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ACCOUNTING INFORMATION AND STOCK PRICE: EVIDENCE FROM QUOTED CONSUMER GOODS MANUFACTURING FIRMS

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ABSTRACT:

This thesis investigated the relationship between accounting information and the stock price of publicly traded consumer goods manufacturing firms in Nigeria. The specific objectives were to analyze the relationships between EPS and stock price, the relationship between ROA and stock price of quoted consumer goods manufacturing firms. The study adopted ex post facto research design. The population comprises twenty-one quoted manufacturing firms in the Nigerian Exchange Group (NGX). The study employed descriptive and inferential statistical techniques to analyze the data. The study utilized secondary data from 2011 to 2021 retrieved from annual financial reports. The study analyzed the data using the pooled OLS regression technique. The results revealed that EPS had a non-significant negative effect on stock price, whereas ROA had a significant positive effect on the firm's stock price. The study therefore recommended that investors critically analyze earnings information, for it may be potentially misleading if used as the only criteria for assessment. This is because managers often employ managerial discretion in the selection of accounting policies to shore up performance over time. This study contributes to the literature by identifying the futility of using profitability indicators as a yardstick for stock purchase decisions.

1. INTRODUCTION

Managers are responsible for preparing financial statements, which portray the financial status or position of their firm (Uwuigbe, Uwuigbe, Jafaru, Igbinoba, & Oladipo, 2016). The information contained in financial statements is vital to investors in deciding whether to invest in a company's stock or not (Kachchhy, 2015). They are provided primarily for shareholders to use in order to enable them makes informed judgement and decisions (Eriabie & Egbide, 2016) and enables an investor make a difference in economic decisions that have a predictive value, confirmatory value or both (Uniamikogbo, Ezennwa, & Bennee, 2018). The primary objective of financial statements is to provide information about the company's performance, financial position and to enable users to make better decisions particularly the investors. The users include management, loan providers, creditors, financial analysts, and government. According to Tiron-Tudor and Achim (2019) improved financial disclosure leads to higher-quality earnings, and are associated with more informative stock prices.

Durnev, Morck, Yeung, and Zarowin (2003) argue that more informative stock prices provides a more efficient allocation of capital by reflecting greater firm-specific information. The information is 'value relevant' if stock price movements are associated with the release of such information (Utami & Noraya, 2010). In other words, it captures "more closely the firm's fundamental value" (Tiron-Tudor & Achim, 2019). Value relevance is defined as "the ability of accounting numbers to summarize the information underlying the stock prices, thus the value relevance is indicated by a statistical association between financial information and prices or returns"(Jianwei & Chunjiao, 2007). Several factors may affect a company's stock price, these includes financial and monetary policy, industrial policy, foreign trade policy and other macro-economic factors, financial information, investors' expectation, market supervision and other internal factors (Kachchhy, 2015). Studies have focused on the relationship between accounting information and stock prices. For instance, despite the sustained growth in the Nigerian capital market between 2001 up to the second quarter of 2008, the immediate pronouncement of the financial crisis in July, 2008 in United State of America (USA), led to a downturn of activities at the market (Hassan & Haque, 2017).

The focus of this study is the fact that in the Nigerian context studies such as Musa (2013) have shown the value relevance of accounting information in explaining stock price information in the conglomerate sector; similarly, Olugbenga and Atanda (2014) reported a significant relationship between accounting information and share prices of companies listed on the Nigerian stock exchange. Prior studies such as Musa (2013), Olugbenga and Atanda (2014), Ijeoma (2015) mainly focus on book value and earning per share (EPS) of firms on the Nigerian stock exchange. Ijeoma (2015) found a significant relationship between EPS, Book Value,Retorn on Equity (ROE) and Share Prices of listed firms. Ewereoke (2018) using pooled cross sectional regression reported a significant relationship between EPS and Share Prices of listed firms.

Secondly, the vast literature have failed to document evidence of market reflection of accounting information following IFRS adoption. The study by Chen, Tang, Jiang, and Lin (2010) examine the relationship between accounting quality and International Financial Reporting Standards (IFRS) in Europe and found that IFRS played a role in improving the financial reporting quality. According to Tiron-Tudor and Achim (2019), IFRS "are a set of high-quality accounting standards which aim to improve the financial reporting quality for adopters". Thus, it is expected that as Nigeria has keyed in to this to enjoy significant benefits, and may allow more firm-specific information to incorporate into stock prices. The present international accounting setting provides an opportunity to examine why there are differences in earnings quality (Houqe, van Zijl, Dunstan, & Karim, 2012). The present study evaluates implication of IFRS on accounting information relevance to stock prices of quoted manufacturing firms. As stated by Tiron-Tudor and Achim (2019), IFRS improves accounting information comparability across markets and countries.

1.1 Objectives of the Study

The main objective of the study is to ascertain the relationship between accounting information and stock price of quoted consumer goods manufacturing firms in Nigeria. The study specifically examines the following:

1. To determine the relationship between earnings per share and stock price of quoted consumer goods manufacturing firms.
2. To evaluate the relationship between return on assets and stock price of quoted consumer goods manufacturing firms.

1.2 Hypotheses

The following hypotheses are formulated in Null form:

H_1: There is no significant relationship between earnings per share and stock price of quoted consumer goods manufacturing firms.

H_2: There is no significant relationship between return on assets and stock price of quoted consumer goods manufacturing firms.

2. LITERATURE REVIEW

2.1 Conceptual review

2.1.1 Accounting Information

Accounting information refers to information contained in published financial statements of a company. It is defined as the written quantitative information presented in the financial statement (Oyerinde, 2009). Financial statements are published in annual, half yearly or quarterly reports (Olowolaju & Ogunsan, 2016). Accounting information is of prime importance to several stakeholders. The "management use them to improve efficiency, investors use them for investment decisions, creditors use them for credit rating, regulators use them to determine the extent of compliance to regulatory issues while government use them for tax and fiscal policies" (Olowolaju & Ogunsan, 2016, p.129).

2.1.2 Stock Price Information

A share price is the price of a single share of a company's stock (Uniamikogbo, Ezennwa, & Bennee, 2018). Stock price informativeness shows the amount of information about future earnings that is capitalised into the price (Durnev, Morck, Yeung, & Zarowin, 2003). According to Tiron-Tudor and Achim (2019) "stock returns reflect new market-level and firm-level specific information". Share prices of a publicly traded company are usually determined by market forces of demand and supply. Value relevance measures the joint response of earnings or some other measure of accounting and market returns to information arrival (Dahmash, Durand, & Watson, 2009). This can be explained via a statistical relationship between accounting variables and share prices (Hassan & Haque, 2017).

Studies by Holthausen and Watts (2001) and Negakis (2005) found that earnings and book values have no similar effect on stock prices. Another stream of research has shown evidence that the effect of earnings and book values on stock prices is different for different industries (Boone, 2002; Riley, Pearson, & Trompeter, 2003) or different countries (Bo, 2009; Filip & Raffournier, 2010; Ibrahim et al., 2009). In Nigeria, the study by Ijeoma (2015) found a significant relationship between EPS, book value, ROE and share prices of firms listed on the Nigerian stock exchange.

In Pakistan, the study by Asif, Arif, and Akbar (2016) using a sample of firms from KSE-30 index found that net operational cash flow per share had a positive non-significant effect on average share price. In Nigeria, the study by Olugbenga and Atanda (2014) using a sample of quoted companies firms in the Nigerian stock exchange showed a significant relationship between accounting information and share prices; specifically, information on earnings, dividend, book value and cash flows predict share prices of quoted firms. The study by Mondal and Imran (2010) using a sample of firms on the Dhaka stock exchange examined value relevance of accounting variables on stock prices. The result showed that profitability is value relevant and affect stock prices. Hague and Faruquee (2013) found a positive significant effect of ROA on share price. Using empirical data from China, Nguyen (2016) from a sample of listed firms on Ho Chi Minh City stock exchange (HOSE) and Hanoi stock exchange (HNX) showed that profit positively affected stock price.

2.2 Theoretical Review

2.2.1 Efficient Market Hypothesis (EMH)

EMH was initially used to refer to a market that adjusts itself rapidly to new information (Fama, 1970). However, this view was later modified to a market which fully reflects all available information, i.e., "efficient market" (Fama, 1991). An efficient stock market is expected to be externally and informationally efficient; such that security prices at any point in time are an unbiased reflection of all the available information on the security's expected future cash flows and the risk involved in owning such a security (Reilly & Brown, 2003). The basis of EMH is that any "variable change announcements should only have an impact on stock prices if they are unanticipated by capital market participants" (Olowolaju & Ogunsan, 2016, p.133).

2.3 Empirical Review

Tiron-Tudor and Achim (2019) conducted a study titled 'Accounting quality and stock price informativeness: A cross-country study'. The authors utilised secondary data from 18 developed countries from 2004 to 2015. The sample included only countries that have adopted IFRS as a reporting standard. The data was analysed using multiple regression technique. The results showed that a significant negative effect on stock price synchronicity but a significant positive effect on idiosyncratic volatility.

Ewereoke (2018) undertook a study titled 'Value relevance of accounting information in a transitional economy: The case of Nigeria stock market'. The sample comprised of 68 companies selected using multiphase sampling technique. The study relied on secondary data obtained from annual financial statements. The data were analysed using adopted the Ordinary Least Squares approach. The results showed that EPS had a positive significant effect on share prices; while, book value per share was positive but statistically insignificant. The results showed that dividend per share had a negative insignificant effect on share prices of companies listed on Nigerian stock exchange.

Hung, Ha, and Binh (2018) conducted a study titled 'Impact of accounting information on financial statements to the stock price of the energy enterprises listed on Vietnam's stock market'. The sample comprised of 44 energy enterprises listed on HSX and HNX. The study relied on secondary data retrieved from financial statements from 2006 to 2016. The data were analysed using OLS and quantile regression models. The results showed a positive significant effect of ROA and a negative non-significant effect of leverage on share price. The authors recommended that investors pay particular attention to accounting information and firms should provide sufficient accounting information on the financial statements, within the prescribed time.

Dang, Tran, and Nguyen (2018) undertook a study titled 'Investigation of the impact of financial information on stock prices: The case of Vietnam'. The sample comprised of 273 listed firms on Ho Chi Minh City stock exchange (HOSE). The study relied on secondary data for the period 2006 to 2016. The data were analysed using multiple regression technique. The results showed that EPS, book value of stock, cash flow from operating activities, and firm size have a positive effect on stock prices. The study recommended among others that investors focus on accounting information in the audited financial statements when purchasing stocks and the provision of accounting information in a complete and timely fashion.

Uniamikogbo, Ezennwa, and Bennee (2018) conducted a study titled 'Influence of accounting information on stock price volatility in Nigeria'. The study adopts the cross-sectional research design. The sample comprised of twenty two (22) companies judgmentally selected using simple random sampling technique. The study relied on secondary data obtained from annual reports and accounts for a period of five years (2013-2017). The data were analyzed using descriptive statistic and Ordinary Least Square (OLS) regression. The results showed that earnings per share and dividend per share have a negative and significant effect on stock prices while book value per share has a positive and significant effect on stock prices.

Hassan and Haque (2017) conducted a study titled 'Role of accounting information in assessing stock prices in Bangladesh'. The sample comprised of 93 companies from six industries (Bank, Cement, Pharmaceutical and Chemicals, Textile, Fuel & Power, and Engineering) listed on the Dhaka stock exchange (DSE), Bangladesh. The study relied on secondary data obtained from companies' official website and DSE from 2012 to 2016. The data were analysed using multiple regression technique. The results showed a positive significant effect of EPS; while, book value per share had a positive non-significant effect on market price per share. The study however offered no recommendation.

Uwuigbe, Uwuigbe, Jafaru, Igbinoba, and Oladipo (2016) conducted a study titled 'Value relevance of financial statements and share price: A study of listed banks in Nigeria'. The sample comprised of 15 listed banks in the Nigerian stock exchange selected using purposive sampling. The study relied on secondary data obtained from the Nigerian stock exchange fact book and audited financial statements for the period 2010-2014. The data were analysed using both descriptive statistics and the Fixed Effects panel data regression method. The results showed a significant positive relationship between earnings per share (EPS) and last day share price (LDSP). The authors recommend the need for banks in the country to improve on the quality of earnings reported.

Eriabie and Egbide (2016) undertook a study titled 'Accounting information and share prices in the food and beverage, and conglomerate sub-sectors of the Nigerian stock exchange'. The study used a comparative analysis research design. The sample comprised of 14 companies randomly selected from the conglomerate and food and beverage subsector (i.e., seven each). The study relied on secondary data obtained from the annual reports of the sampled companies for periods of 2005 to 2014. The data were analysed using multiple regression technique. The results showed that book value per share (BVPS) and earnings per share (EPS) were positive but insignificantly related to market price per share for the conglomerate sub-sector. For the food and beverage sub-sector, both BVPS and EPS were positive; however, only BVPS was significant. The study recommends a sectorial approach in formulating accounting standards and more stringent monitoring of application of accounting rules.

Nguyen (2016) conducted a study titled 'The relationship between financial information and the price of stock of listed firms'. The sample comprised of 147 listed firms on Ho Chi Minh City stock exchange (HOSE) and 179 firms on Hanoi stock exchange (HNX). The study relied on secondary data for the year 2008 to 2014. The data were analysed using multiple regression technique, i.e., the adjusted Ohlson (1995) model. The results showed that book value and profit positively affected stock price.

Asif, Arif, and Akbar (2016) undertook a study titled 'Impact of accounting information on share price: Empirical evidence from Pakistan stock exchange'. The sample comprised of companies listed in KSE-30 index; and, the data collected from annual reports and accounts from 2006 to 2013. The data were analysed using OLS regression models. The results showed that EPS, book value per share and Net operational Cash Flow per Share had positive non-significant effect on average share price; while, capital employed per share had a negative significant effect.

3. MATERIAL AND METHOD

The study adopted the *ex-post facto* research design as the appropriate design for the study. An ex-post facto research design studies events or financial activity of firms as reflected in accounting figures after they have occurred (reporting year). The population of the study comprised of quoted consumer goods firms on the Nigerian Stock Exchange (NSE) from 2010 to 2020 financial year. The number of firms included in this sector was twenty one and therefore constituted the population of the study. The study applied the Krejcie-Morgan (1970) formula to determine the sample size of 21 samples. The formula applied is shown below

$$n = \frac{X^2 N P (1-P)}{e^2 (N-1) + X^2 P (1-P)}$$

Where:

X^2 - Chi-Square value

N - Population Size

e - Margin of error

P - Population proportion

The data for this study was obtained from the annual reports and accounts of 2010 to 2020 of the selected companies. Using the E-Views statistical software, the hypotheses were tested using correlation analysis to examine the degree of relationship among the variables, as well as the multiple regression technique to validate the hypotheses.

4. RESULT AND DISCUSSION

4.1 Descriptive Analysis of Data

Table 3: Descriptive statistics of dependent and independent variables in the study

	SP	EPS	ROA	SIZE	LEV
Mean	75.02994	-7.233918	0.068917	24.30602	0.408816
Median	9.040000	0.217098	0.040675	25.00977	0.135650
Maximum	4204.110	66.71743	1.973650	27.25528	12.95956
Minimum	0.160000	-269.8721	-3.021770	18.46098	0.000000
Std. Dev.	376.5991	40.09766	0.351564	2.178067	1.279317
Skewness	8.945164	-4.897765	-0.675395	-1.019077	7.062213
Kurtosis	89.55759	28.08207	37.70244	3.273294	60.31794
Jarque-Bera	75518.70	7008.939	11658.81	40.87806	33686.84
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	17406.95	-1678.269	15.98865	5638.997	94.84532
Sum Sq. Dev.	32762015	371407.0	28.55089	1095.858	378.0667
Observations	232	232	232	232	232

Source: E-Views 9

The average value of EPS was approximately negative 7.233 (because some of the firms in the sample had losses during the period of the study). The EPS and ROA were negatively skewed. The standard deviation of the study variables showed moderate to high values when compared to the mean. This suggests the likelihood of a great variability of the data points from the average value. The average value of the natural logarithm of total assets was 24.306 (i.e., many of the firms had total asset values up to several million and billions); the lower standard deviation suggests that the majority of the firms clustered around the central value. The average value of leverage was 0.408; that is, 1% debt financed. The standard deviation of this variable showed a low value of 1.279 compared to the mean. This suggests the likelihood of a lower degree of variability of the data points from the average value. The minimum value of leverage was 0.00; suggesting the possibility of the absence of debt financing for some firms in the sample during the study period.

Table 4: Correlation matrix of variables

	SP	EPS	ROA	SIZE	LEV
SP	1				
EPS	-0.07537	1			
ROA	0.266938	0.01718	1		
SIZE	-0.12862	0.153008	0.051683	1	
LEVERAGE	0.216354	0.025218	-0.03589	-0.44365	1

Source: E-Views 9

EPS was negatively correlated with the share price while the growth negatively correlated share price. The ROA positively correlated with the share price. The control variable of firm size negatively correlated with share price while leverage positively correlated with the share price. EPS positively correlated with ROA. EPS is also positively associated with firm size and firm leverage. The ROA positively correlated with firm size and negatively correlated with leverage. The firm size is also negatively associated with firm leverage.

4.2 Test of Hypotheses

This study employed multiple linear regression techniques to test the hypotheses. The Pooled OLS (Ordinary Least Squares) technique used in this study is consistent with the suggestion by Anachedo, Egbunike, Nnojie, and Jeff-Anyeneh (2021); and, the study of Ewereoke (2018).

$$SP_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 ROA_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \varepsilon_t \quad 1$$

Table 5: Pooled OLS output for the test of hypotheses

Dependent Variable: SP

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	452.5242	301.6390	1.500218	0.1350
EPS	-0.686378	0.574740	-1.194241	0.2336
ROA	273.4578	64.77698	4.221528	0.0000
SIZE	-19.26192	12.31915	-1.563575	0.1193

LEV	53.98319	20.00722	2.698186	0.0075

R-squared	0.187041	Mean dependent var	75.02994
Adjusted R-squared	0.165362	S.D. dependent var	376.5991
S.E. of regression	344.0553	Akaike info criterion	14.54919
Sum squared resid	26634165	Schwarz criterion	14.65319
Log likelihood	-1680.706	Hannan-Quinn criter.	14.59113
F-statistic	8.627805	Durbin-Watson stat	1.218801
Prob(F-statistic)	0.000000		

Source: E-Views 9

The R-squared value was 0.187 and the adjusted R-squared value was .165; thus, the model explains approximately 16.5% variation in the dependent variable. The value of the F-statistic was 8.628 ($p <.05$); thus, the hypothesis that all the regression coefficients are zero is rejected. Both the F- statistics and adjusted R^2 for the regression suggest that the overall model is a good fit and explains the variation in stock price.

4.2.1 Hypothesis One

H_1: There is a significant relationship between earnings per share and stock price of quoted consumer goods manufacturing firms.

The *coefficient* and *t-statistic* of our variable of interest (EPS) are negative and statistically insignificant [*t-statistic* (-1.194), *p* (0.2336), >.05)]; thus, the alternate hypothesis is rejected and null accepted. Therefore, "there is no significant relationship between earnings per share and stock price of quoted consumer goods manufacturing firms".

This finding is consistent with the study by Uniamikogbo, Ezennwa, and Bennee (2018) in Nigeria on a sample of twenty-two (22) companies' analyzed using Ordinary Least Square (OLS) regression showed that EPS had a negative significant effect on stock prices. This is contrary to the study by Ewereoke (2018) in Nigeria on a sample of 68 companies analysed using the Ordinary Least Squares approach which found that EPS had a positive significant effect on share prices. Also, Hassan and Haque (2017) in Bangladesh reported a positive significant effect of EPS.

4.2.2 Hypothesis Two

H_2: There is a significant relationship between return on assets and stock price of quoted consumer goods manufacturing firms.

The *coefficient* and *t-statistic* of our variable of interest (ROA) are positive and statistically significant [*t-statistic* (4.222), *p* (0.000), <.05)]; thus, the alternate hypothesis is accepted and null rejected. Therefore, "there is a significant relationship between return on assets and stock price of quoted consumer goods manufacturing firms".

This finding is supported by the study of Hung, Ha, and Binh (2018) on a sample of energy firms in Vietnam, analysed using OLS and quantile regression showed a positive significant effect of ROA on the share price.

CONCLUSION AND RECOMMENDATIONS

The focus of this study is to empirically analyze the nexus of accounting information and stock price performance of quoted consumer goods firms in Nigeria. Authors from the accounting and finance domain argue that the financial statement is a window to the activities of managers in a firm. Therefore, arguably there should be a link between the published financial statement and the stock price of a company. Mainly prior studies have utilized the EPS and BVPS to explore such a relation. The current concludes that accounting information has varying effects on stock prices. The empirical data analysis showed a non-significant negative effect of earnings per share on the stock price. However, the return on assets had a positive relationship with stock prices. Based on the empirical analysis reported previously, this study makes the following recommendations:

1. Investors should critically analyse earnings information which may potentially be misleading if used as the only criteria for assessment. This is because managers often employ managerial discretion in the selection of accounting policies to shore up performance over time. This evidence is substantiated by the non-significant negative

relationship between earnings per share and stock price of quoted consumer goods manufacturing firms.

2. Investors can utilize the ROA as a short-term investment evaluator of the firm's performance which is linked to share price movement. This is evident from the positive significant relationship between return on assets and stock price of quoted consumer goods manufacturing firms. Regulatory authorities, such as the SEC, CBN and FRCN employ more stringent monitoring in banks and manufacturing firms to ensure the sustained application of relevant accounting rules.

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Appendix I

Table 1: Number of quoted consumer goods firms in the study

Company	Date Listed	Date Incorporated
CADBURY NIGERIA PLC.	-	January 9, 1965
CHAMPION BREW. PLC. [BLS]	September 1, 1983	July 31, 1974
DANGOTE SUGAR REFINERY PLC [CG+]	March 8, 2007	January 4, 2005
DN TYRE & RUBBER PLC [MRS]	-	October 21, 1961
FLOUR MILLS NIG. PLC. [CG+]	-	September 29, 1960
GOLDEN GUINEA BREW. PLC. [BLS]	-	September 26, 1962
GUINNESS NIG PLC [CG+]	January 2, 1965	April 29, 1950
HONEYWELL FLOUR MILL PLC [CG+]	October 20, 2009	July 9, 1985
INTERNATIONAL BREWERIES PLC. [BLS]	-	December 22, 1971
MCNICHOLS PLC	December 18, 2009	April 26, 2004
MULTI-TREX INTEGRATED FOODS PLC [DIP]	November 1, 2010	October 30, 1999
N NIG. FLOUR MILLS PLC.	-	October 29, 1971
NASCON ALLIED INDUSTRIES PLC	October 20, 1992	April 30, 1973
NESTLE NIGERIA PLC. [CG+]	April 20, 1979	September 25, 1969
NIGERIAN BREW. PLC. [CG+]	September 5, 1973	November 16, 1946
NIGERIAN ENAMELWARE PLC.	-	May 21, 1960
P Z CUSSONS NIGERIA PLC. [MRF][CG+]	-	April 12, 1948
UNILEVER NIGERIA PLC. [CG+]	April 1, 1973	November 4, 1923
UNION DICON SALT PLC. [BRS]	September 23, 1993	November 12, 1991
VITAFOAM NIG PLC.	-	April 8, 1962

Source: The NSE Website (2021)