Value Relevance of Accounting Information in Post IFRS Adoption Period: Evidence from Listed Consumer Goods Firms in Nigeria

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ABSTRACT

This study examined the value relevance of accounting information by listed consumer goods firms in Nigeria following the International Financial Reporting Standards (IFRS) adoption in the year 2012. Secondary data from 2014 to 2018 were used. The data were gathered from the Annual Reports and Accounts of thirteen (13) consumer goods firms that are publicly traded on the Nigerian Stock Exchange. To analyze the results, the study used both Descriptive Statistics and multiple Ordinary Least Square methods with the aid of E-view 9. The findings of the study revealed that earning per share, cash flow per share and financial leverage disclosure positively and significantly impact on the firm value while net asset value exert significant negative value on the firm value within the period under consideration. The study therefore fund that the adoption of IFRS has not rendered accounting information disclosure irrelevance. Findings revealed that since earnings have been demonstrated to be more associated with share price, firms should undertake innovation and investment that generate more earnings. It was recommended that investors should consider the values of earnings, financial leverage and cash flow from operations in the annual reports of firms prepared under IFRS before making any investment decision. In the same vein, regulators should be geared up to ensure that accounting information communicated to the investing public is adequately *prepared under IFRS to avoid wrong investment decisions by investors, with devastating consequences to the economy.*

Keywords: *cash flow, earnings, financial reporting, net asset per share, value relevance*

Introduction

It is expected of corporate entities to provide reports on the financial situation, results, and advancements in the financial position of their operations, which is of immense benefit to a wide variety of consumers when making economic decisions. This is expected to be under the standards and other legislative phenomena stipulated. A list of expectations and characteristics that a financial statement can conform to are provided by standards, as well as specific guidelines for the disclosure of an entity's different types of operations, assets, and liabilities (Prather-Kinsey, 2006). Since financial information is a tool for transmitting the results of financial transactions, it became crucial that various countries' accounting standards be harmonized to form a single set of accounting rules, to increase the pace at which expenditure and credit decisions are taken, and to aid international comparability of companies' success both within and outside the reporting countries (Herbert, Tsegba, Ohanele & Anyahara, 2013). If the new standard is streamlined, well-executed, and interpreted by intended consumers, it is assumed that the transition from local Generally Accepted Auditing Principles (GAAP) to International Financial Reporting Standard (IFRS) will improve value relevance. Since the International Financial Reporting Standards (IFRS) are designed to combine the vocabulary of investment and are the product of global political and economic balance, no reporting standards are required to be issued that are specifically tailored to any particular country's circumstances (Leuz & Wysocki, 2008).

The International Accounting Standards Board's (IASB) mission is to create a globally accepted collection of high-quality financial reporting standards that disclose the general priorities and utility of financial data to all consumers (Barth, Landsman & Lang, 2008). Many specifications have been published, updated, or superseded since its inception. However, numerous reports on the meaning relevance of accounting evidence have generated controversial results as a result of these standard adjustments, both in developed and developing countries. The influence of the accounting gap transformation was studied in this report. The study's broad objective is to examine the value-relevance of accounting information in the post IFRS adoption period with a view to knowing if the adoption of IFRS renders accounting information value irrelevance. Because of the mixed results of previous studies and the scarcity of such analysis in Nigeria, especially in the consumer goods market, this study used sample consumer goods firms for the study.

Literature Review

Conceptual Review

Value Relevance

Researchers and theorists have established the definition of "value relevance" over time-based on their own experiences. Accounting information's value relevance has been investigated from a variety of angles. Miller and Modigliani's report from 1966 was one of the first to look at the relationships between accounting statistics and other financial variables. Miller and Modigliani (1966) looked at equity prices in the electric utility sector that included the cost of capital. The mathematical correlations between financial statement knowledge and stock market prices or returns may be used to determine value significance (Suadiye, 2012). Researchers and analysts have established the idea of "value relevance" over time-based on their own experiences. Accounting information's value relevance has been investigated from a variety of angles. Miller and Modigliani's report from 1966 was one of the first to look at the relationships between accounting statistics and other financial variables. Miller and Modigliani (1966) looked at equity prices in the power company sector that included the cost of capital. The mathematical relationships between financial statement facts and stock market prices or returns may be used to determine valuation validity (Suadiye, 2012).

Although the definition is not recent, Amir, Harris, and Venuti used the word "value relevance" for the first time in the literature in 1993. (Carnevale, Giunta, & Cardamone, 2009; Suadiye, 2012).

Value relevance, as described by Veith and Werner (2010), is a proxy for the knowledge quality of financial accounting data, and is typically calculated as the relationship between accounting numbers and market measures (s). Some researchers see information content as a distinct concept with its definition, finding it impossible to describe value relevance as a surrogate for information content. According to Veith and Werner (2010), value validity is a metric for the information standard of financial accounting data and is measured as the relationship between accounting numbers and business measurements (s). Some scholars regard information content as a separate category with its own meaning, believing that value validity cannot be used as a substitute for information content.

International Financial Reporting Standard

IFRS, on the other hand, is a series of principles and regulations developed by the International Accounting Standards Board (IASB) that corporations and organizations should use when preparing financial statements (Psaroulis, 2011). Financial information is a tool for exchanging financial transactions, and it became imperative that various countries' accounting practices be harmonized to form a single set of accounting standards to increase the pace at which expenditure and credit decisions are taken and promote international comparability of company performance both within and outside the reporting countries (Herbert, Tsegba, Ohanele, & Anyahara, 2013). The accounting principles were at the time called “International Accounting Standards” (IAS). After the IASB was replaced by the IASC in 2001, all of these accounting standards persisted. However, the older name of IAS is now used to refer to many of the criteria that make up IFRS (Gornik-Tomaszewski & Showerman, 2010). Since accounting is the language of the industry, the reorganization has become critical because businesses cannot afford to communicate in various languages when sharing financial transactions from their global operations.

Theoretical Review

Clean Surplus Theory

The clean surplus theory model, which defines the relationship between the market valuation of securities and accounting details such as earnings, cash flow, and book value, is the foundation of this study. The clean surplus hypothesis, also known as the Residual Income Valuation Model (RIVM), was introduced by the Ohlson model in 1995. Ohlson’s RIVM is most noteworthy for asserting that an entity’s stock worth should be technically related to figures on the balance sheet and benefit and loss elements (Akileng). However, since the updated Ohlson model establishes a linear relation with market data, it is gaining popularity in fields such as market valuation, market capitalization, share prices, and accounting data (earnings, dividends, and stock book value). The share price of an entity’s stock is proportional to the book value of the equity plus the discounted value of probable residual profits, according to Ohlson (1995), who based his valuation theorem on the RIVM (Beisland, 2008). The clean surplus principle of Ohlson demonstrates that the firm’s market worth can be demonstrated in terms of income statements and balance sheet objects (Che, 2007). The model has sparked a lot of scholarly inquiry into the balance sheet’s comparative value relevance and the income statement’s components. It has gained popularity in the accounting literature because it has proven to be very useful in describing and predicting real-world market company valuations (Babalola, 2012).

The price model is the primary method used in the RIVM for valuing earnings. The model is based on the conventional valuation model, which states that price equals the discounted present value of projected net cash flow. The model’s fulcrum is based on three hypotheses. The first premise is that the market valuation of shares is determined by the estimated value of expected dividends. The second principle is that accounting data and dividends are completely consistent with the clean surplus relation, which means that dividends decrease the book value of equity while having little effect on existing earnings. A linear model represents the stochastic time-series action with irregular returns, according to the price model’s third assumption (Barth, Beaver & Landman, 2001).

Empirical Review

The model's fulcrum is based on three hypotheses. The first premise is that the market valuation of shares is determined by the estimated value of expected dividends. The second principle is that accounting data and dividends are completely consistent with the clean surplus relation, which means that dividends decrease the book value of equity while having little effect on existing earnings. A linear model represents the stochastic time-series action with irregular returns, according to the price model's third assumption (Barth, Beaver & Landman, 2001). International Studies on IFRS and Value Importance of Accounting Information performed a laptop and library analysis on value relevance around the international developed and emerging continents; the findings of the review showed that NGAAP EPS and ROA are higher than IFRS and that EPS and ROA have a good relationship during IFRS and GAAP. This conclusion was reinforced by Muharani and Sinegar's (2014) analysis, which found that while no incremental valuation significance was identified during the study period, total accounting information recorded during the period leading up to complete IFRS convergence was value relevant for listed firms in the period. Muharani and Sinegar (2014) found that while there was no incremental value significance during the study period, overall accounting information published during the period leading up to complete IFRS convergence was value appropriate for listed firms in the three countries.

The value importance of accounting data is more pronounced for the sampled firms in the post-IFRS era, according to Erin, Oloyede, and Ogundele (2017). It was also discovered that the introduction of the International Financial Reporting Standards (IFRS) in Nigeria has increased the value relevance of accounting data such as revenue, cash flow, book value, and net profits.

According to Eleng and Bassey (2018), IFRS implementation impacted manufacturing firms' financial reporting reputation. Also, according to Lourenco and Branco (2014), IFRS implementation, which has a higher level of compliance, has a positive impact on the quality of financial information among companies in Europe but has a negligible or negative impact on information quality when prepared in an IFRS setting versus when prepared according to local requirements among companies in developing and less developed countries. The study assumes that global standards are not a stand-alone force in the growth of a standard market language and that many other variables, such as country and company characteristics, and systemic factors, play a significant role in optimizing the impact of recorded data. Kaaya (2015) is an important determinant of material news, but it is not the only one.

In the Tunisia Stock Exchange, Ayed and Abaoub (2013) investigated the value relevance of accounting earnings and components. Around 2008 and 2013, after the modern accounting method for firms was adopted, but before the adoption of the standard of restructuring in 2005 in Tunisia, a dataset of

262 firm-years was used. The study aimed to see if corporate profits before taxes, earnings elements, and cash flow from operations were more valuable in predicting returns. Operating income before dividends, special items, and income taxes was found to be worth appropriate for company assessment, although cash flow from operations and accruals were not.

To determine the relationship between accounting numbers and share prices in the Nigerian Stock Market, Oyerinde (2017) examined the importance validity of accounting data in the Nigerian Stock Market. The correlation coefficient between stock prices and certain accounting statistics is used to examine meaning significance in the analysis. Accounting information can catch information that influences asset values, according to the report, and there is a connection between accounting numbers and share prices in the Nigerian Stock Exchange.

After the implementation of the International Financial Reporting Standards in 2005, Halonen, Pavlovia, and Pearson (2013) used a generalized Ohlson's (1995) model to analyze the significance validity of financial reporting in Sweden. They discovered that while the value importance of book values had improved over time, the value relevance of earnings had declined.

Melissa looked at the relationship between share price and bottom line accounting details including dividends, earnings, and book value on the Nairobi Stock Exchange (2013). Earnings and book values are closely related to share values, according to the report, with book value being the least significant of the three variables.

Methodology

This study used an expo-facto test approach. The study population consisted of twenty-one consumer goods firms listed on the Nigerian Stock Exchange as at 2020, with a sample size of thirteen listed consumer goods firms whose data covered the years 2014 to 2018. This study used the purposive sampling process, which is a non-probability sample procedure. Below are the lists of all the consumer goods firms that were sampled:

Table 3.1: *List of selected Quoted consumer goods Companies*

S/N	QUOTED COMPANIES
1	CARDBURY PLC
2	NIGERIAN BREWERIES PLC
3	NESTLE NIGERIAN PLC
4	GUINESS NIGERIAN PLC
5	INTERNATIONAL BREWERIES LC
6	HONEYWELL FLOUR MILL
7	PZ CUSSONS
8	NASCON

9	CHAMPION
10	VITAFOAM
11	FLOURMILL
12	DANGOTE
13	UNILEVER

Source: NSE Publications, (2020)

For this study, a secondary data source was used. Data derived from the Audited Annual Reports of six Nigerian Stock Exchange-listed consumer goods firms for the years 2014 to 2018. This time frame was selected to see how IFRS acceptance has affected the firm valuation of consumer products firms listed on the Nigerian Stock Exchange over the last five years. To evaluate the relationship between dependent variables and independent variables, this thesis used descriptive statistics and the Ordinary Least Square OLS technique - Linear Regression Analysis with the aid of E-view 9 edition.

Operational variables

Dependent variables	**Operational definition**
Firm value proxy by Market share price (MSP)	Is the price of share exchange quotation at financial year end
Independent Variables	
Net asset per share (NAPS)	$\frac{\text{Net Asset}}{\text{Number of issued ordinary share}}$
Earning Per share (EPS)	$\frac{\text{Profit after tax- preferred Dividend Net}}{\text{Weighted average of number of share}}$
Cash-flow per share (CFPS)	$\frac{\text{Cash-flow from operation activities}}{\text{Weighted average of number of share}}$
Financial Leverage (LEV)	$\frac{\text{Total Debt}}{\text{Equity}}$

Source: Researcher's Designed (2020)

Model Specifications:

The study's model developed a relationship between the dependent variable Market Share Price (MSP) as a proxy for firm valuation and the independent variable Net Asset Per Share (NAPS), Earning Per Share (EPS), Financial leverage and Cash-Flow Per Share as a proxy for IFRS adoption (CFPS) The following is the model specification: The following is the functional and stochastic form of the model:

Model 1

$MSP = f(NAPS, EPS, CFPS, LEV, \mu)$ -------------------------------------- ***eq. 3. 1***

$MSP_{it} = \beta_o + L\beta_1 NAPS_{1it} + \beta_2 EPS_{1it} + \beta_3 CFPS_{1it} + \beta_3 LEV_{1it} \mu i_t$---------- ***eq. 3.2***

Where:

MPS = Market Share Price; NAPS = Net Asset Per Share
EPS = Earnings Per Share; CFPS = Cash-Flow Per Share
β_o = Constant parameter ,
$\beta_1 - \beta 4$ = Regression Coefficient of variables, U_{it} = Error terms

Note the subscription index "it"
i = i_{th} cross sectional unit, i = 1, ……, N
t = t_{th} time period , i = 1, …., T

A *priori* Expectations: $\beta_1 - \beta_3$ +/-

Results And Discussion

Table 4.1: *Descriptive Statistics of the model*

	MSP	NAV	EPS	CFPS	LEV
Mean	117.7312	0.385268	108.4484	0.052950	0.446773
Median	18.50000	0.010282	41.00000	0.001877	0.303002
Maximum	1555.990	11.87027	793.0000	1.997043	5.175387
Minimum	0.950000	-0.002844	-134.0000	-0.127461	0.016656
Std. Dev.	324.9757	1.914584	173.5670	0.269787	0.691926
Skewness	3.438491	5.316689	1.837345	6.230883	4.849322
Kurtosis	13.64557	29.65557	6.029466	41.76090	30.41080
Jarque-Bera	609.0212	3122.771	85.99881	6285.458	3205.533
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	10713.54	35.05934	9868.800	4.818428	40.65633
Sum Sq. Dev.	9504829.	329.9070	2711294.	6.550673	43.08857
Observations	91	91	91	91	91

Source: Researcher's computation (2020)

The study's descriptive figures for MSP, NAPS, EPS, CFPS and LEV are summarized in Table 4.1. The number, range, mean, maximum and low, standard deviation and variance, as well as the skewness and kurtosis of the variables of interest, are all visible in Table 4.1 above. According to the multiple figures, the variables have distinct distributions. The skewness and kurtosis statistics provide valuable knowledge about the order in which probability distributions of different data series are organized, as well as the thickness of the tails of these distributions sequentially. These two statistics are particularly useful when they are used in the estimation of the Jarque-Bera statistic, which is used to check a series' normality or asymptotic property.

The results of the correlation among the variables are presented in Table 4.2 which shows that net asset value, earning per share and cash flow per share all have weak and insignificant negative relationship with monthly share price while leverage recorded significant but weak positive relationship with share price.

Table 4.2: *Pearson's Correlation Matrix*

Correlation					
Probability	MSP	NAV	EPS	CFPS	LEV
MSP	1.000000				

NAV	-0.049507	1.000000			
	0.6412	-----			
EPS	-0.046745	-0.106938	1.000000		
	0.6599	0.3130	-----		
CFPS	-0.009316	0.868134	-0.099260	1.000000	
	0.9302	0.0000	0.3492	-----	
LEV	0.255366	0.441951	-0.129506	0.114200	1.000000
	0.0146	0.0000	0.2211	0.2811	-----

Source: Author's computation 2020

Table 4.2 shows that the independent variables of IFRS adoption proxy by Net Asset Value (NAV), Earning Per Share (EPS), and Cash-Flow Per Share (CFPS) exhibit and positively associated with the dependent variable of firm valuation proxy by Market Share Price (MSP) while the Net asset value (NAV) recorded a negative significant impact on the market valuation.

Table 4. 3: *Pooled OLS Regression Result (Dependent: MSP)*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NAV	-47.76094	22.06214	-2.164837	0.0332
EPS	0.067176	0.010505	6.394916	0.0000
CFPS	259.7180	121.6827	2.134387	0.0357
LEV	85.92581	40.26123	2.134207	0.0357
C	2.351709	9.329888	0.252062	0.8016

R-squared	0.211202	Mean dependent var		153.5573
Adjusted R-squared	0.174514	S.D. dependent var		218.9657
S.E. of regression	192.3560	Sum squared resid		3182070.
F-statistic	5.756667	Durbin-Watson stat		0.336410
Prob(F-statistic)	0.000374			

Source: Author's computation 2020

Table 4.3 shows that the F-statistic has a value of 5.7567 with a p value of 0.0004 implying that the variables used to capture IFRS adoption are jointly significant in explaining the market valuation in the consumer goods sector. In terms of significance, the results indicate that EPS produces the greatest sgnificanr impact on the market valuation implying that EPS is the most important factor considered by the investors in making their investment decisions. An indication of serial autocorrelation can be seen in the estimated Durbin Watson statistics of 0.3364 indicating existence of first order positive serial correlation. The study corrected for that by obtaining the results with robust standard error.

Discussion of Findings

Some accounting details factors, such as Earning Per Share (EPS) and Cash-Flow Per Share (CFPS) have a positive effect on the value relevance of accounting data while Net Asset Value (NAV) recorded significant negative impact on firm value. However, at a 1% importance level, it was discovered that Earnings Per Share (EPS) has a substantial effect on the value validity of accounting facts. This may be because as market share prices increase, consumers are more likely to invest. It is clear from the above findings that IFRS adoption has a substantial impact on Market Share Price (MSP). This is consistent with the apriori theoretical expectation in econometrics. These findings are in line with those of Oyerinde (2017), who discovered that accounting information on valuation relevance can collect information that affects asset values and that accounting statistics and share prices have a nexus in the Nigerian Stock Market. The results are also in line with those of Ayed and Abaoub (2018), who found that cash flow from operations and financial leverage worth appropriate for firm valuation.

Conclusion and Recommendations

The scholarly literature has been flooded with numerous problems relating to the introduction of IFRS in several countries. The aim of this analysis were to look at the value relevance of accounting disclosure in the post-IFRS adoption period using data generated from thirteen (13) listed consumer goods firms between 2013 and 2019. This study attempts to demonstrate the implication of the adoption in Nigeria on the relevance of accounting information. The results showed that accounting information including earning per share, financial leverage and cash flow per share a positive substantial effect on firm valuation while the net asset value per share had significant negative impact on firm valuation. Hence, the adoption of IFRS has not rendered the disclosure of accounting information irrelevance.

In line with the findings of the study, the following recommendations were made:

(i) Investors should analyze the values of earnings, net asset per share, and cash flow from activities in annual reports prepared under IFRS before making any investment decision since the value importance of accounting information has improved since the introduction of IFRS. However, earnings should attract more consideration because they have a direct effect on the stock price per share.

(ii) Regulators should be able to ensure the accounting information communicated to the trading public is properly prepared following IFRS to prevent consumers from making poor investment decisions that have fatal consequences for the economy.

(iii) The magnitude of earnings posted in financial statements should be taken into consideration by the management of publicly traded firms. Furthermore, since earnings have been seen to be more closely linked to share price, companies should pursue creativity and acquisitions that increase earnings. As a result, businesses should pay close attention to their operating costs and find creative ways to reduce them to achieve higher profits.

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