VALUE RELEVANCE OF ACCOUNTING INFORMATION ON BOOK VALUE OF SELECTED QUOTED COMPANIES IN NIGERIA

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Abstract: The progress of quoted companies have contributed immensely to the growth of the economy in Nigeria, however, these growth does not just happen automatically, they are usually dependent on certain factors. This study is focus majorly on the value relevance of accounting information on book value of selected quoted companies in Nigeria, it considers forty –five companies quoted on the floor of the Nigeria Stock exchange, information about this companies were analysed using Multiple regression analysis and the result of the analysis shows that there is no significant relationship between accounting information and book value(i.e. $P>0.05 = 0.882$). The study thus recommends that exiting investors and other stakeholders interested in investing in the selected quoted companies should not depend entirely on the relationship between accounting information and book value alone because they do not show relationship with each other, but should consider other factors that can enhance their investment and can also consider the accounting information and book value individually by considering the changes across the year.

Key Words: companies, economy, accounting, investment, valuation,

1.1. BACKGROUND TO THE STUDY:

Accounting 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. Non accounting information is information which cannot be measured in monetary terms to make investment decisions by the investors (Perera and Thrikawala, 2010). For financial reporting to be effective, accounting information should be complete as relevant and reliable (Barth and Clinch, 2009). The primary purpose of the financial statements is to provide information about a company in order to make better decisions for users particularly the investors (Germon and Meek, 2001).

Accounting information is used in deciding between different courses of action which often result in informed decision making. It serves to reduce the uncertainty inherent in the business environment where decisions are made about the future. It further reduces entropy based on the assumption that chaos exists where there is no information. Littlejohn (1989, p.42) views information as a measure of uncertainty or entropy in a situation. This implies that the greater the uncertainty or entropy, the more accounting and other information are required.   The role of the accountant in producing accounting information is to observe, screen and recognise events and transactions, to measure and process them and to compile corporate reports with accounting information that are communicated to users. These are then interpreted, decoded and used by management and other user groups. The main requirement for such corporate reports is that they should be useful to users. The provision of information that is useful to the decision-making process is currently recognised as the main purpose of accounting information. This holds for theoretical frameworks on financial reporting as well as accounting literature. Gray (1994. p.9) confirms that accounting literature is currently dominated by the notion of decision usefulness. This implies that corporate reporting should continuously meet the changing needs of all users of accounting information.

1.2. STATEMENT OF THE PROBLEM:

There are some concerns that accounting theory and practice have not kept pace with rapid economic and high-technology changes which invariably affect the value relevance of accounting information. The claim is that financial statements are less relevant in assessing the fundamental market value of some companies, which are by nature high-technology driven. According to Sutton (1997), "while accounting can be an important factor in some decisions, accounting that masks or fails to capture meaningful information for the benefit of all investors is not

sound and puts investors at risk". This will make those who have money to lend and invest to take it to where their need for accounting information is met (Germon and Meek, 2001). The value and the quality of accounting information are determined by how well it meets the needs of users (Khanagha, 2011). Therefore, the flow of reliable accounting information is crucial to the growth of companies in Nigeria. It is not a gainsaying that Nigerian Stock Exchange will not function well without relevant and reliable accounting information. Deficiency in Nigerian Stock Exchange will affect Nigerian economy because capital market is the engine of economic growth (Okeke, 2004).

1.3. OBJECTIVE OF THE STUDY:
The main objective of the study is to determine the impact of accounting information on book value of quoted companies in Nigeria, while the specific objective is to determine if any relationship exit between accounting information provided by quoted companies and book value of the selected quoted companies.

2. LITERATURE REVIEW:
2.1   Conceptual Framework
Fig 2.1.1   Relationship Between Dependent and Independent Variable.
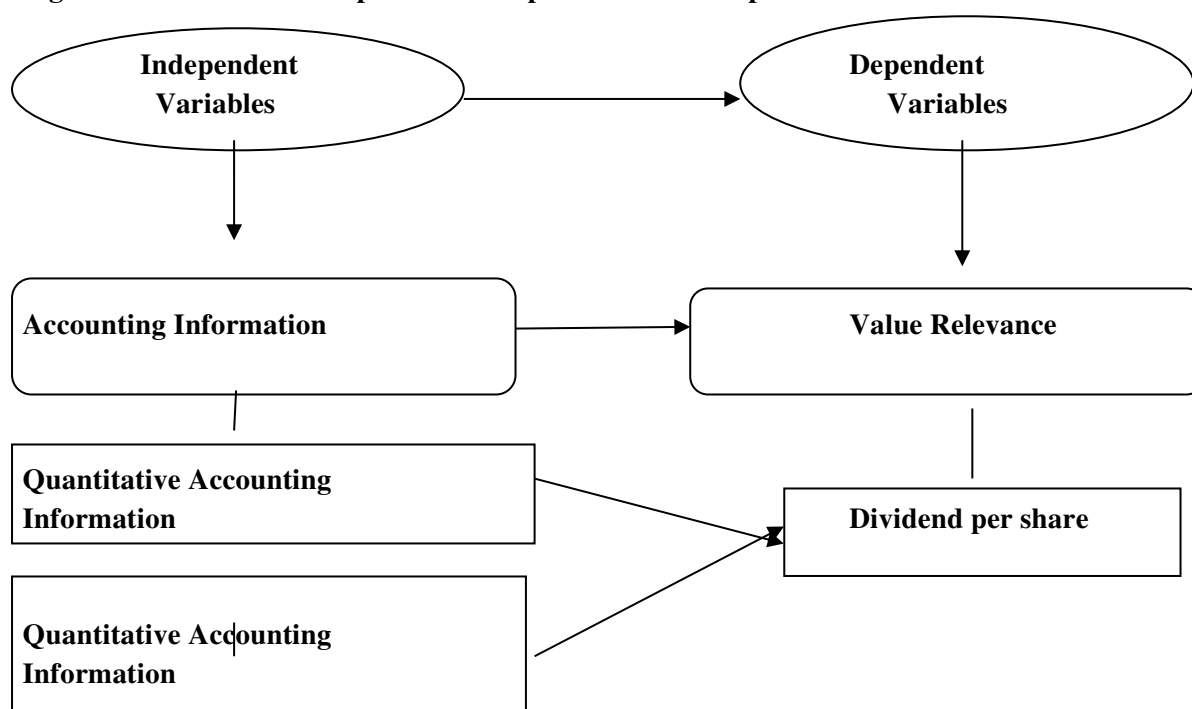
Source: Diagram Conceptualised from literature review.

2.1.1. Quantitative and Qualitative Information
Accounting information is used in deciding between different courses of action and results in informed decision making. It serves to reduce the uncertainty inherent in the business environment where decisions are made about the future. It further reduces entropy based on the assumption that chaos exists where there is no information. Information is viewed as a measure of uncertainty or entropy in a situation. This implies that the greater the uncertainty or entropy, the more accounting and other information are required.

The role of the accountant in producing accounting information is to observe, screen and recognise events and transactions, to measure and process them and to compile corporate reports with accounting information that are communicated to users. These are then interpreted, decoded and used by management and other user groups. The provision of information that is useful to the decision-making process is currently recognised as the main purpose of accounting information.

However, the premise for expecting accounting information to influence stock price is that the accounting information is value relevant. Value relevance research is based on the idea that accounting information is useful for determining company value in the case that its cross sectional variation corresponds with the cross sectional variation in stock prices or stock returns (Novak.2010; Barth, et' al 2001). However, the term relevance as a quality of accounting information as used in accounting literature is defined by the American Accounting Association (1966:9); "For information to meet the standard of relevance, it must bear on or be usefully associated with the action it is designed to facilitate or the result desired to produce. This requires that either the information or the act of the communicating exert influence on the designated action". Relevance thus implies the ability of the information to influence decisions of both potential and existing investors whether by changing or confirming their expectations about the result or consequences of actions or events. According to Barth (2001) for financial information to be value relevant, it is a condition that accounting numbers should be related to current company value. If there is no association between accounting numbers and company value, accounting information cannot be termed value relevant and, hence, financial reports are unable to fulfil one of their primary objectives. Put succinctly, Barth, (2001. p. 95) states that: "Value relevance research examines the association between accounting amounts and equity market values".

2.2   Theoretical Framework

2.2.1. The Balance Sheet Valuation Model

This balance sheet valuation model is based on the idea that market values ($MVit$) and book values ($BVit$) are both measures of the stock of wealth and that book values are measures of wealth with some error (eit) due to the conservative nature of accounting information or to information not yet reflected in accounting information (Easton and Harris, 1991); hence, at any point in time the price of equity may be expressed as in the following:

$MVit = BVit + eit$ (2).

This valuation perspective can be used to investigate the incremental value relevance by developing different specifications that disassemble book value into assets and liabilities along with the variables of interest. The accounting amount is deemed incrementally value relevant if its estimated coefficient is significantly different than zero, which means that this component provides significant explanatory power for share prices beyond that given by other variables (Barth, Beaver and Landsman, 2001). However, only the sum of their market values not their accounting counterpart equals equities' market values (Holthausen and Watts, 2001). Therefore, the GAAP based values for an asset or liability enter this model as they provide information on the market values of the assets and liabilities. According to Holthausen and Watts (2001), this model will only hold if there are competitive markets for each asset and liability; otherwise, accounting amounts do not enter the model linearly.

Assuming a relationship between market values and book values could also lead to a relationship between returns and earnings deflated by lagged share prices. Specifically, considering both market and book values as stocks of wealth as mentioned earlier, taking the first difference in these variables between two points in time, gives:

$\Delta MVit = \Delta BVit + eit'$ (3).

2.3.1   Emperical Framework

Empirical evidence is often consistent with an increase in value relevance in settings where improvements in financial reporting system and institutional factors are apparent. The impact of improvement in accounting regulation and institutional factors on value relevance can be seen apparently in countries transitioning from centrally planned economy to open economy especially in the earlier stages of the transition. Using a sample of Czech firms from 1994 to 2001, Hellstrom (2006) investigated the value relevance of earnings and book values combined while using the combined explanatory power of three different models- price regressions, return regressions and logarithmic regressions. Hellstrom hypothesized that value relevance will increase as a result of the development in accounting regulation while all other factors such as control mechanism, business environment, internationalization, and economic development interact positively in the Czech environment and support an increase in value relevance.

2.3.2   Extract of Net Book Value.

	2003	2004	2005	2006	2007
COMP. NAMES	NBV	NBV	NBV	NBV	NBV

	N'000	N'000	N'000	N'000	N'000
A.G Leventis	2,920,698	2,890,954	2,780,929	2,885,793	2,920,698
Scoa	1,068	1,034	126,000	846,000	
Challarms	936,117	1,279,630	1,326,728	1,931,010	2,148,860
UACN	11,242,600	14,684	17,741,200	19,890	29,781,500
Transcorp					
Lafarage – Wapco	31,166,497	31,378,122	30,896,206	32,361,135	33,356,068
Dangote Cement					58,070,985
Cap plc	146,498	177,747	161,168	172,347	144,764
Berger paint plc			885,789	967,467	1,080,086
Beta glass company	12,509,425	5,631,735	5,728,236	6,196,314	8,835,765
Nestle Nigeria plc	11,910,016	13,399,870	16,875,084	18,908,215	21,252,320
Cardbury Nig.	3,765,470	6,122,298	7,745,935	15,152,664	18,017,952
Unilever Nig. Ltd	9,130,800	13,728,900	15,700,200	15,327,400	16,522,500
Guiness Nig. Plc	20,794,145	23,102,931	21,767,263	25,667,544	31,638,847
International Brew.					
7up bottling Coy	4,019,787	5,025,595	7,202,981	8,098,947	11,240,326
Dangote Sugar Ref.				14,267,957	14,035,716
Floor mill	9,954,550	12,754,859	19,791,189	26,359,103	34,002,571
Vita foam Nig					
Pz Cusson Nig	17,475,216	21,573,417	25,067,953	32,593,231	33,441,359
Oando	5,981,722	19,823,858	21,190,995	22,113,920	44,713,575
Total Nig plc	4,019,028	3,742,235	4,131,818	5,765,754	6,338,944
Mobil Oil Nig	686,083	882,551	3,305,081	2,833,678	2,248,348
MRS Oil Nig	5,278,153	5,808,106	6,092,668	7,423,295	8,974,879
Conoil plc	6,771,544	7,596,787	8,486,137	11,294,897	11,980,005
May & Baker Plc	361,083	409,452	644,129	1,664,154	1,778,032
Evans Medical plc	1,537,467	2,369,375	2,529,500	2,908,469	3,151,753
Fidson Healthcare	8,208,393	7,617,413	5,350,817	5,267,324	5,218,767
Glaxo Smithkline	1,086,958	2,122,516	2,694,896	3,114,228	3,515,775
Pharmadeko plc	196,357	244,988	423,288		-66,437
Access Bank	22,582,040	31,541,507	66,918,315	174,553,866	328,615,194
Diamond Bank	61,740,581	73,093,235	130,653,783	227,833,154	320,419,399
Fidelity Bank	1,189,177	1,533,731	4,274,920	119,985,801	217,144,465
FBNH	409,083	384,211	470,839	616,824	884,624
FCMB	15,164,119	23,790,248	51,316,268	106,611,269	262,905,890
Gtb	89,496,560	133,835,115	195,151,243	308,410,742	486,491,079
Skye Bank	20,934,490	25,998	31,990	174,197	446,114
UBA		212,024	250,783	884,137	1,191,042
Wema banks	61,323,432	71,423,836	97,909,060	120,109,067	165,081,531
Zenith bank	112,534,638	193,321,489	332,885,096	810,768,300	883,940,926
Eco Bank					
Stanbic	23,947,073	31,612,307	39,151,016	113,183,308	315,107,101
Aiico Insurance	12,509,425	8,714,155	10,729,688	9,666,922	8,576,490
Sterlying bank		45,252,454	21,341,796	111,765,461	156,735,855

COMP. NAMES	2008 NBV N'000	2009 NBV N'000	2010 NBV N'000	2011 NBV N'000	2012 NBV N'000	2013 NBV N'000
A.G Leventis	3,364,045	3,987,993	4,264,914	4,487,875	7,491,994	11,896,147
Scoa						
Challarms						
UACN	64,011,370	62,283,799	67,618,170	69,016,388	71,358,619	75,708,250
Transcorp	25,369,192	22,947,131	26,638,920	40,958,744	41,434,947	122,211,610
Lafarage - Wapco	40,456,120	43,710,558	48,306,431	56,109,455	68,274,284	125,187,161
Dangote Cement	72,512,218	142,112,234	208,238,023	294,318,046	427,606,594	31,566,347
Cap plc	686,461	754,441	1,089,321	1,598,672	1,118,572	480,427
Berger paint plc	1,216,686	1,344,753	1,678,532	1,776,566		1,557,794
Beta glass company	7,289,566	8,524,350	10,073,211	11,327,212	12,455,803	9,693,742
Nestle Nigeria plc	29,169,662	47,251,802	60,828,397	77,728,293	88,963,218	65,878,425
Cardbury Nig.	23,901,206		28,673,972	32,642,612	39,811,415	16,941,156
Unilever Nig. Ltd	37,377,492	44,481,277				0.00
Guiness Nig. Plc	36,862,557	31,524,701	34,199,119	40,283,492	40,352,504	
International Brew.						11,950,551
7up bottling Coy	3,233,218	3,967,235	4,409,059	5,576,272	6,280,352	28,585,029
Dangote Sugar Ref.	32,627,198	41,612,797	39,089,653	39,133,709	46,269,159	40,416,099
Floor mill	35,056,611	37,158,275	53,266,920	49,995,434	82,340,812	171,278,979
Vita foam Nig	1,345,847	1,683,608	1,686,509	2,376,079	2,463,903	3,737,296
Pz Cusson Nig	33,776,134	37,139,676	40,330,952	43,168,734	40,868,042	24,370,445
Oando	44,039,417	60,380,666	93,679,644	90,421,960	101,301,478	
Total Nig plc	7,268,984	6,982,835	8,929,188	10,026,215		23,280,456
Mobil Oil Nig	2,837,062	4,176,545	5,958,683	6,828,597		29,817,606
MRS Oil Nig			18,639,866	18,988,685	19,054,010	29,817,606
Conoil plc	11,892,688	13,511,103	9,699,381	11,012,120		
May & Baker Plc	2,753,626	2,705,707	2,932,181	3,153,220	3,137,502	4,795,503
Evans Medical plc						
Fidson Healthcare	4,965,948	5,095,021	5,230,914	5,393,271	5,228,436	
Glaxo Smithkline	9,611,281	12,078,362	478,351	478,351	478,351	
Pharmadeko plc			1,401,249	1,329,067	2,128,112	2,020,263
Access Bank	524,963,494	529,071,451	631,568,637	1,436,938,447	150,384,061	94,897,000
Diamond Bank	678,552,490	648,433,473	592,851,763	796,231,792	117,810,375	55,553,831
Fidelity Bank	506,267	435,666	500,507	737,804	914,360	37,470
FBNH	2,009,914	2,153,750	2,354,831	2,860,169	3,186,128	123,601
FCMB	515,601,585	463,641,243	537,593,099	601,616,494	908,545,756	12,592,293
Gtb	920,493,467	1,032,954,608	1,083,304,116	523,527,545	162,031,722	586,717,534
Skye Bank	790,708	632,511	705,859	927,102		32,606
UBA	1,673,333	1,548,281	1,599,185	1,920,435	2,272,923	107,946
Wema banks	110,981,613	142,785,723	199,348,267	221,157,042	245,704,597	13,983,107
Zenith bank	1,192,737	1,178,188	1,319,762	1,655,458	2,604,504	71,345
Eco Bank	432,466	355,662	443,978	1,085,058	1,335,315	
Stanbic			387,218	554,504	676,819	31252
Aiico Insurance	7,399,561	8,551,354				6,320,086
Sterlying bank	236,502,923	205,640,827	259,579,523	504,048,213	580,225,940	16,641,904

3. METHODOLOGY:

The population of the study comprises of all the quoted companies on Nigeria stock exchange which according to according to www. African-market.com, are about 192 in number, however for the purpose of this study only 45 companies will be used. Nestle Nig. PLC, Cadbury Nig. PLC, Unilever Nig. PLC, Guinness Nig.PLC, International Brewery PLC, 7up Bottling Company PLC, Dangote Sugar Refinery PLC, Flour Mills Nig PLC,VITA foam Nig. PLC, PZ Cusson Nig. PLC, May & Baker Nig. PLC, Evans Medical PLC, FIDSON Healthcare PLC, Glaxo Smithkline Consumer Nig. PLC, Pharmadeko PLC, Oando PLC, Total Nig. PLC, Mobil Oil Nig.PLC, MRS Oil Nig. PLC, Conoil PLC , Lafarge Wapco PLC, Dangote Cement PLC, CAP PLC, Berger Paint PLC, Beta Glass Company. Access Bank, Diamond Bank, Fidelity Bank of Nigeria, First bank of Nigeria

Holding PLC, First City Monument Bank, Guaranty Trust Bank, Skye Bank,Sterling Bank, Union Bank of Nigeria, United Bank of Africa, Wema Bank, Zenith International Bank PLC, ECO Bank Transnational incoporated, Stanbic IBTC holdings, AIICO Insurance PLC, A.G. Leventis, SCOA Nig. PLC, Chellarams PLC , Transnational Corporation of Nigeria,United Africa Company of Nigeria. Furthermore, The analysis for this study is based on secondary data obtained from firms' annuals report which provides financial information covering selected firms in NSE Markets. The data obtained were analysed using multiple regression analysis. These Information obtained, covered a period of 11 years (i.e. 2003 – 2013). The sampling method used for this study was non – random sampling method based on purposive sampling technique.

Data Analysis and Interpretation.
Table 1.
Multiple Regression Analysis of qualitative accounting information and book value of stock

Statistics	Estimates	t-cal.	Sig
R	0.126		
R^2	0.016		
AR^2	-0.056		
F	0.220		0.882
a_o	3.798	3.769	0.001
AR	0.111	0.421	0.676
NA	-0.036	-0.097	0.923
SAP	-0.117	-0.582	0.564

Note: b_o = Auditors report, c_o = Notes to the Accounts,
d_o = Statements of Account policies
BV = Book value
AR = Auditors Report
NA = Notes to the Account
SAP = Statement of Account policies
BV = a_o + AR + NA + SAP
BV = 3.798 + 0.111AR -0.035NA -0.117SAP
    (3.769)   (0.421)   (-0.097)   (-0.582)
Note: t- values are in bracket

4. DISCUSSION OF FINDINGS:
The result in table above shows a correlation coefficient (R) of 0.126. This shows a positive correlation between the independent variables qualitative accounting information (statement of account policies; notes to the accounts; auditors report) and dependent variable (book value of stock). The positive sign of the correlation coefficient (0.126) show that increase in the independent variables increased the dependent variable (book value of stock), but to a low extent, within the period under review.

With the coefficient of multiple determinations (R^2) of 0.016, one observes that 1% of variation in book value may be attributed to a magnitude increase in qualitative accounting information (statement of account policies; notes to the accounts; auditors report). In other words, close to 2% of the variability in observed dividend per share is explained by qualitative accounting information (statement of account policies; notes to the accounts; auditors report) in the study area. The remaining 98% as observed here may be due to other factors that affect book value of stock.

The F-statistics shows that F-calculated = 0.220 with a corresponding significant value of 0.882 is greater than the level of significant (0.05 confidence level) (i.e. P>0.05 = 0.882). Therefore, the researcher concludes that the model is not that very useful. That is, there is no relationship between qualitative accounting information (statement of account policies; notes to the accounts; auditors report) and book value of stock.

The constant (a_o) estimated as 3.798 N'000 represent the value of the dependent variable (book value of stock) without the independent variables (i.e. if the independent variables are equal to zero, the value of book value of stock will be 3.798 N'000). However, if the independent variables have values, they will be evaluated accordingly and the value of book value of stock will be obtained.

The test of significance reveals that only constant has significant value of 0.001 which is less than 0.05 level of significance (confidence level i.e $P<0.05 = 0.001$). Therefore, from the model, none of them is significant in explaining the level of book value of stock.
Statement of account policies; Notes to the accounts; and Auditors report, on the contrary have a significant values of 0.564; 0.923 and 0.676 which is greater than the level of confidence of 0.05 $(P>0.05)$.
Therefore, they are concluded not significant in the model.

5. CONCLUSION AND RECOMMENDATIONS:

Base on the findings and literature review of this study. The study advance the following conclusion and recommendations;

i.   Accounting information plays a significant role in investment decision making and invariable contributed to stock market development. Therefore, it is very important to improve on the quality of accounting information by the preparer of such accounting information, which in turn is expected affect economic development.
ii.   Generally, it was observed that investors gave diverse opinion while commenting on the relevance of accounting information for investment decisions which makes its to be an important information that cannot be over emphasized when taking investment decisions as it use is capable of showing which company is to be invested into while it also helps companies to know when it is appropriate to inject fresh and additional capital.
iii.   Considering the importance of Earnings, Dividends and Book value of stock in investment decisions, the study recommends that all quoted companies on the Nigerian Stock Exchange should Endeavour to prepare Simplified Investor's Summary Accounts (SISA) with special reference on the most widely used accounting information along side with the mandatory detailed financial statements to conform with the peculiarities of Nigeria. This will no doubt remove information ambiguity and over-load which may serve as bottle –necks and problems for those who are Non- Accountants and non- Financial analysts.

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