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VALUE RELEVANCE OF FINANCIAL REPORTS AND INVESTMENT DECISION OF DEPOSIT MONEY BANKS (DMBS) IN NIGERIA

KEHINDE ADEWALE ADEGBOYE
Department of Accounting, Federal University Wukari
200 Katsina-Ala Road
P.M.B 1020, Wukari
Taraba State
Nigeria.
kehindeadegboye@rocketmail.com, adewale@fuwukari.edu.ng

VALENTINE IGBINEDION OSAYI PhD
Department of Banking and Finance
Federal University Wukari
200 Katsina-Ala Road
P.M.B 1020, Wukari
Taraba State
Nigeria.

Valbobbies@yahoo.com
M. I MUHAMMAD PhD
Department of Accounting
Modibbo Adama University of Technology
Yola, Adamawa State
Nigeria.

ABSTRACT:*The information content of accounting numbers in ascertaining security prices/ returns has gained considerable attention in the finance and accounting literature recently. Consequently, value relevance (VR) research evolved to generate empirical evidence of statistical relationship between accounting numbers and corporate value. This study investigates the value relevance (VR) of accounting information of listed Deposit Money Banks (DMBs) in Nigeria. Accounting information data were collected from the published financial statements of accounts of the sampled Deposit Money Banks (DMBs) and the market value data were gathered through official daily list of the Nigerian Stock Exchange (NSE) over a period of six years (2013 – 2018).The study used descriptive statistics to determine the salient features of both the dependent and the independent variables of the study. Using multivariate regression as the technique for data analysis, the study established that accounting information of Deposit Money Banks (DMBs) in Nigeria is value relevant with adjusted R-Square of 11% for the return model and 42% for the price model respectively. Though the result established value relevance of accounting information, however, earnings in both models were found not to be relevant as its coefficients and p-value were not significant. It also proved that though differences exist in accounting information of Nigerian Deposit Money Banks (DMBs), the observed difference through the price and return model is not statistically significant. Thus, the study recommends that the regulators in the industry should pay strict attention to their oversight functions specifically on monitoring and enforcement of rules with a view to enhancing the values of earnings, dividend and book value of equity. Doing so will improve their value and ultimately attract investors to the share of Deposit Money Banks (DMBs) in Nigeria.*

Key words: *Deposit Money Banks (DMBs), Accounting Information, Value Relevance*

INTRODUCTION

In recent times, the value relevance of financial report and investment decision has become an increasing concern of researchers. High quality accounting information is a Pre-requisite for a well-functioning capital markets and economy as a whole and as such should be of significant importance to investors, companies and accounting standard setters (Hellstron 2005). Value relevance is one of the major characteristics of a quality financial report (Francis et al. 2004). As investors are not in a position to directly access the performance of the company in which they intend to invest. Thus, they usually depend on the financial report prepared by the manager of companies to enable them make informed decision. However, they (rational investors) use those financial reports and disclosures, among other published information to assess the risk and value of the firms. Financial reports are required by variety of users ranging from shareholders, investors' government, public, employees to management, and competitors among others. Thus, the information expected to be provided in financial report are those that are quantitative and qualitative in nature to aid their relevant users in making informed economic decisions.

Value relevance is defined in exact as the association between accounting amount and security market values. Researches on value relevance of financial report its historical development and its comparison among different countries have been on the increase since in the 1990s. However, Ball &Brown (1968) are known to be the first to carry out a study to investigate the usefulness of general purpose financial accounting report in determining the market value of equities. They were able to establish usefulness of accounting information through their findings that earnings are significantly related to share returns. And as a result, many researchers have examined the relevance or otherwise of information content of accounting numbers in various stock markets around the world, mostly in the developed economy (Che, 2007; Oyerinde, 2011 and Abubakar, 2011). The main purpose of financial reports is to produce accounting information which shows the true and fair view of the company's operations and financial status. However if there is no relationship between value of the firm and numbers in its financial reports, such report are deemed to lack Value Relevance (VR) (Oyerinde, 2011). Therefore, the empirical investigation of value relevance (VR) of financial report is a direct check on the validity and reliability of financial report published by companies. The Enron and WorldCom (2002), scandals in the United States of America raised investor concerns about the veracity of the company disclosures, and they became more apt to questions whether companies' operating results and financial conditions were accurately reflected in their financial statements.

The very painful consequence of the Enron scandal is, whether financial statements are inaccurate because of fraud or complex financial standards, whether financial statement erodes investors' confidence in the disclosure that fosters investment and adverse effects on the economy and people's financial wellbeing from the foregoing, financial reports in the conventional sense seems to live with a number of problems. It is based on the above issues that this study is carried out to assess the value relevance of financial reports in the Nigerian Banks.

This paper therefore examine the effect of market price per share, earnings per share, book value and bank size on share price of Nigerian banks. In line with these objectives, a null hypothesis (H_0) was developed as: Market prices per share, earnings per share, book value and bank size have no significant effect on share price of Nigerian banks

LITERATURE Review

Conceptual Review

This sub-section provides conceptualization of firm Market price per share, earnings per share, book value and bank size as variables of firm values.

Value Relevance Concept

Earnings and book value are the commonest explanatory variables in value relevant research of late. This may not be unconnected with the frequent usage of Ohlson model which has both of them as the main independent variable. In spite of numerous studies conducted mainly to ascertain its impact on value of the firm, the outcomes have not been unique. Some of the studies found it to be a significant explanatory variable in their studies while others found it to be relevant, but not as powerful as dividend and the book value of equity. Some opine that the best thing to do is to disaggregate it into sub components. Some of the studies equally suggest inclusion of other variables to improve on the VR of the financial report.

Market price per share of equity

The emphasis of capital market (VR) research in accounting was on usefulness of accounting to individual users in line with Francis & Schipper (1999)'s information perspective. Ball & Brown (1968) are reputed to be the first to conduct a study on VR (Pathirawasam, 2013). They observe that security market prices are value relevant because they respond to accounting numbers Value relevance of financial report has two major components which is Value and Relevance. However, these terms have different meaning depending on the concept which they are used in. In accounting value relevance can be seen as the monetary equivalent of an asset, liability, goods and services etc. consequently book value (BV) is seen as the worth of an asset that reflect the figure in the company's statement of financial position according to (Tracy, 2013). Normally, this value is arrived at by deducting the depreciation against the cost of such asset. The model has generated much empirical research examining the comparative value relevance of the balance sheet and the income statement components. It has become prominent in the accounting literature because it has had some success in explaining and predicting actual market firm value (Babalola, 2012).

Earnings Per Share

Lev and Zarowin (1999) introduce two ways in measuring value relevance of financial report, the measure of explanatory power R^2 and the combined ERC (earnings response coefficient). R^2 is a measure generated from the regression analysis and enables to interpret the degree of the association between stock returns and earnings. Combined ERC is defined as the sum of the slope coefficients of the level and change of earnings measuring the sensitivity of the stock price to earnings. This measure reflects the average change in the stock price associated with a dollar change in earnings. A low slope coefficient suggests that reported earnings are not particularly informative to investors.

Change in Earnings per Share

Earnings per share is the part of a company's earning that is allocated to individual share of the stock. This term is very important investors and stock traders. The higher the earnings per share of a company, the earnings of company also increases. An investor who solely interested in a stable source of income, the earnings per share ratio will show the investor extent to which the company can increase its existing dividend. Although, earnings per share is an important tool for investing and so it should not be neglected. Therefore, investors believe the changes found in value relevance of accounting information are likely attributable to changes in market's valuation of the information rather than to the accounting system poorly measuring economic conditions during a financial crisis period.

Book Value of Equity per Share

Value relevance of financial report has two major components which is Value and Relevance. However, these terms have different meaning depending on the concept which they are used in. In accounting value relevance can be seen as the monetary equivalent of an asset, liability, goods and services etc. consequently book value (BV) is seen as the worth of an asset that reflect the figure in the company's statement of financial position according to (Tracy, 2013). Normally, this value is arrived at by deducting the depreciation against the cost of such asset.

Review of Empirical Literature

Ball and Brown (1968) who are reputed to be the first to carry out research on value relevance (VR) defined value relevance research as the use of price or return data to identify value drivers that effect prices or returns on the market value of stocks. Researchers throughout history of empirical investigation have a common understanding that value relevance research empirically investigates the usefulness of accounting information to stock investors (e.g., Collins et.al, 1997; Barth, Beaver, & Landsman, 1998; Francis & Schipper, 1999; Chen, Chen, & Su, 2001; Gjerde et al., 2005). Researchers further claim that financial report is denoted as value relevant if there is a statistical association between financial report and market values of equity. Financial report reflected in earnings and book equity is widely used in value relevance research because they are summary measures of the income statement and balance sheet.

Value Relevance of Firm Size

Previous studies that have explored relationship between firm size and VR of accounting information include (Hodgson & Stevenson-Clarke 2000; Bae & Jeong 2007; Brimble & Hodgson 2007 and Pathirawasam 2013). The studies are different in terms of the period of study, the country of study and the industry of interest. Despite the differences in research settings most of them found a significantly higher VR of accounting information in large firms.

The Value Relevance of Earnings

Kam (1990) claimed that the income statement is the most important financial report since it reveals results of the operations in a firm. Ball and Brown (1968) stated early the great importance of income statements. Their empirical findings indicate that fifty percent of all available information about a firm is captured in the income statement. Several researchers throughout time have made supportive conclusions about the information content in earnings reports (e.g., Beaver, 1968; Collins, et.al, 1997; Lev & Zarowin, 1999).

Lev and Zarowin (1999) introduce two ways in measuring value relevance of financial report, the measure of explanatory power R^2 and the combined ERC (earnings response coefficient). R^2 is a measure generated from the regression analysis and enables to interpret the degree of the association between stock returns and earnings. Combined ERC is defined as the sum of the slope coefficients of the level and change of earnings measuring the sensitivity of the stock price to earnings.

The Value Relevance of Earnings and Book Values

Earnings and book value of equity are considered as two summary measures of financial statements. The book value is considered as the “bottom line” number in the balance sheet and earnings is the “bottom line” number in the income statement (Penman, 2010). These accounting numbers have therefore been of great interest to value relevance researchers. The majority of studies are measurement studies using regression analysis as the main empirical research tool. Many researchers decompose the combined explanatory power of earnings and book values into three components (Collins et al., 1997):

a. The incremental explanatory power of earnings,
b. The incremental explanatory power of book values, and
c. The explanatory power common to both earnings and book values.

The Value Relevance of Book Value

Several research studies containing balance sheet components refer to the valuation model as the market value of equity equaling market value of assets minus market value of liabilities. This is labeled as the balance sheet model (Holthausen & Watts, 2001). Researchers usually apply price level regression to evaluate the value relevance of book value. The most common used method represent stock price as the dependent variable, and book value per share (BVS) as the independent variables. An alternative, quite similar, regression denotes market value as the dependent variable, while assets and liabilities are independent variables (Francis & Schipper, 1999). However, book value of equity has been confirmed in several studies as being highly associated with stock prices. In addition, the statistical association between stock prices and book equity is typically stronger relative to stock returns and earnings (e.g., Collins et al., 1997; Francis & Schipper, 1999; Lev & Zarowin, 1999; Gjerde et al., 2007). Berk and DeMarzo.

METHODOLOGY

The main objective of this study is to ascertain the effect of value relevance of financial reports and investment decision in the Nigerian Banks for a period of 2013 – 2018. The dependent variable of this study which is the deflated market price per share of equity as at the last trading day of the year deflated by the opening book value of equity (Siyanbola, 2016).

The independent variables which are the deflated earnings per share, deflated book value of equity per share, change in earnings per share and the size of banks (Siyanbola A, 2016). In the conduct of this research work, data were collected from secondary sources. The data were extracted from the annual reports and accounts of the eight sampled banks for the study and some publications of the NSE. The research method much like in prior studies has relied majorly on secondary data for analysis (Che, 2007 and Babalola, 2012).

Model Specification

The modified model is presented as follows:

$MPPS = \beta 0+\beta 1BValue+\beta 2EPS+\beta 3\Delta EPS + \beta 4BS + e$

Where:

MPPS= Market price per share.

$\beta 0$ = Intercept

β1-3 = Coefficient of the independent variables
BV = Book value of equity capital
EPS = Earnings per Share
ΔEPS = Change in Earnings per Share
BS= Bank Size
e = Residual or error term.

RESULTS AND DISCUSSION

Table: 1 Correlation Coefficient (MPPS= β0+β1BValue+β2EPS+β3ΔEPS + β4BSize+e)

Variable	Coefficient	T value	Sig.
EPS	0.902	5.175	0.000
CEPS	0.029	0.205	0.839
BVEPS	-0.288	-1.242	0.226
Size	0.022	0.102	0.919
R^2	.609		
Adjusted R^2	.546		

Source: SPSS21 output 2017.

Table 1 shows the correlation coefficient of the independent variable. Determination coefficient indicates the variance of dependent variable which is explained by the available independent variables in the regression model. In fact, this coefficient shows the ability to explain the changes in the dependent variables by independent ones of the model. As far as this coefficient is bigger the ability to explain the model is also higher. The result shows that EPS, CEPS and Bank Size have a positive coefficient relationship 0.902, 0.029, 0.022 (90.2%, 2.9%, and 2.2%) respectively, while BVEPS -0.288 (-28.8%) has a negative relationship with the other independent variable.

Table 1 shows that EPS have a t-value of 5.175 with a with a statistical significance of 0.00 which is an indication that hypothesis two of the study which state that EPS of the Nigerian money deposit banks is significant to value relevance of financial report should be rejected.

Secondly, the result also shows a contrary position in respect of both change in earnings per share, book value of equity per share and bank size. It reveals that change in earnings with a t-value of 0.205 (20.5%), book value equity per share with the t-value of -1.242 (-124.2%) and bank size with the t-value of 0.919 (91.9%) are all insignificant at 0.839 (83.9%), 0.226 (22.6%) and 0.102 (10.2) % respectively.

This is an indication that hypothesis two, three and four of this study which state that: (Change in earnings per share, Book value of equity per share and bank size) has no significant effect on value relevance of financial report and investment decision of the Money Deposit Banks in Nigeria.

CONCLUSION AND RECOMMENDATION

The study revealed that one variable out of the four variables under consideration is statistically significant in assessing the value relevance of financial report and investment decision in the Nigerian Money Deposit Bank. What this finding suggests is that accounting information about earnings per share contained in the financial report plays a vital role in estimating value relevance while other three variables do not play any vital role in estimating value relevance of Money Deposit Banks in Nigeria.

Analysis from this study has been able to draw a conclusion that:

1. Accounting information of Nigerian DMBs are value relevant, with R^2 and the adjusted R^2 having 61% and 55% as reported shows that there is remarkable room for improvements.
2. A detailed look at the coefficients and t-values of the independent variables shows that earnings per share has more value relevance than bank size, Change earnings per share and book value of equity per share.
3. The coefficient also shows that EPS has significant impact on the value relevance of financial report.

Recommendation

From the findings of this study the following recommendation are provided.

1. The regulators in the industry should pay strict attention to their oversight functions specifically on monitoring and enforcement of rules with a view to enhancing the values of earnings of their banks. Doing so will improve their value and ultimately attract investors to the share of DMBs in Nigeria owing to the fact that their EPS is at 1% level of significant and is not encouraging to investors.
2. In view of the fact that change in earnings and the size of their banks are individually and collectively positive and insignificant while book value of equity per share is negative and insignificant. Therefore, investors need to focus more on the dividend history that is the earnings they will get from banks before investing in its share.
3. The banks under consideration should ensure that they maintained the current status of their share price in the stock market. This is to see that their market price per share command or maintain it standard.

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