in GARCH (1,1). TGARCH (1,1) and EGARCH (1,1) respectively.

Gornik-Tomaszewski, & Jermakowicz (2001) investigated the relationship between the book value per share, earnings per share, and stock prices of 77 stock exchange companies of Poland between 1996-1998. The results of their study showed that both book value per share and earnings per share have significant and strong relation with stock prices. Furthermore, they stated that the explanatory book value is stronger than that of earnings per share.

Kobana *et al.* (2000) tested the relative importance of the financial statement variables in explaining equity valuation in Canada. The results of their study reveal that the most important financial statement variables in terms of equity valuation in Canada are book value and earnings related variables.

### 3. Methodology

This study used correlation and ex-post facto research design to examine the effect of accounting information on market value of quoted in Nigeria. The population of this study consists of all the listed manufacturing firms on the Nigerian Stock Exchange and have complete financial records on their websites or Nigerian Stock Exchange for the period of 2008– 2017. The data was obtained from the annual reports and accounts of manufacturing firms.

#### Model Specification

In order to achieve the objectives of this study and test of the hypotheses, a functional relationship in form of multiple linear regression model consisting of dependent and independent variables will be formulated. The regression models are presented as follows;

Pooled regression specification

$$MV = \beta_0 + \beta_1 EPS_{it} + \beta_2 ROE_{it} + \beta_3 BVPS_{it} + \mu_{it}$$

1

Fixed Effect Model Specification

$$MV = \alpha_0 + \alpha_1 EPS + \alpha_2 ROE + \alpha_3 BVPS + \sum_i^9 1\alpha_i idum\epsilon 1_{it}$$

2

Random effect model specification

$$MV = \alpha_0 + \alpha_1 EPS + \alpha_2 ROE + \alpha_3 BVPS + \mu_i + \epsilon 1_{it}$$

3

Where:

MV = Market value of Nigeria quoted manufacturing firms.

$\beta_0$  = Regression intercept  
 EPS = Earnings per share  
 ROE = Returns on equity  
 BVPS = Book value per share  
 $\mu$  = Error term

#### A-Priori Expectation of the Result

The explanatory variables are expected to have positive and direct effects on the dependent variables. That is a unit increase in any of the variables is expected to increase market value. This can be express mathematically as  $\beta_1, \beta_2, \beta_3 > 0$ .

#### 3.1 Technique for Data Analysis

In order to determine the best choice of analysis technique, the study run three types of regression; Ordinary Least Square (OLS), Fixed Effect and Random Effect regression. All these method have various assumptions and conditions that must be fulfilled in order to achieve efficient estimates. However, the best techniques will be decided by the Hausman Specification test (either fixed effect or random effect regression) and Lagrangian Multiplier Test (either random effect or OLS). The random effect has the advantage of accounting for the panel effect in the data as opposed to OLS, which pools the data and treats it as if it were obtained from a single entity. In order to achieve reliability of the result, robustness tests like Multicollinearity test, Hausman test, Lagrangian multiplier test for random effect and Heteroscedasticity test will be conducted (Gujirati, 2003).

T-test The t-test was used to test the hypothesis that a particular coefficient is significantly different from zero or whether the estimated coefficient value occurred by chance in equation (2). The tests were performed at both 95% and 99% levels of confidence.

F-test The F-statistic is important to test the hypothesis that the whole relationship provided by the equation (2) is significantly different from zero, i.e. whether the independent variables' characteristics scores explain the variation in growth indicators for each of the individual firms. The test will be performed at both 95% and 99% levels of confidence.



R2 - Change The R-squared (R<sup>2</sup>) value ranging from '0' to '1' or the 'corrected R-squared' (R<sup>2</sup>) which is adjusted for degrees of freedom indicates the explanatory power (goodness of fit) of the model.

#### 4. Analysis and Discussion of Findings

Table I. Test of Fixed and Random Effect Models

<b>Redundant Fixed Effects Tests</b>			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.529179	(22,192)	0.0681
Cross-section Chi-square	35.681335	22	0.0328
<b>Correlated Random Effects - Hausman Test</b>			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.415428	6	0.0341

Source: Computed from E-View windows 9.0

In testing the validity of the models, the fixed effects on the cross section Redundant Fixed Effect- Likelihood Ratio, the P- value is 0.000 indicating that the effects are significant. Select the random effect and perform the Correlated Random Effects- Hausman test, testing the random effects model against the fixed effects model. The null hypothesis in that case is that both tests are consistent estimators and the random effects model is efficient. Under the alternative hypothesis, only the fixed effect is consistent. Since the p- value is 0.000, the null hypothesis is rejected and, therefore, the fixed effects model is to be preferred.

Table 2. Presentation of Formulated Pooled Effect Model Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROE	0.032480	0.033095	0.981413	0.3275
EPS	0.250062	0.123951	2.017426	0.0449
DPS	0.005642	0.006452	0.874426	0.3829
C	9.953181	1.835172	5.423568	0.0000
R-squared	0.049825	Mean dependent var		14.93914
Adjusted R-squared	0.023185	S.D. dependent var		2.146708
S.E. of regression	2.121677	Akaike info criterion		4.373452
Sum squared resid	963.3238	Schwarz criterion		4.481087
Log likelihood	-476.2665	Hannan-Quinn criter.		4.416913
F-statistic	1.870285	Durbin-Watson stat		1.662720
Prob(F-statistic)	0.087183			

Source: Computed from E-View windows 9.0

The estimated pooled regression model found that the predictor variables in the model can explain 4 percent variation on the market value of the 23 selected manufacturing firms. The f- statistics and probability confirms that the model is statistically not significant and cannot predict the variation on the market value of the selected quoted firms. The Durbin Watson statistics proved that there is no presence of serial autocorrelation among the variables. Beta coefficient of the variables indicates that, return on equity, earnings per share and dividend per share have positive effect on market value of the quoted manufacturing firms while book value per share have negative effect on market value of the firms. The insignificant effect of the models and the results of the Hausman test enable us to analyze the fixed effect model in the tables below.

Table 3. Presentation of Formulated Fixed Effect Model Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROE	0.860146	1.044343	1.356385	0.0366
EPS	0.028731	0.160273	0.179262	0.8579
DPS	0.914421	0.008112	1.777683	0.0070
C	12.36263	2.094911	5.901265	0.0000
Effects Specification				





Cross-section fixed (dummy variables)			
R-squared	0.791491	Mean dependent var	14.93914
Adjusted R-squared	0.573583	S.D. dependent var	2.146708
S.E. of regression	2.066219	Akaike info criterion	4.411093
Sum squared resid	819.6977	Schwarz criterion	4.857006
Log likelihood	-458.4258	Hannan-Quinn criter.	4.591145
F-statistic	1.624076	Durbin-Watson stat	1.905250
Prob(F-statistic)	0.000169		

Source: Computed from E-View windows 9.0

The estimated fixed regression model found that the predictor variables in the model can explain 79 percent variation on the market value of the 23 selected manufacturing firms. The f- statistics and probability confirms that the model is statistically significant and can predict the variation on the market value of the selected quoted firms. The Durbin Watson statistics proved that there is no presence of serial autocorrelation among the variables. Beta coefficient of the variables indicates that, return on equity; earnings per share and dividend per share have negative effect on market value of the firms. From the Hausman test the fixed effect model results is most appropriate for the study. However, the study analyzes the random effect in the table below to validate the findings of the study.

Table 4. Presentation of Formulated Random Effect Model Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROE	0.037520	0.034969	1.072944	0.0445
EPS	0.203111	0.130057	1.561714	0.0198
DPS	0.007445	0.006745	1.103839	0.0709
C	10.52168	1.866897	5.635922	0.0000
Effects Specification				
			S.D.	Rho
Cross-section random			0.472147	0.0496
Idiosyncratic random			2.066219	0.9504
Weighted Statistics				
R-squared	0.441900	Mean dependent var		12.18603
Adjusted R-squared	0.315038	S.D. dependent var		2.096432
S.E. of regression	2.072931	Sum squared resid		919.5673
F-statistic	1.559801	Durbin-Watson stat		1.726119
Prob(F-statistic)	0.040262			
Unweighted Statistics				
R-squared	0.448637	Mean dependent var		14.93914
Sum squared resid	964.5282	Durbin-Watson stat		1.658316

Source: Computed from E-View windows 9.0

The estimated random regression model found that the predictor variables in the model can explain 44 percent variation on the market value of the 23 selected manufacturing firms. The f- statistics and probability confirms that the model is statistically significant and can predict the variation on the market value of the selected quoted firms. The Durbin Watson statistics proved that there is no presence of serial autocorrelation among the variables. Beta coefficient of the variables indicates that, return on equity, earnings per share and dividend per share. The result above enables to test cross-sectional comparison of random and fixed effect in the table below:

Table 5. Cross-Section Effect Test Comparison

Variable	Fixed	Random	Var. Diff	Prob.	Decision
ROE	0.060146	0.037520	0.000743	0.4066	Accept H0
EPS	0.028731	0.203111	0.008773	0.0626	Accept H0
DPS	0.014421	0.007445	0.000020	0.1217	Accept H0

Source: Computed from E-View windows 9.0



The table above reveals the variance difference among the variables, as shown above that the variables are all statistically not significant which implies that there is a significant difference between fixed and random effect among the variables.

Table 6. Presentation of Granger Causality Test Results

<b>Null Hypothesis:</b>	<b>Obs</b>	<b>F-Statistic</b>	<b>Prob.</b>
ROE does not Granger Cause MV	164	0.43071	0.6508
MV does not Granger Cause ROE		0.43285	0.6494
EPS does not Granger Cause MV	170	0.27609	0.7591
MV does not Granger Cause EPS		0.03196	0.9685
DPS does not Granger Cause MV	169	0.07117	0.9313
MV does not Granger Cause DPS		0.25032	0.7788

Source: Computed from E-View windows 9.0

The causality test shows that there is no causal relationship among the variables, we accept null hypotheses.

Table 7. Presentation of Panel Cointegration Test

<b>Series: MV ROE EPS DPS DER ATO BVPS</b>				
<b>Alternative hypothesis: common AR coefs. (within-dimension)</b>				
	Statistic	Prob.	Weighted Statistic	Weighted Prob.
Panel v-Statistic	-2.429724	0.9924	-2.299783	0.9893
Panel rho-Statistic	4.640154	1.0000	4.548191	1.0000
Panel PP-Statistic	-3.186873	0.0007	-3.047196	0.0012
Panel ADF-Statistic	NA	NA	NA	NA
<b>Alternative hypothesis: individual AR coefs. (between-dimension)</b>				
	Statistic	Prob.		
Group rho-Statistic	6.156503	1.0000		
Group PP-Statistic	-9.556352	0.0000		
Group ADF-Statistic	NA	NA		

Source: Computed from E-View windows 9.0

The results of the cointegration test proved that the variables are cointegrated as the probability coefficient of the variables are less than 0.05, we accept the alternate hypotheses that there is the presence of long run relationship between the dependent and the independent variables. The presence of long run relationship enables us to test for unit root; the table below has the details.

Table 8. Tests of Stationarity

<b>Series: MV</b>				
<b>Method</b>	<b>Statistic</b>	<b>Prob.**</b>	<b>sections</b>	<b>Obs</b>
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-9.25205	0.0000	23	170
Im, Pesaran and Shin W-stat	-3.15566	0.0008	23	170
ADF - Fisher Chi-square	86.3823	0.0003	23	170
PP - Fisher Chi-square	145.244	0.0000	23	197
Series: ROE				
Levin, Lin & Chu t*	-2.84596	0.0022	23	178
Im, Pesaran and Shin W-stat	-0.81603	0.2072	23	178
ADF - Fisher Chi-square	62.6200	0.0519	23	178
PP - Fisher Chi-square	75.8650	0.0036	23	203
Series: EPS				
Levin, Lin & Chu t*	-8.07569	0.0000	23	184

Im, Pesaran and Shin W-stat	-2.06545	0.0194	23	184
ADF - Fisher Chi-square	65.5150	0.0308	23	184
PP - Fisher Chi-square	99.3254	0.0000	23	207
Series: DPS				
Levin, Lin & Chu t*	-5.32150	0.0000	23	183
Im, Pesaran and Shin W-stat	-1.16206	0.1226	23	183
ADF - Fisher Chi-square	68.5921	0.0170	23	183
PP - Fisher Chi-square	98.0568	0.0000	23	206

Source: Computed from E-View windows 9.0

The table above presents the summary results of the ADF and PP panel unit root tests. The results show that the null hypotheses of a unit root test for first difference series for all the variables can be rejected at all the critical values indicating that the level series which is largely time-dependent and non-stationary can be made stationary at the first difference and maximum lag of one. Thus, the reduced form model follows an integrating order of  $I(1)$  process and is therefore a stationary process. It also reveals that the test of stationarity in the residuals from the level series regression is significant at all lags. Furthermore, this indicates that the regression is no more spurious but real. That is to say, all the variables are individually stationary and stable. At this level, all the t-statistic became significant at 5 percent.

Table 9. Phillips-Peron Results (Non-Parametric)

Cross ID	AR(1)	Variance	HAC	Bandwidth	Obs
Aluminium Extrusion	-0.161	0.646540	0.619755	2.00	9
Austin Laz and Company	-0.843	0.083477	0.064919	1.00	9
Paints and Coatings	0.013	2.090620	1.597237	3.00	9
Berger Paints		Dropped from Test			
Beta Glass		Dropped from Test			
Cadbury Nigeria	-0.475	0.300930	0.049049	8.00	9
Cement Co. of North		Dropped from Test			
Champion Brew. Plc	-0.229	0.968705	0.574934	6.00	9
Premier Paints Plc		Dropped from Test			
Dangote Cement Plc	-0.447	0.455981	0.210542	4.00	9
Dangote Flour Mills Plc	0.260	0.517686	0.507708	1.00	9
DN Tyre & Rubber Plc	-0.249	1.806874	1.806874	0.00	9
Evans Medical Plc		Dropped from Test			
Flour Mills Nig. Plc		Dropped from Test			
P Z Cussons Nigeria Plc	-0.618	0.295691	0.223230	2.00	9
Vitafoam Nig Plc	-0.101	0.232916	0.216321	4.00	9
Glaxo Smithkline Consumer Nig. Plc	-0.442	0.099122	0.048300	8.00	9
Honeywell Flour Mill Plc	-0.738	0.480678	0.169825	5.00	9
Lafarge Africa Plc		Dropped from Test			
Nestle Nigeria Plc		Dropped from Test			
May & Baker Nigeria Plc	0.054	1.171200	0.428968	8.00	9
Flour Mills Plc.	-0.432	0.064481	0.064481	0.00	9
Nascon Allied Industries	-0.396	0.259262	0.251736	1.00	9

Source: Computed from E-View windows 9.0

The result of the power for all the test procedure when the underlying time series model is stationary AR, all the procedures produced a reasonably high power over all the sample sizes and order considered except at order 2 where ADF (Augmented Dickey Fuller) and KPSS produced extremely low power compared to PP. Under this condition, Philip-Peron (PP) has the highest power over all the sample sizes and AR orders considered. The table presents similar analysis on stationary MA, the power of the tests are extremely high over all the sample sizes and orders considered. Similar conclusion as in AR was also

observed here. Table 3 presents the power of the mixed model (Stationary ARMA), all the test procedures produced high power over all the sample sizes at order 1 but ADF and KPSS produced low power over all the sample size at order 2 & 3.

## 5. Discussion of Findings

This study examined the effect of accounting information on the market value of quoted manufacturing firms in Nigeria. Findings revealed that there is positive and significant relationship between earnings per share and the market value of the quoted manufacturing firms over the periods covered in this study. This implies that variation in earnings per share of the firms significantly relates to market value of the firms. The coefficient of the variables proved that a unit increase on the variables will lead to 2 percent increase on the market value. This finding confirms the a-priori expectation of the study and validates the fundamentalists' theory on the effect of information on the stocks prices of quoted firms. The findings of this study confirm the findings of Lucky et al on prudential determinants of stock prices of quoted commercial banks in Nigeria. It is also in line with the findings of Ibanichuka & Alasin (2018) that all the audit report variables have positive impact on value relevance while model found that audit compensation, audit familiarity and corporate governance have positive effect and audit independence, joint audit and audit size have negative effect on stock prices but contrary to the findings of Abayadeera (2010) that value relevance declined in earnings but increase in book value and the book value is the most significant factor and earnings are the least significant factor in deciding equity share investment in high-tech industries in Australia.

Findings revealed that there is positive and significant relationship between return on equity and the market value of the quoted manufacturing firms over the periods covered in this study. This implies that variation in return on equity of the firms significantly relates to market value of the firms. The coefficient of the variables proved that a unit increase on the variables will lead to 8 percent increase on the market value. This finding confirms the a-priori expectation of the study and validates the fundamentalists' theory on the effect of information on the stocks prices of quoted firms. The findings of this study confirm the findings of King & Langli (1998) that both the book value and the earnings per share have significant relation with the stock price and hence equity investment decision, the findings of Omoye & Eriki (2014) balance sheet information has significant positive influence on the probability of companies that adopt high earnings management but contrary to the findings of Muhammed (2014) that board composition, institutional shareholding, managerial shareholding and audit committee significant negative relationship with earnings quality.

Findings revealed that there is negative but not significant relationship between book value per share and the market value of the quoted manufacturing firms over the periods covered in this study. This implies that variation in book value per share of the firms does not significantly relate to market value of the firms. The coefficient of the variables proved that a unit increase on the variables will lead to 0.3 percent decrease on the market value. This finding contradicts the a-priori expectation of the study and validates the fundamentalists' theory on the effect of information on the stocks prices of quoted firms. The findings of this study contradict the findings of King & Langli (1998) that both the book value and the earnings per share have significant relation with the stock price and hence equity investment decision, the findings of Omoye & Eriki, (2014) balance sheet information has significant positive influence on the probability of companies that adopt high earnings management but confirm to the findings of Muhammed (2014) that board composition, institutional shareholding, managerial shareholding and audit committee significant negative relationship with earnings quality.

## 6. Conclusion and Recommendations

### 6.1 Conclusion

The results of study through secondary data analysis revealed that accounting information and market value are correlated and there is a strong and significant relationship between accounting information disclosed in firms' financial statements and market value. Accounting information significantly influenced market value decisions in the listed companies in Nigeria. This finding was substantiated by the R2 of 79 percent variation explained by the accounting information variables modeled in the study. The results of the investigation revealed that there is a strong relationship between accounting information and market value of the quoted firms

All accounting information variables considered in this study significantly influenced market value of the quoted firms. Further, results of study indicated that dividend per share is the strongest determinant of market value investment followed by return on equity and earnings per share significantly affect market value of the quoted firms. From the above, this study concludes that accounting information have significant effect on the market value of quoted firms in Nigeria.

### 6.2 Recommendations

- Base on the positive effect of return on equity on the market value, the study recommends that management of the manufacturing firms should formulate policies that will increase profitability and internal and external factors that affect negatively the profitability of the firms should be discouraged.

- Quoted firms should disclose their financial information at every accounting period. This is expected to provide clearer information about the operating and financial performances of companies to equity investors.
- Accounting regulatory bodies in Nigeria and preparers of accounting reports should make efforts toward improving the quality of published financial reports because the reports are widely used by investors in Nigeria and foreign investors for investment decision.
- Base on the negative effect of book value per share on the market value, the study recommend that management of the manufacturing firms should formulate policies that will increase book value per share and internal and external factors that affect negatively the book value per share of the firms should be discouraged.

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