VALUE RELEVANCE OF ACCOUNTING INFORMATION ON DIVIDEND PER SHARE IN SELECTED QUOTED COMPANIES IN NIGERIA

Dr. Adetoso, J.A
Department of Financial Studies, Redeemer's University, P.M.B 230, Ede, State of Osun Nigeria.
Email - adetosoja@gmail.com

Abstract: This study examines the value relevance of accounting information in selected quoted companies in Nigeria from 2003 – 2013. It considers both quantitative and qualitative accounting information in explaining the details of accounting information and it employs the secondary data. This secondary data were obtained from the Nigeria Stock Exchange (NSE) Fact Book and from Online Stock broking Firms. The study made use of non- random sampling method specifically purposive sampling technique in selecting all companies regarded as notable company under the NSE and this companies are fourty-five (45) in number. The variables considered in this study were accounting information and dividend policy which were proxied by dividend per share and quantitative/qualitative accounting information. This variables were analysed by using Pearson correlation coefficient and the result of the analyses shows that accounting information does not have significant relationship on dividend per share. The study thus, recommended that existing investors and potential investors should carry out critical and objective analyses of any quoted company they are interested in, instead of depending only on the changes in the dividend per share and accounting information.

Key Words: Stock Exchange, monetary, accounting, Financial.

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. Value relevance means that there is a statistical association between financial information and prices or returns, and that the accounting based measures explain market prices in a good way, under the efficient market assumption that pricing reflects available information (Francis & Schipper 1999). This definition of value relevance conforms to the statement of the importance of value relevance of accounting information in the Framework for the Preparation and Presentation of Financial Statement (IASC, 1989). Relevant information is such that "… influences the economic decisions of users by helping them evaluate past, present and future events". In recent times, value relevance of

financial information has become of increasingly concern for researchers (Hellstron, 2005). Value relevance is one of the basic attributes of quality of the financial statements. The concept of the value relevance of accounting information is defined as ‘‘the ability of accounting numbers to summarize the information underlying the Dividend per shares, thus the value relevance is indicated by a statistical association between financial information and prices or
returns’’(Jianwei and Chunjiao, 2007). Listed companies use financial statements as one of the major medium of communication with their stakeholders. Therefore, stock market regulators and accounting standards setters try to improve the quality of financial statements in order to increase the transparency level in financial reporting (Vishnani and Shah, 2008). Financial Statements will consist of different type of information such as Financial Information or Accounting Information and Non Financial Information or Non Accounting Information. 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).

1.2 STATEMENT OF THE PROBLEM:

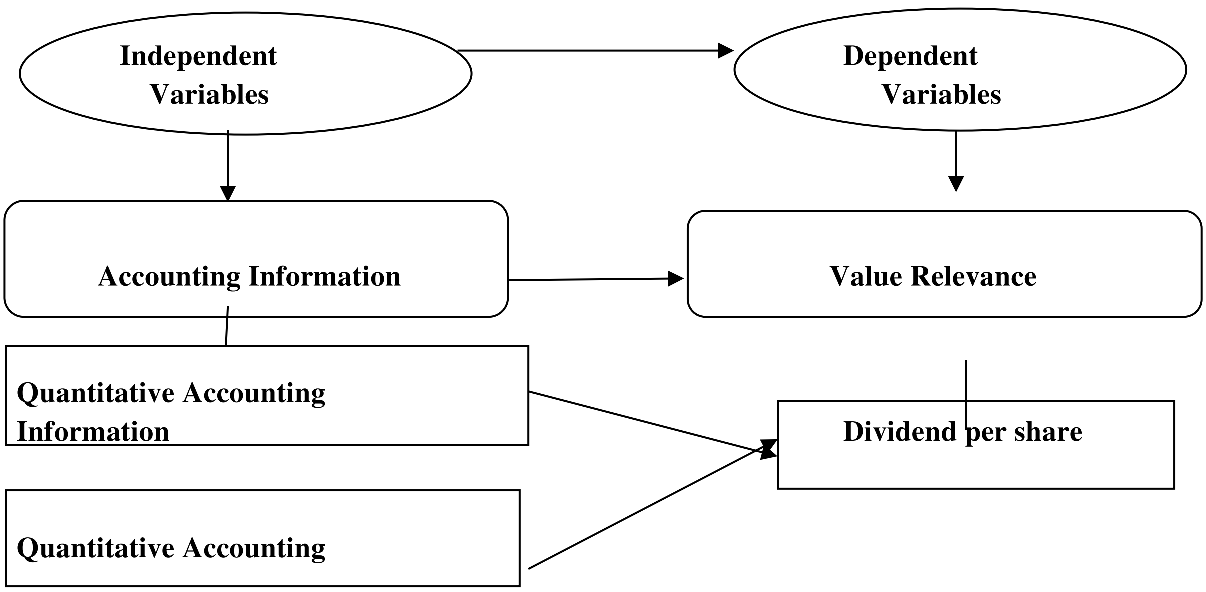
The Nigerian market is increasingly becoming a sophisticated market. Customers are becoming more discerning and governance framework is gradually being improved through various codes of corporate governance which have been introduced. The competitive environment which now exists as a result of market-oriented economic policy reforms enacted by the Government of Nigeria further creates opportunities for investors. However, a key policy strategy in repositioning the Nigerian economy is the attraction of Foreign Direct Investments into the economy to provide investible funds. Moreover, the perception of Nigeria as a risky country makes it difficult to depend on information available on dividend per share of quoted companies. This is attributable to the limited financial reporting and disclosures made by reporting entities in Nigeria. This is so because some of these entities do not provide investors with sufficient accounting information that will enable them to understand the dividend payment strategies and permit informed judgements and Decisions.

1.3 OBJECTIVE OF THE STUDY:

The main objective of the study is to examine the impact of accounting information on dividend per share of selected quoted companies in selected quoted companies while the specific objective is to examine the relationship that exist between accounting information and dividend policy of the selected quoted companies.

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. Residual Income Valuation: The Ohlson Model

Ohlson (1995) proposed a model which supplies a link between market values and accounting data and other information. It is considered by Beaver (2002) to be one of the few and most important research developments in market based accounting literature. This model first starts with the dividends discounted model and then assumes clean surplus relation to allow the market value of a company to be represented by the book value of shareholders' equity plus the present value of future abnormal earning. Ohlson's (1995) contribution comes from the linear information dynamics allowing the residual income valuation model to be operationalised in value relevance literature. Starting with the dividends discounted model (see section 2.2.3), firms' market value (t) equals:

$$\mathrm{Pt} = \sum_{r=1}^{\infty} \frac{Et\ (Dt+r)}{(1+r)^{r}} \qquad (1)$$

In order to use the outputs of the accounting system within a valuation model that is consistent with this dividend discount model, Ohlson (1995) used the clean surplus definition of accounting earnings. The clean surplus relation makes it possible to express value in terms of earnings and equity book values. The clean surplus relation can be expressed as follows:

$BVt = BVt{-}1 + Xt -$; or, $Dt = Xt + BVt{-}1 - BVt$ (14)

Where Xt is earnings for the period t; $BVt$is book value at the end of period t; and Dt is dividends paid for the period t.

Earning was also classified into normal and abnormal earnings. Normal earnings are defined as the risk free rate multiplied by the opening book value of equity and abnormal earnings are the difference between realized earnings and normal earnings, as in the following models:

$Xt\ n = rBVt{-}1$ (15)

$Xta = Xt - rBVt{-}1$ (16)

Where Xt

n is the normal earnings and Xt
a is abnormal earnings.
From the previous relations, combining the dividend discount model with the clean surplus relation while assuming that book value of equity grows at a rate less than the discount rate and assuming that the appropriate discount rate equals the risk-free rate; then, firms' market values (Pt) is:

$$P_t = Bv_t + \sum_{r=1}^{\infty} \frac{Et(\Delta t+r)}{(1+r)^r} \qquad (17)$$

This model is known as the residual income valuation model and it represents the value of equity in terms of the sum of the book value of equity and the present value of future expected clean surplus residual income. This expression of the relationship between the value of equity and the outputs of financial reporting systems forms one of the bases of the Ohlson (1995) theoretical model. The Ohlson model's major contribution is the introduction of a feature that makes it possible to link current accounting information to their future counterparts by describing the time series behaviour of residual earnings - known as linear information dynamics. This entails the forecast of expected future residual income, which is missing in model (17).

2.3. Empirical Framework:

Value relevance studies investigating temporal changes in explanatory power or coefficient magnitudes of accounting variables have produced mixed results. A likely explanation for the mix results lies on the period of the study and whether there has been any change in its institutional factors or accounting regulations to justify any change in value relevance. These results are inconsistent with shown results from transitional countries that predicted unambiguously an increase in value relevance. The difference is possibly that transitional countries witnessed rapid improvements in short periods of time in both institutional and accounting regulations from the basics of an open economy. These summarize value relevance studies in a number of developing countries with relatively similar methodologies, which primarily uses the coefficient of determination to indicate changes in value relevance. Their objectives also varied from whether changes in accounting practices across countries resulted in differences in value relevance (Graham and King, 2000) or whether changes in accounting regulations resulted in higher value relevance (ElShamy and Al-Qenae, 2005; Khanagha, 2011; Khanagha et al., 2011; Prather-Kinsey, 2006). Overall evidence shows countries with different accounting regulations have different value relevance but failed to show that an alleged improvement in accounting regulations would result in higher value relevance. Prather-Kinsey (2006) justifies the mixed results between South Africa and Mexico despite improvement in accounting regulations for both countries to market infrastructure. Hence, these findings suggest that accounting and country specific factors interact and hence such interaction should be considered by policy makers in their deliberations regarding accounting regulations. Nonetheless, it is not clear to what extent conclusions from these studies generalize to firms in other countries because these studies examine the properties of accounting amount of firms in a single country with often unique institutional features.

Table 1.

2.3.1 EXTRACT OF DIVIDEND PER SHARE OF THE SELECTED QUOTED COMPANIES

Companies Names	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
A.G Leventis	0.07	0.07	0.08	0.1	0.1	0.07	0.7	0.12		0.16	0.16
Scoa	0	0	0	0.1	0	0	0	0	0	0.1	0
Challarms	0.1	0.15	0.15	0.1	0	0	0	0	0	0.05	0
UACN	1.7	0.85	1	1	0.5	1.6	1.04	1.1	1.5	1.6	1.75
Transcorp	0	0	4.23	0.04	0.27	0.22	0.22	0.28	11.1	7.1	4
Lafarage - Wapco	0	0	0.3	1	1.2	0.6	0.1	0.25	0.75	1.2	3.3
Dangote Cement	0	0	0	0.1	0.1	0.1	0.05	2.25	1.2	1.2	3.3
Cap plc	0.5	0.55	0.7	3	3.75	3.3	1.6	3	1.6	1.95	1
Berger paint plc	0.4	0.3	0	0	0	0	0.5	0.7	0	0.7	0.7
Beta glass company	0.5	0.4	0.3	0.1	1.5	0	0	0.38	0	0.34	0.38
Nestle Nigeria plc	1.75	1.6	7	10	8.99	8.4	12.55	0	11.05	18.5	24
Cardbury Nig.	1.5	0	1.3	1.6	1.75	1.3	0	0	0	0.5	1.3
Unilever Nig. Ltd	0.25	0.61	0.7	0	0.6	0	1.07	1.1	0	1.4	1.25
Guiness Nig. Plc	3.75	5.63	5.25	3	3.46	4.5	12.8	7.5	7.5	8.25	10

International Brew.	5.63	3.75	0	0	0	0	0	0	0	0	0.25
7up bottling Coy	0.75	1	1.25	1.25	-	1.5	1.5	1.5	1.75	2	2.2
Dangote Sugar	0	0	0	0	0	0	1	0.6		0.5	0.6
Floor mill	0.4	0.7	0.7	0.85	0.9	1	0.5	2	2	1.6	2
Vita foam Nig	0.3	0.3	0.15	0.12	0.25	0.3	0.25	0.3	0.3	0.3	0.3
Pz Cusson Nig	0.79	0.82	0.69	0.71	0.62	0.68	0.62	0.86	0.86	1.41	0.56
Oando	0	2	3.12	2.5	4	6	3	3	2.39	0	0.75
Total Nig plc	9	9	9.5	2.6	9.5	12.93	11.68	8	9	0	9
Mobil Oil Nig	6.06	6.5	9.1	7.14	4.7	5	7	9.6	0	0	6
MRS Oil Nig	0	3	4.1	5.12	0	5.12	7.5	1.25	0.7	0.233	74.96
Conoil plc	2.92	2	2.5	0	1	7	1.5	2	0	1	0
May & Baker	0.25	0	0.3	0.3	0.3	0.25	0	0	0	0	0
Evans Medical plc	0	0	0.125	0	0.2	0	0	0	0	0.05	0
Fidson Healthcare	0	0.87	1.1	1.1	2.27	0.2	0.22	0.1	0.1	0.12	0.1
Glaxo Smithkline	0.3	0.35	0.4	0.45	0.45	0.6	0.75	1.2	1.2	1.3	0.75
Pharmadeko plc	0.2	0.2	0	0	0	0	0	0	0	0	0
Access Bank	0.05	0.1	0	0	0	0	0	0.3	0	0.6	0.35
Diamond Bank	0.2	0	0	0.11	0	0	0	0.56	0	0	0.3
Fidelity Bank	0.2	0	0	0.11	0.16	0.3	0	0.14	0.14	0	1.4
FCMB	0		0	0	0	0.35	0.5	0	0	0	0
Sterling bank	0	0.1	0	0	0	0	0.1	0	0	0	0
Gtb	0.25	0.45	0.25	0.45	0.7	0.5	0.25	0.7	1	1.3	1.45
Skye Bank	0.1	0.1	0	0	0	0	0.05	0.35	0.2	0.2	0
Union Bank	1.35	1.4	1.4	1	1	0	0	0	0	0	0
UBA	0.45	0.6	0.6	1	0.25	0.75	1.04	1.39	0	0.61	2.69
Wema banks	0.25	0.1	0	0	0	0	0	0	0	0	0
Zenith bank	0.7	0.7	0	0	1	1.7	1.05	0.85	0.95	1.6	1.75
Eco Bank	0.5	0.5	1.4	0.09	0.09	0.02	0.3	0.4	0.4	0.4	0
Stanbic	0.4	0	0.2	0.2	0.3	0.25	0	0.39	0	0	0
Aiico Insurance	0.1	0.1	0	0	0	0.8	0.2	0.5	0	0	0
FBNH	1.55	1.5	1.6	1	1	1.2	1.1	0	0.8	0.6	0.1

Source: Annual Report 2003 -2013 (www.Africanfinancial.com and www. cashcraft.com)

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 Person Correlation Coefficient. 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.

4. DATA ANALYSIS AND INTERPRETATION:

Correlation Analysis of quantitative accounting information and Dividend per share

Table 2. **Correlations**

		Quantitative Accounting Information1	Dividend per share
Quantitative Accounting Information1	Pearson Correlation	1	-.027
	Sig. (2-tailed)		.867
	N	41	41
Dividend per share	Pearson Correlation	-.027	1
	Sig. (2-tailed)	.867	
	N	41	45

The above correlation analysis of quantitative accounting information and dividend per share. It could be noted however, that earnings, book value and turnover were summarized as single variable and it was used as quantitative accounting information. It was analyzed with dividend per share.

5. DISCUSSION OF FINDINGS:

The result of the Pearson correlation coefficient (r) of -0.027, established that there is a low negative correlation between quantitative accounting information and dividend per share. Further, the p-value reported is greater than 0.05 confidence level (i.e. P>0.05 = 0.867). This implies that there is no statistical significant relationship between quantitative accounting information and dividend per share.

6. CONCLUSION AND RECOMMENDATIONS:

Based on the literature review and the empirical analyses of this study, the study advances the following conclusion and recommendations:

i. That 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. Accounting standard setters, Financial Reporting Council and preparers of accounting information should put in more effort towards improving the quality of earnings information which is considered to be most widely used and preferred accounting numbers/variable in Nigeria for investment decision. This could be best done by properly defining and reducing earnings management.

   This is particularly because earning management can be defined in different ways thereby making unnecessary room for creative accounting, Managers, Financial Directors and Accountants who engage in the practice of manipulative earning management should be properly identified and brought to book to serve as deterrent to others who may like to engage in such unholy / unhealthy practice.

iii. Quoted and Corporate firms in Nigeria should be encouraged to undertake aggressive innovative ideas and inventions that are substantial enough to catapult the earnings of the organizations to acceptable level; sufficient enough to stimulate strong investment drives and opportunities,

iv. Investors should critically and objectively analyze the company's overall characteristics when Making Investment Decisions. This is because accounting information are not the same across the industries. Whether earnings, dividends or book value is value relevant depends on both the firm's and industries overall characteristics and its performance in the particular period of time.

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