

# Significance of Accounting Information on Equity Share Investment in Nigerian Listed Companies

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## Abstract

This study investigated the significance of accounting information on equity share investment in companies listed on Nigerian Stock Exchange. The accounting information variable used to establish the significance of accounting information on equity share investment was net book value per share. The study investigated the influence of net book value per share on equity share investment decision makings in companies listed on Nigeria Stock Exchange. **This study used** primary data. Data for the study were collected from a sample of 204 respondents from 68 stock brokerage firms in Nigeria. The findings of the study revealed that there is a significant relationship between net book value per share and equity share investment in the listed companies in Nigeria. Specifically, the finding showed that net book value per share has significant influence on equity share investment and was positively correlated with it. This study aimed at providing information that will assist investors in making equity share investment decisions. The findings of this study will assist or guide both potential and existing investors in making investment decisions in listed companies in Nigeria.

**Keywords:** Accounting information, Equity share investment, Net book value per share,.

## 1.1 Introduction.

The need for adequate, fair, reliable, relevant, timely and unbiased accounting information is irrefutable in a free enterprise economy. One can't over-emphasize the importance of availability of financial accounting information in investment decisions. Financial accounting information assists the investors in selecting the best portfolio for their investment (Ial, 1985). Babalola (2012), in his study, 'Significance of accounting information on corporate values of firms in Nigeria,' claims that the accounting information plays an important role in reflecting investment in the equity share of listed companies in Nigeria.

In the absence of adequate financial accounting information, investors would not be in a position to make wise investment decisions, because it will be difficult to distinguish between potentially successful and unsuccessful business (Chander,1992). Accounting data provide critical information to shareholders and/or investors as far as the company's past performance is concerned, and are used extensively in forecasting future performance and valuations of equity (Mlonzi, Kruger,& Nthoesane,2011).

Existing and potential equity share investors often use accounting information to make investment decisions: they often review a company accounting information to review its financial health and operational profitability. This provides information about whether or not investing in the equity share of a company is a wise investment decision. The investors' decisions to buy or not to take stock depend upon accounting information and the more investors use accounting information, it is expected that rational decisions are made (Shehzad & Ismail, 2014). Investment in equity share is one of the most liquid forms of investment. Book value per share is an important factor which affects investment decision of investors. Understanding of the effect of book value per share on equity share investment decision is very much helpful to various parties such as investors, management, government, etc., as it will help them in taking various important decisions. In developed countries many studies

have been undertaken to study the effect of accounting information on equity share investment, but in Nigeria few related studies have been conducted on this issue (Osuala, Ugwumba & Osuji 2012; Obamuyi, 2013).

In the stock market, many factors can be responsible for the fluctuations in equity share investment. Malhotra and Tandon (2013) state that in those factors, financial accounting information is the main that most investors usually considered in making investment decisions as to whether to invest in a company shares or not. Investors usually rely on financial accounting information to assist them with stock selection. This study carried out an investigation into the relationship between net book value per share and equity share investment in listed companies in Nigeria with a view to providing relevant information that will aid investors' equity share investment decisions

### **1.2 Statement of problem.**

In Nigeria, there is dearth of financial accounting information on the relationship between net book value per share and equity share investment in companies listed on Nigerian Stock Exchange that could assist equity share investors' investment decision making. Oyerinde (2009) studies the value relevance of accounting information in the Nigerian stock market claims that there is little known about the role of accounting information in terms of its ability to summarize equity share investment in the Nigerian stock market. In the absence of adequate financial accounting information, investors would not be in a position to make wise investment decisions, because it will be difficult to distinguish between potentially successful and unsuccessful business. None availability of information on the effect of book value per share on equity share investment has been a hindrance to the equity share investors' evaluation and appreciation of the net asset worth of their investment and therefore served as impediment to equity share investment decision makings. Goddy (2010) in his study, 'Suspension of Firms: A timely Intervention', claims that the investors in Nigeria have suffered untold hardship due to lack of regular and reliable accounting information from the listed companies on Nigerian Stock Exchange.

In order to provide empirical accounting information that will assists investors in making investment decisions, this study examined the relationship between net book value per share and equity share investment in the listed companies in Nigeria. In this research, the average volume (Units) of equity share outstanding in the companies is taken as dependent variable and accounting information variable net book value per share is the independent variable.

However, the ability of accounting information to affect investors' equity share investment decision has been questioned. Novak (2008) claimed that accounting may fail to convey useful information because it is biased, because it is not timely or because it is manipulated. It is sometimes suggested that accounting can hardly convey useful information to investors because it fails to reflect the economic conditions in a timely manner (Basu, 1997). Earnings management may be performed by the managers with a view to temporarily achieving favourable performance information. Manipulated earnings may send misleading signals about the company's economic position to investors (Novak, 2008).

### **1.3 Objective of Study**

To determine the extent to which net book value per share influence equity share investment in the listed companies in Nigeria.

### **1.4 Hypothesis of the study.**

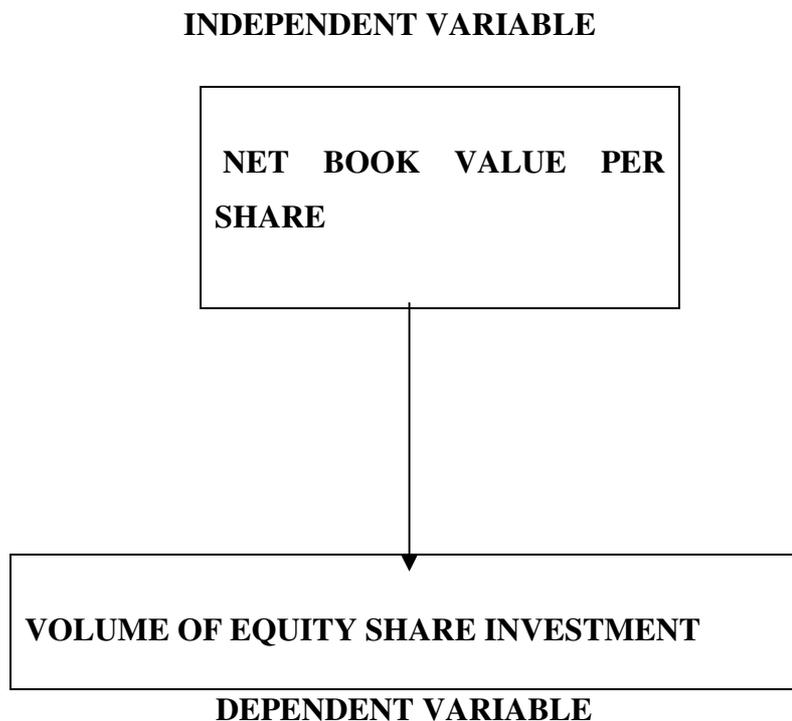
**H<sub>0</sub>:** There is no relationship between net book value per share and equity share investment in the listed companies in Nigeria.

### **2.1 Conceptual Framework.**

From the literature, it has been argued that accounting information plays significant role in determining investors' equity share investment decisions. Gunathilaka (2014) examines the equity investment decision process of retail investors in Sri Lanka. The study gathered opinions using a five-point Likert scale survey questionnaire. He claims that the analysis of 168 responses indicates that the firm's perceived value is the most influencing factor in equity selection. The study identifies accounting information, as the most significant factor influencing equity share investment selection in Sri Lanka. Wang and Liang (2000) believe stock investment cannot be done without accounting information. Olugbenga and Atanda (2014) conclude that accounting information on book values has a positive relationship with equity share investment decisions in Nigeria.

Furthermore, AL- Shubiri (2010) claims in his study that there is highly positive significant relationship between equity share investment and net book value per share.

With a view to facilitating better understanding of the study, the conceptual framework is set out below:



**Fig2.1: Conceptual Frameworks**

## 2.2 Literature review

### 2.2.1 Equity Share Investment

Baker and Haslem, (1973) argue that investors are primarily concerned with expectations about the future, considering earnings projection and historical data to be of high interest to investors. On the other hand, research by Lee and Tweedie, (1975, 1976, and 1977) reveals that the general public faces problems in understanding financial reporting in the corporate sector. The seminal works on the reaction of the stock market to the publication of financial statements (Beaver (1968) in the U.S. and Firth (1981) in the U.K.) found a significant reaction to the publication of annual accounting data in terms of increased share dealing activity and abnormal security returns around the dates of the publication of accounting reports. However, a conclusion of these studies was that the market impounded the information contained in financial statements almost instantaneously. Subsequent evidence (Foster, Olsen, & Shevlin, 1984; Bernard & Thomas, 1990) postulated that this impounding process was not as rapid as earlier works had suggested. Abayadeera (2010) tested for the value relevance of financial and non-financial information in high-tech industries in Australia with a sample size of 91 companies running through various sectors of the Australian economy. His studies showed that value relevance declined in earnings but increase in book value and the book value is the most significant factor and earnings are the least significant factor in deciding equity share investment in high-tech industries in Australia. Vijitha and Nimalathan (2014) examined the relevance of accounting information such as earning per share (EPS), net assets value per share (NAVPS), return on equity (ROE) and price earnings ratio (P/R) to investors' investment decision in listed manufacturing companies in Colombo Stock Exchange (CSE), Sri Lanka. Findings of their research revealed that accounting information has the significant impact on investors' investment decision and accounting information is significantly correlated with equity share investment decision.

## 2.2.2 Net Book Value Per Share (NBVPS) and Equity Share Investment

Glezakos et al (2012) examines the impact of earnings and book value in the formulation of stock prices and stock investors' decisions. Using a sample of 38 companies listed in the Athens Stock Market during the 1996-2008 period, the results of the study suggests that the joint explanatory power of the above parameters in the formation of stock prices increases over time. However, they argued that the impact of earnings is diminishing, compared to the book value, while investors strive towards analysing the fundamental parameters of businesses. Graham, King, and Bailes. (2000) examines value relevance of book value per share and current residual income in Indonesia, Malaysia, Phillipine, South Korea, Thaiwan and Thailand. They find that coefficients of these variables are statistically significant for all the countries. The explanatory power of the model ranges from 24% in Thailand to 90% in Philippines.

Olugbenga and Atanda (2014), exploring the functional relationship between earnings, book values, dividends, cash flow and equity share investment decisions in Nigeria. They found that accounting information, earnings, book values, dividends, cash flow from operations, has a direct/positive relationship with equity share investment decisions in Nigeria. They argued that earnings, book values, dividends, cash flow from operations, are statistically significant in explaining variations in equity share investors' behaviours at 5% level of significance. Furthermore, they analyzed empirically the relationship between book values and equity share investment decision and from the results concluded that accounting information on book values has a positive relationship with equity share investment decisions in Nigeria. Menike and Wang (2013) investigated Stock Market Reactions to the Release of Annual Financial Statements of banks registered in the Colombo Stock Exchange (CSE, Sri Lanka). Their study results showed that the equity share investors' behaviour on the announcement of annual reports was different from that outside the test period and that the positive reactions of investors could be attributed to the favourable information in annual financial reports. Aregbeyan and Mbadiugha (2011) claim that equity share investment decisions in Nigeria are influenced by financial performance of company. Almunani (2014) in his work, "Determinants of Equity Share Prices of the Listed Banks in Amman Stock Exchange" shows that, there is a positive correlation between the independent net book value per share (correlation coefficient =.81) ) and dependant variable equity share investment and it is also significant at 1% probability level.

## 3. 0 Research Methodology

A survey research design was used to collect data and descriptive research design and quantitative approach was utilized to analyze the relationship of financial accounting information variable, net book value per share, and equity share investment and its influence on equity share investment decision makings. The study population for the research were all two hundred and twenty five (225) Stock brokerage firms in Nigeria. The stock brokerage firms are used as proxies for equity share investors because equity share investors are numerous and scatter all over. A sample of sixty eight (68) stock brokerage firms was considered for the study and three respondents were considered in each of the stock brokerage firms for data collection. The selection of samples of stock brokerage firms and respondents from the firms were based on simple random sampling and purposive sampling techniques respectively. **This study used** primary data and the instrument for data collection was questionnaire. A total number of two hundred and four (204) copies of questionnaire were distributed to the respondents.

### 3.11.2 Model Specification.

In this study, simple linear regression model, using the basic Ohlson's model, was adopted to carry out the data analysis. . The basic Ohlson's model adopted in this study is:

$$V_t = \beta_0 + \beta_1 X_1 + \epsilon_t$$

Where:

$V_t$  = Volume of equity share investment proxies by the natural logarithm of average number of share outstanding.

$\beta_0$  =Model intercept.

$\beta_1$  = Beta coefficient of average net book value per share.

$X_1$  =Average net book value per share.

$\epsilon_t$  = Residuals in the model/error term which is assumed to be normally distributed with mean zero and constant variance.

The relationship between net book value per share and equity share investment and the effect of net book value per share on equity share investment were measured by the ordinary least squares (OLS). This model was based

on the assumption that the disturbance terms are uncorrelated across stocks, meaning that decisions to invest in equity shares change only as a reaction to changes in net book value per share. The significance of the independent variable was tested using t- test and the significance of the model was tested using F-Statistics. The test of the goodness of fit of the model was obtained for model summary which determines the R- square (coefficient of determination) which will measure the proportion or percentage of the total variation in the dependent variable(volume of equity share investment) explained by the independent variable, net book value per share.

#### 4 Findings and Discussions

##### 4.1 Descriptive Analysis for Net book Value per Share.

Respondents' responses to various statements concerning the relationship between net book value per share and equity share investment and the influence of net book value per share on equity share investment were indicated in table 4.1. Respondents' average responses to all statements revealed thus: 61.12% strongly agreed to the fact that there is a relationship between net book value per share and equity share investment, in the listed companies in Nigeria, 18% agreed, 20.1% were neutral, 0.78% disagreed and no strongly disagreed. These findings reveal that an average of 79.12% of the respondents upheld the fact that there is a relationship between net book value per share disclosed in firms' financial statements and equity share investment in the listed firms in Nigeria and that net book value per share disclosed in firms' financial statements significantly influence equity share investment decision makings. The fact derived from these findings is that equity share investors employed the net book value per share as a guide for equity share investment decision taking. These findings corroborate the findings of Olugbenga and Atanda (2014) who stated that accounting information, book value per share, has a positive relationship with equity share investment decisions in Nigeria. The discoveries also agreed with the findings of Almumani (2014) whose empirical findings shows that, there is a positive correlation between the independent variable, net book value per share (correlation coefficient =.81) ) and dependant variable , equity share investment and it is also significant at 1% probability level. The average of means and standard deviations of all factors examined under net book value per share on the scale of 1-5 were indicated in tables 4.1 below. The average means of all the factors was 3.962 which show that most responses were 4 indicating that most of the respondents agreed. Given this fact, the findings indicated that greater number of respondents agreed that the factors stated under net book value per share indeed have significant effects on equity share investment in Nigerian listed companies. Furthermore, the average standard deviation of the responses on the various factors of net book per share was 0.636 which implied that there is no variability in the responses on the various factors of net book value.

**Table 4.1: Descriptive Analysis for Net Book Value Per Share.**

Facts	SD	D	N	A	SA	MEAN	STDEV
There is a relationship between net book value per share disclosed in firms' financial statements and equity share investment in the firms.	0.00%	0.0%	16.10%	58.3%	25.6%	4.09	0.68
Net book value per share per share is useful in equity share investment decision makings.	0.00%	0.0%	22.20%	62.8%	15.0%	.93	.61
Net book value per share determines equity share investment	0.00%	1.7%	27.20%	57.2%	13.9%	3.63	0.67
Regular and consistent improvement in net book value per share disclosed by a firm enhance equity share investment	0.00%	2.2%	18.90%	65.6%	13.3%	3.90	0.64
Timely and regular announcement of net book value per share enhance equity share investment decision making.	0.00%	0.0%	16.10%	61.7%	22.2%	4.06	0.62
Total	0.00	3.9	100.5	305.6	90	19.81	3.18
Average	0.00	0.78	20.1	61.12	18	3.962	0.636

#### 4.2 Correlation and Regression Analysis.

The findings (table 4.2) revealed that the correlation coefficient (R) and coefficient of determination ( $R^2$ ) between net book value and equity share Investment were 0.728 and 0.530 respectively. These findings suggest that a positive linear relationship existed between net book value per share and equity share investment and that net book value per share significantly influence equity share investment in companies listed on Nigeria Stock Exchange. The result of  $R^2$  implies that 53.0% of variation in equity share investment in companies listed on Nigeria Stock Exchange can be explained by net book value per share. This finding is in harmony with the findings by Olugbenga and Atanda (2014) on the relationship between net book value per share and equity share investment decision and from which they concluded that accounting information on net book value per share has a positive relationship with equity share investment decisions in Nigeria. Furthermore, the finding is also in agreement with the finding by AL- Shubiri (2010) who claims in his study that there is highly positive significant relationship between equity share investment and net book value per share.

The hypothesis ( $H_0$ ) that there is no significant relationship between net book value per share and equity share investment in the companies listed on Nigerian Stock Exchange (NSE) was carried out by computing the beta coefficient of net book value per share in relation to equity share investment and the examination of its p- value. The beta coefficient was = 0.369 which is significantly different from zero with p-value = 0.000 which is less than 0.05. These results confirmed that there is a significant relationship between net book value per share and equity share investment in the companies listed on Nigerian Stock Exchange. Considering these results, the null hypothesis that there is no significant relationship between net book value per share and equity share investment in the companies listed on Nigerian Stock Exchange was rejected and the alternative hypothesis accepted.

The results of analysis of variance test (ANOVA) for the linear model showed that F-Statistic = 39.893 which is significant with p-value =0.000. Since p-value =0.000 is less than 0.05, the model is significantly fit and therefore the null hypothesis ( $H_0$ ) was rejected and the alternative hypothesis that there is a significant relationship between net book value per share and equity share investment in the listed companies in Nigeria was accepted. This finding corroborates the findings by Olugbenga and Atanda (2014) on the relationship between net book value per share and equity share investment decision and from which they concluded that accounting information on net book value per share has a positive relationship with equity share investment decisions in Nigeria.

**Table 4.2: Correlation, Beta Coefficients and Analysis of Variance (ANOVA) Results for Net Book Value and Equity Share Investment**

Variable	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	$\beta$	Std Error	Beta		
Constant	2.549	0.540		4.72	0.000
Net Book Value Per Share	0.369	0.058	0.728	6.316	0.000
	R = 0.728;	$R^2 = 0.530$ ;	F=39.893 ; Sig = 0.00		

#### 5 Summary, Conclusions and Recommendations

##### Summary

The results of correlation analysis revealed that there is a significant relationship between net book value per share and equity share investment in companies listed on the Nigerian Stock Exchange. The strength of relationship was evidenced by correlation coefficient (R) of 0.728 which is significant at 0.01 levels. Net book value per share significantly influenced equity share investment in companies listed on Nigerian Stock Exchange. This is supported by coefficient of determination ( $R^2$ ) of 0.530. This suggests that 53% of variation in the equity share investment in the Nigerian listed companies can be explained by net book value per share and the remaining 47% can be explained by other factors not captured in the model. The beta coefficient of net book value was 0.369 with p- values of 0.000 which is less than 0.05. This results imply that net book value per share were significantly influenced equity share investment and that a unit (1kobo) change in net book value per share will bring about 0.369 units change in the volume of equity share investment. The F-Statistic result was 39.893 with a p-value of  $0.000 < 0.05$ . This suggest that  $H_0$  was rejected and  $H_1$  accepted ,that is, net book value per share significantly influenced equity share investment in listed companies in Nigeria.

##### Conclusion

There is a relationship between net book value per share and equity share investment in listed companies in Nigeria. Net book value per share significantly influences equity share investment in listed companies in Nigeria.

Furthermore net book value per share was one of the most widely used accounting information variables for equity share investment decision making in Nigeria and that financial information acquisition on net book value per share has the potential to improve investors' decisions making on overall portfolio selection.

### Recommendations

Given the study findings, these recommendations are presented, which may be of use to accounting regulatory bodies in Nigeria, Financial Reporting Council of Nigeria (FRCN), Nigerian Stock Exchange Regulators, corporate managers, preparers of firms' financial reports, investors and other emerging stock markets.

1. Due to the importance of net book value per share in investment decision makings, the study recommends that all companies listed on the Nigerian Stock Exchange should prepare and disclose supplementary information that include net book value per share along with the mandatory detailed financial statements to suit Nigerian peculiarities. This is expected to remove information over-load particularly for non-accountants and non-financial analysts.

2. National accounting standard setters and preparers of accounting reports should gear effort toward improving the quality of published financial reports because the reports are widely used by investors in Nigeria for investment decision. Strict regulation should be put in place to prevent Managers who want to engage in the practice of manipulation of accounting information disclosed in company's financial statements.

2. The Managers of listed companies should endeavour to make regular and timely financial information available to the public, preferably by posting the annual reports and financial information updates on the website. This will avoid information asymmetry and ensure the market operates in near perfect competition which will enhance confidence, and make market participants to fully appreciate the role of financial information, net book value per share, in investment decision making.

3. Since the evidence indicates that accounting information plays a significant role in investment decision making, then, it is important to improve on the quality of accounting information which in turn is expected to affect equity share investors' investment decision.

4. Both the stock market regulators and financial advisers should therefore educate investors to improve their financial analysis knowledge. To this end it is recommended that Brokerage firms should establish capacities in their respective institution to be able to continuously educating investors and whenever necessary assist them to interpret key financial indicators to support in informed decision making.

5. The finding implies that investors did appreciate the importance of net book value per share information while considering investment decisions. 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.

### Suggestions for Further Studies

1. The conclusions of survey study were based on the opinions of Stock brokers, Investment Advisers and Portfolio Managers. Non-professional investors were not included in the survey study. Future research should consider the opinions of non-professional investors on the effect of net book value per share on the equity share investment decision making.

2. This study focused only on net book value per share, quantitative financial accounting information. There are non-financial accounting information that may influence investors' equity share investment decision in a firm. Future research should consider the influence of non-financial accounting information variables on equity share investment in the listed companies in Nigeria.

3. As a result of presence of other factors that may affect equity share investment decision makings, future study should include impact of other factors like earnings, cash flows, liquidity, leverage, , dividends, rumour, insider trading, noise age , sex and investors risk tolerant level among others.

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## **APPENDIX 1**

### **LIST OF SAMPLED STOCK BROKERAGE FIRMS.**

- 1.ADONAI STOCKBROKERS LIMITED
- 2.AFRINVEST (WEST AFRICA) LTD
- 3.AIMS ASSET MANAGEMENT LIMITED.
- 4.ALANGRANGE SECURITIES LTD
- 5.ALLBOND INVESTMENT LIMITED
- 6.ALTRADE SECURITIES LIMITED
- 7.AMYN INVESTMENT LIMITED
- 8.ANCHORAGE SECURITIES & FINANCE LIMITED
9. BAUCHI INVESTMENT CORPORATION SECURITIES LIMITED
10. BELFRY INVESTMENT & SECURITIES LIMITED
11. BESTLINK INVESTMENT LIMITED
12. BESTWORTH ASSETS & TRUST LIMITED
13. CAPITAL EXPRESS SECURITIES LIMITED
14. CAPITAL TRUST BROKERS LIMITED
15. CASHCRAFT ASSET MANAGEMENT LIMITED
16. CASHVILLE INVESTMENTS & SECURITIES LTD
17. CENTRE POINT INVESTMENT LIMITED
18. CENTURY SECURITIES LIMITED
18. CHAPEL HILL DENHAM SECURITIES LIMITED
20. CHARTWELL SECURITIES LIMITED
21. CITI INVESTMENT CAPITAL LIMITED
22. COWRYSECURITIES LTD
23. CRADLE TRUST FINANCE & SECURITIES LTD
24. CRANE SECURITIES LIMITED
25. CRESCENT CAPITAL LIMITED
26. CROSSWORLD SECURITIES LIMITED
27. DBSL SECURITIES LIMITED
28. DEEP TRUST & INVESTMENT LIMITED
29. DE-LORDS SECURITIES LIMITED
30. ENTERPRISE STOCKBROKERS LIMITED
31. EQUITY CAPITAL SOLUTIONS LIMITED
32. ESS INVESTMENT & TRUST LIMITED
34. EUROCOMM SECURITIES LIMITED
35. EXCEL SECURITIES LIMITED
36. FBC TRUST & SECURITIES LIMITED
37. FBN SECURITIES LIMITED
38. FCSL ASSET MANAGEMENT COMPANY LIMITED
39. FIDELITY FINANCE COMPANY LIMITED
40. FIDELITY SECURITIES LIMITED

41. FINANCIAL TRUST COMPANY LIMITED ACTIVE
42. FINBANK SECURITIES & ASSETS MANAGEMENT LIMITED
43. FINMAL SECURITIES LIMITED
44. FIRST ALSTATE SECURITIES LIMITED
45. FIRST INTEGRATED CAPITAL MGT LTD .
46. FIRST STOCKBROKERS LIMITED.
47. FIS SECURITIES LIMITED
48. FITTCO SECURITIES LIMITED .
49. FORESIGHT SECURITIES LIMITED
50. GLOBAL ASSET MANAGEMENT (NIG) LTD
51. GLOBAL VIEW CONSULT & INVESTMENT LIMITED
52. GMT SECURITIES & ASSET MGT LIMITED
53. GOLDEN SECURITIES LIMITED
54. HARMONY INVESTMENT & SECURITIES LTD
55. HEARTBEAT INVESTMENTS LIMITED .
56. ICON STOCKBROKERS LIMITED
57. INTERCONTINENTAL SEC LTD
58. INTERSTATE SECURITIES LIMITED
59. KAKAWA ASSET MANAGEMENT LIMITED
60. KAPITAL CARE TRUST & SECURITIES LIMITED
61. LEAD SECURITIES & INVESTS LTD
- 62 . MARIMPEX FINANCE & INVEST CO. LIMITED
- 63 MARINA SECURITIES STOCKBROKING SERVICES LIMITED
64. NIGERIAN INTERNATIONAL SECURITIES LTD
- 65 . PORTFOLIO ADVISERS LIMITED
66. SKYE STOCKBROKERS LIMITED
67. . UBA STOCKBROKERS LIMITED
68. ZENITH SECURITIES LIMITED

**SOURCE: NIGERIAN SECURITIES AND EXCHANGE COMMISSION(SEC), 2015**