

# Assessing the Effect of Fair Value Accounting on Market Value of Deposit Money Banks in Nigeria

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**Abstract:** The aim of this study was to critically assess the effect of fair value accounting on market value of deposit money banks in Nigeria. The independent variable of the study was fair value accounting proxy as fair value gain through profit or loss, while the dependent variable was the market value which was proxy as earnings per share and market capitalisation. Five banks listed in the Nigerian Exchange Group (NEG) from 2017 to 2021 were selected as a sample of the study which created 25 observations as panel data. Sampling technique used for this study was the non-probability sampling because the study data was secondary data which is purposive and quantitative. The descriptive statistic was also employed to examine the characteristics of the data: mean maximum, minimum, and standard deviation. Furthermore, the data for the hypotheses of the study were tested using ordinary least square regression analysis and the Pearson moment Correlation analysis to establish the effect of fair value accounting on market value, and identify the direction of the effect, if any. The result of hypothesis one (1) tested and analysed showed a regression coefficient of 0.514 for bank earnings which implies that 51.4% of the variation in bank earnings per share is accounted for by fair value of banks' assets. This result also means that an increase in fair value accounting of banks in Nigeria will increase the earnings of banks by 51.4. More so, the result obtained from hypothesis two analysed, showed a regression coefficient of 0.383 for bank capitalization, which implies that 38.3% of variation in banks' market capitalisation is accounted for

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by the fair value of assets in Nigeria. This result means that an increase in the fair value assets of banks in Nigeria will decrease the market capitalisation of banks by 38.3%. This result also implies that there is no significant relationship between fair value accounting and market capitalisation of banks in Nigeria.

## **INTRODUCTION**

### **1.1. Background of the Study**

According to Cooper (2022), fair value accounting assesses an organization's assets and liabilities using their current market value. Unlike a corporate liquidation, this suggests that there is no pressing need to sell and that both the buyer and the seller are motivated and informed about the procedure. To ascertain the fair value of an asset or obligation, observable market prices of comparable transactions should ideally be utilized. A fair price for an item is what it would have sold for if it were nearly comparable. Assets are not recorded at cost; rather, they are recorded at their current value on the day the value is determined. According to Chen (2023), "fair value" in the widest economic sense refers to the expected price, or the value given to an item or service when factors like usefulness, level of competition, supply and demand, etc. are taken into account. It is not the same as market value, which is only an item's price in the marketplace (not its fundamental worth), even if it suggests an open market.

According to research by Abiahu, Udeh, Okegbe, Theophilus, and Eneh (2020), fair value accounting measurement is now relevant in Nigeria for determining the value and profitability of listed firms since the Federal Executive Council (FEC) of Nigeria adopted the International Financial Reporting Standard (IFRS) on July 28, 2010. This adoption was motivated by the FEC's 2010 proposal mandating publicly listed firms to implement IFRS by 2012, thereby improving the comparability and openness of financial reports in Nigeria as well as the quality of financial reporting data served as the main impetuses for the adoption. According to Bello, Abubakar, and Adeyemi (2016), IFRS has a substantial impact on how information is recorded in a company's financial records.

To be more precise, while IFRS requires the use of fair value, Nigerian GAAP employs book value. Because it reflects the item's true value, fair value is thought to provide up-to-date information about an asset, making it more relevant for making economic decisions.

In addition to requiring considerable disclosures about fair value measurement, IFRS 13, Fair Value Measurement, published in May 2011, describes a methodology for determining fair value. According to IFRS 13, fair value is the amount that would be received in exchange for the transfer of a liability or the receipt of an asset for sale at the measurement date (sometimes referred to as the “exit price”). The rules of IFRS 13 do not apply to certain standards-compliant transactions. These transactions include share-based payment transactions (IFRS 2), lease transactions (IFRS 16), and measures (like inventories or net realisable value calculations under IAS 2, or value in use computations under IAS 36, Impairment of Assets) that come close to fair value but do not quite match it. For fair value measurements mandated or approved by those standards, IFRS 13 so applies, even in cases where IFRS 13 does not apply to them. One source of instruction on fair value measurement takes the place of several IFRS standards that include contradicting information.

The definition of fair value has changed throughout time depending on context and application (ACCA, n.d.). By definition, the amount that a market participant would pay to transfer a liability on the measurement date or receive in an orderly transaction for the sale of an asset is fair value as determined by the Board. It is essentially the cost of fleeing. Therefore, fair value considers all risk assumptions and is based more on market assumptions than entity-specific ones. This suggests that in order to calculate fair value, the assumptions and factors pertaining to the asset or obligation be applied in the same manner as they are for market participants. The asset’s condition, location, and any restrictions on its sale would be instances of It’s interesting to note that a corporation cannot claim that prices are too low and that it would not be willing to sell at that amount based on its own asset value. It is crucial to use the pricing in “an orderly transaction”. An orderly transaction requires market exposure for a considerable amount of time prior to the measurement date in order to provide consistent marketing efforts and ensure that the purchase is not forced. If the deal is not “orderly,” rivals won’t have had enough time to develop, thus bidders could reduce their offer.

Furthermore, if a seller is under pressure to sell fast, they can accept a price that is not suggestive. That a market without any number of transactions is chaotic is thus not always true. if there is competition, sufficient time, and expertise. There are three approaches, depending on the market, income, and expenditure. The entity must employ as few unobservable inputs as possible and as many observable inputs as possible for determining fair value. The

standard provides a fair value hierarchy that prioritizes the inputs into the fair value assessment procedure in order to achieve this goal.

## **1.2. Statement of the Problem**

While a great deal of study has been done on market value and fair value accounting, the results and supporting information have been inconsistent. Fair value estimations, for example, enhance earnings quality, improve financial statement transparency, and have an effect on market value, as demonstrated by the following studies: Barth (1994); Ogiriki and Ikegima, 2022; Amaefuleet al., 2021; Amanamah and Owusu (2016); Modibbo and Aliyu (2016); Ijeoma (2013); Barth (1994); Blankespoor, Linsmeier, Petroni, and Shakespeare (2010); Hanselman (2009); Muller, Riedl, and Sellhorn, (2008); Goh, Li, Ng, and Yong (2015); Ehalaiye (2014), Fiechter (2011); Song et al. (2010); and others. Conversely, research by Abiahu, Udeh, and Okegbe (2020); Barth and Landsman (2018); Akpaka (2015); Alaryan, Haija, and Alrabei (2014); Xiaolu (2013); Wallison (2009), Keane (2011), Bratten, Causholli, and Myers (2012); Barth, Biscarri, Kasznik, and Espinosa (2012); Laux and Leuz (2010); Allen and Carletti (2008); Benston (2006) contended that fair value accounting increased the complexity of financial reporting rather than decreasing it. Therefore, whether there is a significant link between market value and fair value accounting remains the main unanswered question in the literature. This sets the scene for the investigation, which focuses on the relationship between fair value accounting and market value.

## **1.3. Objectives of the Study**

Evaluating the impact of fair value accounting on the market value of deposit money banks in Nigeria was the primary goal of this study. Thus, the specific goals of this study are to:

1. Examine the effect of fair value accounting on earnings per share of deposit money banks in Nigeria.
2. Investigate the effect of fair value accounting on market capitalisation of deposit money banks in Nigeria.

## **1.4. Research Questions**

Concerning the above objective, the researcher formulated the following research question:

1. What effect does fair value accounting have on earnings per share of deposit money banks in Nigeria?
2. What effect does fair value accounting have on market capitalisation of deposit money banks in Nigeria?

### **1.5. Research hypotheses**

From the foregoing, the following null hypotheses were formulated:

$H_{01}$ : Fair value accounting does not have any significant effect on earnings per share of deposit money bank in Nigeria

$H_{02}$ : Fair value accounting does not have any significant effect on market capitalisation of deposit money banks in Nigeria.

### **1.6. Scope of the Study**

The study assessed the relationship between market value and fair value accounting of certain deposit money banks listed on the Nigerian Exchange Group floor between 2017 and 2021. The study utilized profit or loss on financial assets as a proxy for fair value accounting. Market capitalization (MCAP) and earnings per share (EPS) were used as the dependent parameters to determine the market value of certain deposit money institutions. The analytical units of the study included of five deposit money institutions, namely First Bank Plc, Guaranty Trust Bank, and First City Monument Bank.

### **1.7. Significance of the Study**

There were two primary perspectives on the significance of this work: practical and philosophical. Several stakeholders would benefit from this research in the following ways:

The concept of fair value is emerging quickly, and there are currently a lot of established frameworks and conventions in place. This research will help these companies' management decide whether to include fair value accounting into their reporting processes.

### **Regulatory Bodies**

Authorities such as the Financial Reporting Council of Nigeria (FRCN) and the Nigerian Exchange Group (NEG) are increasingly cognizant of the necessity of enforcing rigorous adherence to the implementation of IFRS 13 from a regulatory standpoint.

## Corporate Organizations

Companies who haven't adopted IFRS 13 will benefit from this research by learning about the benefits and drawbacks of fair value accounting, as well as how it affects market capitalization and earnings per share..

## Academics/Researchers

Furthermore, by giving researchers, students, and academics greater knowledge on the connection between fair value accounting and earnings per share of Nigerian listed banks, it would contribute to the corpus of study on the subject. The study would eventually be available to researchers as a corpus of protected data.

### 1.8. Operational Definition of Terms

**Fair value:** The amount transferred in a well-organized market participant transaction or acquired as part of the earnings from the sale of an asset on the measurement date

**Earnings per share:** Earnings per share, or EPS, is computed by dividing a company's profit by the total number of outstanding shares of its common stock. The value that is obtained provides an approximation of a company's profitability..

**Market capitalization:** The entire market value of a company includes all of its outstanding shares, including restricted shares held by insiders and corporate executives and shares sold on a public exchange.

**Market value:** occasionally shortened to "open market valuation," or OMV. It is the estimate given by the investment community for a certain stock or company, or the price an item would get at auction.

**Other Comprehensive Income (OCI)** is used to indicate profits or losses, unrealized income, and costs. Net income is unaffected by certain factors that are not shown on the income statement, such as unrealized gains on an organization's assets.

**Active market:** a market where exchanges for the obligation or asset happen often enough and in volume enough to provide pricing data on a constant basis.

**Exit price:** the amount paid to transfer a responsibility or the amount obtained while selling an asset.

**Most advantageous market:** the market that, after subtracting processing and shipping costs, maximizes revenues from the sale of the asset or reduces proceeds from the transfer of the obligation.

**Principal market:** market where the asset or obligation is most actively traded and has the highest volume.

**REVIEW OF RELATED LITERATURE**

To illustrate the current link between fair value accounting and the market value of deposit money banks in Nigeria, this section looks at pertinent literature on fair value accounting and banks’ profitability and market capitalization.

**2.1. Conceptual Review**

The various concept used in this study and their relationship are reviewed in this study

Independent variable  
(fair value accounting)

dependent variable  
(Market value)



**2.1.1. The Concept of Fair Value Accounting**

The FASB defined “fair value” as “the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties” in FASB (2004). Predicting an exchange price for the asset or obligation being evaluated in the absence of a real transaction for that asset or liability is the goal of a fair value computation, according to the FASB. For the exchange price of an asset or obligation to accurately represent its value, fair value must be carefully determined, according to this goal.

In other words, regardless of the parties involved, the price at which two entities can trade one asset for another is equal to the item’s worth when employed by any entity. For instance, a bank’s value of a swap is determined only by the price at which it may be purchased or sold; the current assets and liabilities shown on the bank’s balance sheet have no bearing on the swap’s worth. It’s a big assumption to make for a bank like this, particularly if a sizable portion of its assets and liabilities are not easily exchanged, according to Barth and Landsman (1995).

According to IFRS 9, a firm must include a financial asset or liability in its statement of financial position if it engages into a contract. The financial asset or financial liability is valued at fair value plus or minus transaction expenses directly related to the acquisition or issuance of the financial asset or financial liability at the time of initial recognition by the company if profit or loss is not

used to calculate fair value. Upon first discovery, the entity classifies financial assets based on their contractual cash flow characteristics and asset management business model.

*2.1.1.1. Fair value through profit and loss:* Variations in fair value are often reported in profit or loss statements for goods with attainable value or those whose disclosure in fair value is required by their specific standards. Because the measurement for the research's components depends on changes in financial assets, the study complies with IFRS 9. The future assessment of financial assets, which are initially valued at cost under IFRS 9, is determined by the firm's business strategy and the contractual cash flow characteristics of the assets. Three separate business models—Financial Asset Hold to Sell, Financial Asset Hold to Collect, and Financial Asset—are described in IFRS 9.

Profit or loss is used to calculate the fair value of financial assets that are retained for collection but do not pass the contractual cash flow test. Second, using net profits, financial assets held to collect and sell in accordance with the business strategy but failing the contractual cash flow test are valued at their fair market value. Thirdly, the business strategy, which aims to retain and sell financial assets, uses profit or loss as a gauge for these assets. All alterations to the equity of financial assets and assets held for sale with the intention of making a profit are documented here.

### **2.1.2. Market Value**

Market value (MV), often called businesses in Borad (2022), is an economic term that represents a company's value. It's the worth an organization deserves on any given day. It is, theoretically, the amount of money needed to buy out or take over a corporation. Just like with assets, a company's value may be determined using its book value or market value. But often, it's used to describe the market value of a business. EV, which is more comprehensive and may be calculated in a number of ways, can be used in place of market capitalization. Furthermore, market value, which is commonly associated with stock prices, represents the investor's evaluation of the company, according to Sukesti, Wibowo, and Prakasiwi (2018).

A company with high stock prices is also worth a lot of money. A high market value conveys to the public that the company is not only operating profitably but also has bright future prospects. Increasing company value requires achieving business goals and maximizing shareholder welfare. According to Suharli (2006), shareholders will gain from a robust return on investment and



an increase in the company's value. A company's value is determined by its strength in assets and its capacity to turn a profit through leverage, according to Modigliani & Miller (1958). A company's effective asset turnover and policy debt might be factors in higher stock prices. The company's value increased with a greater stock price.

Companies that uphold strong, core principles will attract investors' attention and win over stakeholders' trust. It is believed that the company's value is a reflection of both its current performance and its future potential. Consequently, companies who list on a stock exchange will want to give the public the most up-to-date information about their status so that it may serve as a basis for investment choices.

Market capitalization and earnings per share are substituted for market value in this analysis.

### ***2.1.3. The Concept of Earnings Per share***

Profits are the money a business makes, according to Bragg (2022). They are computed by the subtraction of income from taxes, operating expenses, and item costs. Gaining financial success is one of the primary drivers behind launching and maintaining a business. A company's performance is determined by investors, who closely monitor this indicator. As per Martin (2022), earnings per share is a widely used and noteworthy metric in the field of basic research. EPS's relevance stems from its two essential components: the difference between a company's profit margin and equity value as determined by the market. According to Feranando (2022), the key takeaways from EPS were as follows:

Profits per share, or EBITDA, is computed by dividing the net profit of an organization by the total number of outstanding common shares. Earnings per share (EPS) is a commonly used statistic to determine corporate value. It is a measurement of a company's profitability per share of stock. An rise in earnings per share (EPS) is a sign of increased value since investors would pay more for the company's shares if they think profits will exceed the share price. As with other financial metrics, the most meaningful comparison is between profits per share and those of rival companies, companies in the same industry, or companies with a longer history of operation.

Like any other fundamental number, profits per share (EPS) can be a helpful place to start when deciding whether to purchase or sell a firm. However, it is by no means a magic bullet. Nevertheless, because it indicates

how much money a company produces for each share of its stock, EPS is a widely used metric to evaluate corporate value. Higher EPSs are a sign of greater value since they demonstrate how a company's earnings in proportion to its share price can persuade investors to pay more for its shares. To calculate a company's earnings per share, divide its net income (after preferred share distributions are subtracted) by the total number of outstanding common shares. Using the weighted average of the shares outstanding across the reporting period is a common method of indicating the number of shares outstanding.

$$EPS = \frac{PAT - Pref.Div}{Number\ of\ ordinary\ shares\ outstanding} \times 100$$

#### **2.1.4. Market Capitalisation**

Like any other basic figure, profits per share (EPS) may be a helpful place to start when deciding whether to purchase or sell a firm. However, it is by no means a magic bullet. EPS, which indicates how much money a company makes for each share of its stock, is nevertheless a widely used metric for determining corporate value. Higher EPSs are a sign of better value since they demonstrate how a company's earnings in proportion to its share price might attract investors to pay more for its shares. To get a company's earnings per share, divide net income (after subtracting dividends on preferred shares) by the total number of outstanding common shares. It may also be used by investors to choose equities that meet their risk and diversification requirements.

Market capitalization is typically used as the starting point for research since it has to be analyzed in relation to all other financial indicators. One business may have made twice as much money as all the others in the sector, for instance. On the other hand, one may argue that the firm is underperforming if its market value is four times greater.

Determining the value of a firm is a crucial but challenging undertaking that requires accuracy and speed. By estimating what the market believes a firm is worth, market capitalization provides a quick and simple way to value publicly traded enterprises.

The formula for market capitalisation is:

$$MCAP = N \times P$$

Where:

$$MC = \text{market capitalisation}$$

$N$  = number of common shares outstanding,

$P$  = market price per common share.

2.1.4.1. *Fair value accounting and earnings per share*: Bao and Bao (1998) state that fluctuations in profits per share are of significant concern to investors. The anticipation of profits is what drives an enterprise's market value the most, and fluctuations in earnings have the potential to raise investors' perception of the risk involved in making investments. Investors may overpay for the asset if they are unaware of all the consequences of fair value accounting and think it exaggerates risk or unpredictability. This is because the genuine underlying economic worth of the firm may not be sufficiently reflected by fair value accounting. The efficiency of markets, according to some, is due to the way financial statements compile all publicly accessible information such that variations in the volatility of accounting data have little impact on it.

According to Takacs, Szucs, Kehl, and Fodo (2020), one of the most significant measures of a company's performance is earnings, which are often defined as net income, profit after interest, and tax. These figures are taken from income statements. All stakeholders involved with the company regularly watch this performance indicator. The outstanding quality of the earnings that are shown provides an accurate representation of the company's real financial performance and profitability potential. An accurate evaluation of management performance and shareholder returns may be made possible by a high earnings quality (EQ), which also helps to lower the risk associated with investor choice.

This suggests that earnings can be used to predict future cash flows and maybe a more accurate measure of a company's financial health than cash flows. Because profits disclose important information about a company's worth, businesses typically use earnings as a means of communicating with external users about accounting and financial features specific to their firm. Market participants engaged in the financial reporting process, according to Gaia and Rappolo (2011), are very interested in the subject of earnings quality.

Financial analysts utilize earnings to predict future returns on assets, according to Siegel (1982). Lev (2003) states that corporate boards and institutional investors view earnings as a barometer of the company's overall profitability and managerial effectiveness. According to Schipper and Vincent (2003), individuals who develop standards regard the quality of financial reports as a benchmark and a form of evaluation that may be used to the standard of financial reporting standards. According to Näsen, Pope, and Young (2000),

earnings serve “as a direct basis for awarding bonuses and indirectly as reference points for triggering the award of executive stock options for.

Moreover, Wang and Yang (2013) proposed that, as previously mentioned, profits may be seen from a valuation perspective as a summary indicator of business success and as one of the most important accounting disclosures given by publicly traded firms to their investors. Since accounting earnings are one of the simplest metrics to use to evaluate a company’s operating performance over a given period, they are frequently seen as having a high information quality. According to Jian-Hua (2008), the accuracy of information in accounting results is influenced by several factors such as the industry, period, and year. However, false earnings reports can cause investors to lose a lot of money on their investments and damage the economy as a whole by generating low-quality earnings, according to Pergola (2005). Soderstrom and Sun (2007) found that financial accounting data is relevant and dependable, making it vital to capital markets. Accounting data must be able to affect choices made by various users in a variety of contexts and when used by various users to be deemed relevant. However, reliable accounting data should, to the extent that it is feasible, provide a comprehensive, unbiased, and error-free picture—that is, an accurate depiction of the financial status of a company. Bertin and Iturriaga (2010) claim that the measurement of a business and the caliber of accounting information produced are significantly correlated. Therefore, any improvement in the quality of accounting data must offer better tools for the firm’s assessment and increase the capital markets’ efficacy and trustworthiness.

*2.1.4.2. Fair value and market capitalization:* By evaluating an entity’s assets and liabilities according to their current market value, Cooper (2022) establishes fair value accounting. Apart from its application in the sale of assets such as stocks, products, securities, or other real estate, it may also be employed in the settlement of a liability at a price that is equitable for both of the parties involved. worth an organization’s assets and liabilities based on their current market worth, and that is the process of fair value accounting. This is presuming that the seller and the buyer are not under duress, are informed, and are eager to sell. Fair value is also determined by observable inputs, such as stated prices in a market with enough activity and transactions to generate continuous pricing information. Instead of using information from previous transactions, inputs must be obtained on the day when the fair value is determined. For example, a company buys a delivery car for N10 million. After two years, the company chose to sell the vehicle. To determine the fair worth

of your asset in this case, look for listings of like things and take the average of their selling prices. As a consequence, you will receive the right sale price (less depreciation). The assessor's average would be N8 million if they discover three identical cars that cost N8.5 million, N8 million, and N8 million. Thus, N8 million is the delivery truck's determined fair worth. The fair value of a public company's common equity, which can be stated as a stand-alone statistic or on a per-share basis, is another definition of market capitalization (World Street Journal, n.d.). The market value per share fluctuates based on the status of the economy as well as a few forward-looking factors, like investor perception of the company's prospects, pertinent secular trends, the emerging industry, and how the market views the company's fundamentals (such as profit margins, growth potential, and risk profile). Market capitalization is frequently used to help define a company's worth when potential trading is being examined. Conversely, valuations for stocks are sometimes highly subjective. A stock's price does not change based on any mathematical formula, despite the fact that day traders are always searching for ways to increase their profits. The highly varying weights of different components mean that value remains relatively subjective even with market capitalization.

## **2.2. Theoretical Framework**

### **2.2.1. Shareholder Theory**

Economist Milton Friedman introduced the Friedman doctrine, often known as the shareholders' theory, in Smith (2003). The firm's shareholders are the only socially responsible group and its primary source of financial power, according to the shareholder primacy idea. Optimizing shareholder returns and increasing revenue are hence the company's goals. Friedman suggests that the shareholders should choose what social programs to get involved in on their own, rather than having an executive designated for business purposes make that decision on their behalf.

Maximizing shareholder value is management's main goal, according to O'Connell and Ward's (2020) contribution. This purpose's interests supersede those of other firm stakeholders, including members of the public, vendors, clients, and staff. According to shareholder theory, managers and boards have a responsibility to protect and increase the company's assets for the benefit of shareholders, who are the company's ultimate owners. According to shareholder theory, two quantifiable factors that investors use to assess a company's

assets are dividends and share price. Decisions made by management should therefore maximize the benefits of rising share prices and dividends combined. Nevertheless, the possibility that management and shareholders have goals besides boosting profits is overlooked by shareholder theory.

### ***2.2.2. Clark's Dynamic Theory of Profit***

In 1900, J.B. Clark presented his Dynamic Theory of Profit. In contrast to static economies, Clark contends that profits occur in dynamic ones. Frequent changes in the population, advancements in industrial processes, shifting and rising consumer demands, adjustments to organizational structures, and capital development are all indicative of a dynamic economy. The main responsibility of an entrepreneur in a dynamic economy is to market his business, cut expenses, increase sales, and take advantage of these changes.

According to Clark, businesses or entrepreneurs that are successful in leveraging these changes in the dynamic market make pure profit, which is made in addition to conventional profit. Given that deposit money banks function in a dynamic economy and that profit plays a significant role in setting profits per share and market capitalization, this theory appears to be a suitable fit for this work research.

### **2.3. Empirical Review**

Using data from Nigerian listed agricultural enterprises between 2012 and 2020, Akpan, Charles, and Nkanta (2022) investigated the variables influencing the fair value assessment of biological assets. The independent variable was the fair value determinant, which was proxied by the ownership structure, auditor type, and business size; the dependent variable was the biological assets' fair value. The study employed ex post facto research to test three hypotheses and utilize purposive sampling to get the right sample size. Analysis of secondary data was also used. The study was examined using binary logistic regression analysis, correlation matrices, and descriptive statistics as analytical methods.

The size of the company and the kind of auditor had a significant influence on biological asset fair value assessments, while ownership structure had no effect at all. They came to the conclusion that the primary determinants of the biological assets' fair value evaluation are the size of the company and the kind of auditor. Based on the investigation, the conclusion is that companies should only deal with major audit firms since these firms are better able to ensure that accounting standards are followed and have a deeper grasp of the complex applications of

IAS 41 and IFRS 13. Additionally, they advised agricultural businesses to value their biological assets in compliance with the standard using fair value assessment, since this more accurately reflects the businesses' economic realities

The influence of the fair value accounting technique on the historical cost approach to asset valuation in Nigerian manufacturing organizations was investigated by Ogikiri and Ikegima (2022) utilizing twelve petroleum businesses that are listed on the Nigerian Stock Exchange. If a significant difference exists, it was ascertained using the T-test statistical approach. When the fair value accounting technique was applied instead of the historical approach, the research revealed that stock prices and profitability were reported more favorably. Investigation results also confirmed that there were discernible differences between listed manufacturing businesses that used the fair value approach's profitability declarations and stock price reports.

The effect of fair value reporting on financial performance and corporate value was evaluated by Abiahu et al. (2020), concentrating on deposit money banks listed on the Nigerian Stock Exchange. Using a sample of thirteen banks listed on the Exchange, the study investigated secondary data based on eight years of public annual reports from 2008 to 2015 (four pre-IFRS, historical value measurement, and four post-IFRS, fair value assessment). An exploratory research design was used in this study. Utilizing regression analysis, descriptive analysis, and SPSS Version 23 software, the study's data analysis and summary methodologies were grounded on the agency theory. What they found is consistent with the theory that fair value reporting has no appreciable effect on reported profitability. Studies have demonstrated that the subsequent factors impact firm valuation: It is also necessary to reveal to the users the investment's historical cost. So, businesses should record their activities using a hybrid form of measurement (measurements that integrate both fair and historical values) in order to correctly portray real value generation.

The intensity of fair valuation, average annual interest change, and firm size were all considered by Takacs et al. (2020) as explanatory factors in their research on average earnings quality (AEQ) and its causes in the European banking industry. The study examined data from 409 European banks between the years of 2006 and 2018. They found that while the proportion of fair value assets had a significant positive influence, the size of the banks and changes in interest rates had a significant negative impact on AEQ for the whole period.

In order to validate the theory of fair value through the International Financial Reporting Standard (IFRS), Osho and Ajetunmobi (2018) intend

to examine the effects that adopting a fair value measurement system for valuing assets and liabilities would have on reported profit disclosed in the financial statement. An ex-post factor research technique was used to analyze financial data from certified financial statements for the post-IFRS years 2012 to 2014 and the pre-IFRS years 2009 to 2011. Multiple regression analysis was performed using data from twelve (12) consumers sector manufacturing businesses listed on the Nigerian Stock Exchange in order to get a result. The findings demonstrated that when determining reported profits using Post-IFRS methodologies, the variables influencing reported profits under Pre-IFRS are not as significant. For the conversion period of 2011 and 2012,

Critical analysis was done by Bessong and Charles (2012) on the effects of historical cost accounting and fair value accounting on the stated profitability of a set of manufacturing firms in Nigeria. The data was shown and evaluated using ordinary least squares after being gathered from primary and secondary sources. Based on historical cost and fair-value accounting, the study found that reported profit was considerably impacted by the amounts selected as depreciation, taxes, and dividends. Simply expressed, this implies that the amount of taxes, depreciation, and dividends on the company's profit will be significantly impacted by the approach used to calculate profit. Fair-value and historical cost numbers should be used by businesses when preparing their financial reports, the study suggests.

## **2.4. Research Gap**

Numerous studies analyzing the connection between market value and fair value accounting produced differing conclusions; some found no link at all, while others found one that was adverse. Because of these circumstances, a researcher was able to use listed money banks in Nigeria to assess the relationship between market value and fair value accounting, contributing to the body of knowledge. This means that further study on the topic is necessary, and any correlations between the findings must be examined. This is because there is still disagreement on the matter.

## **3. METHODOLOGY**

### **3.1. Research Design**

A descriptive research approach was used for this study. The secondary data used in the study was obtained from the annual reports published by the Nigerian Exchange Group (NEG) covering the fiscal years 2017 through 2021. The



researchers looked at the collected data using descriptive statistics and regression analysis. The relevant tests were run using the Statistical Package for Social Sciences, version 23 of SPSS. The research's p-values suggested whether or not the hypotheses should be accepted. The alternative hypothesis is accepted when the probability values are less than 0.05, while the null hypothesis is accepted when they are more than 0.05. Also included in this analysis as dependent variables were market capitalization and earnings per share, which serve as proxy values for market value. Said another way, the independent variable was the fair-value asset, or fair-value accounting proxy.

### **3.2. Population of the Study**

Among the respondents was the list of thirty-two deposit money banks from the Nigerian Exchange Group (NEG). Since it is difficult to collect data from unlisted banks, the survey population was limited to banks that are listed on the Nigerian stock market.

### **3.3. Sample Technique and Sample Size**

Since the study's data were quantitative, secondary, and purposeful, non-probability sampling was the method of choice for sampling. The study's sample consisted of banks listed on NEG between 2017 and 2021, and panel data containing 25 observations was acquired.

### **3.4. Method of Data Analysis**

We also looked at the mean, maximum, minimum, and standard deviation of the data using descriptive statistics. The relationship between the pertinent variables was assessed and any collinearity was looked for using correlation analysis. The data analysis approach of regression analysis was employed to determine the impact of fair value accounting, including any directional effects, on a firm's profits and valuation. A significance level of 5% was used to evaluate each hypothesis. If the probability value of 0.05 ( $p < 0.05$ ) is smaller than the critical value of F as well as the F-cal, the null hypothesis is rejected.

## **4. DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS**

The field data was presented, analyzed, and interpreted in this component. In addition to reporting the findings, this section of the study involved testing the research hypotheses.

## 4.1. Data Presentation

Five Nigerian listed commercial banks' annual reports provided the secondary data for the study. The chosen firms were GTCO Plc, Access Bank Plc, and FCMB Group Plc. The period covered by the data collection was 2017–2021. Whereas market value was determined by market capitalization and earnings per share, fair value accounting assessed gains/losses through profit or loss. The Appendix B contains the data set.

## 4.2. Data Analysis

In order to test the hypotheses and assess the data for this study using descriptive statistics, ordinary least square regression analysis was employed.

### 4.2.1. Descriptive Statistics of the Variables

Table 4.2 displays the descriptive statistics for the variables. The standard deviation, maximum, minimum, mean, and median were the descriptive statistics.

**Table 4.2: Descriptive Statistics**

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
Fair Value Assets (₦'000)	25	82,678,000.00	5,742,369,098.00	841,978,213.56	1,123,102,992.09
Profit For The Year (₦'000)	25	9,410,204.00	244,558,000.00	120,013,214.12	76,576,839.24
Market Capitalisation (₦'000)	25	29,304,000.00	1,199,320,544.25	467,491,682.18	349,520,379.54
Valid N (listwise)	25				

Source: Researcher's Computation (2022)

The lowest and highest fair value assets of the selected Nigerian banks for the 2017–2021 period were N82,678,000 and N5,742,369,098,000, respectively. The average fair value assets for the selected institutions throughout that time frame were N841,978,213,560. The selected banks in Nigeria made a minimum profit of N9,410,204,000 and a maximum profit of N244,558,000,000 during the years 2017–2021. At that time, the picked banks' average yearly profit was N120,013,214,120. Nigeria's market capitalization between 2017 and 2021 varied from N29,304,000,000 at the lowest to N1,199,320,544,250 at the highest level. The average market capitalization at that time was N467,491,682,180.

### 4.3. Test of Hypotheses

In this stage of the study, the research hypotheses were tested. The following is the outcome of the test, which was conducted using Pearson Moment correlation analysis and Ordinary Least Square regression:

**Table 4.3: Correlations**

		<i>Fair value accounting</i>	<i>Earnings Share</i>	<i>Market Cap</i>
Fair Value Accounting	Pearson Correlation	1	.514**	.383
	Sig. (2-tailed)		.009	.059
	N	25	25	25
Earnings	Pearson Correlation	.514**	1	.952**
	Sig. (2-tailed)	.009		.000
	N	25	25	25
Market Cap	Pearson Correlation	.383	.952**	1
	Sig. (2-tailed)	.059	.000	
	N	25	25	25

Source: Researcher’s Computation (2022)

The relationship between fair value accounting and the market value of bank deposits is displayed in Table 4.3. The analysis’s conclusion indicates that there is a beneficial association.

**Table 4.4: Model Summary<sup>b</sup>**

<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted.R Square</i>	<i>Std. Error of the Estimate</i>	<i>Durbin-Watson</i>
1	.514 <sup>a</sup>	.264	.232	.36180	1.205

a. Predictors: (Constant), FAIR VALUE ACCOUNTING  
 b. Dependent Variable: EARNINGS PER SHARE

Source: Researcher’s Computation (2022)

**Table 4.5: ANOVA<sup>a</sup>**

<i>Model</i>		<i>Sum of Squares</i>	<i>df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
1	Regression	1.082	1	1.082	8.267	.009 <sup>b</sup>
	Residual	3.011	23	.131		
	Total	4.093	24			

a. Dependent Variable: EARNINGS PER SHARE  
 b. Predictors: (Constant), FAIR VALUE ACCOUNTING

Source: Researcher’s Computation (2022)

**Table 4.6: Coefficients<sup>a</sup>**

<i>Model</i>		<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>t-cal</i>	<i>Sig.</i>	<i>Collinearity Statistics</i>	
		<i>B</i>	<i>Std. Error</i>	<i>Beta</i>			<i>Tolerance</i>	<i>VIF</i>
1	(Constant)	4.789	1.370		3.495	.002		
	FVA	.496	.172	.514	2.875	.004	1.000	1.000

a. Dependent Variable: Earnings per share

Source: Researcher's Computation (2022)

### Hypothesis One

Fair value accounting and Nigerian banks' earnings per share do not significantly correlate, according to the first null hypothesis. Given that Table 4.6's p-value of 0.004 is less than 0.05, the study's decision criteria require acceptance of the alternative hypothesis and rejection of the null hypothesis. The t-cal value of 2.875 is also bigger than the crucial t value of 2.063, which means that the null hypothesis is rejected. The earnings per share of Nigerian banks and fair value accounting are so closely tied.

**Table 4.7: Model Summary<sup>b</sup>**

<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. Error of the Estimate</i>	<i>Durbin-Watson</i>
1	.383 <sup>a</sup>	.146	.109	.38975	1.121

a. Predictors: (Constant), FAIR VALUE ACCOUNTING

b. Dependent Variable: MARKET CAPITALISATION

Source: Researcher's Computation (2022)

**Table 4.8: ANOVA<sup>a</sup>**

<i>Model</i>		<i>Sum.of Squares</i>	<i>Df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
1	Regression	.599	1	.599	3.943	.059 <sup>b</sup>
	Residual	3.494	23	.152		
	Total	4.093	24			

a. Dependent Variable: MARKET CAPITALISATION

b. Predictors: (Constant), FAIR VALUE ACCOUNTING

Source: Researcher's Computation (2022)

### Hypothesis Two

The results of the second null hypothesis indicate that there is no substantial correlation between the market capitalizations of Nigerian banks and fair value accounting. The study's decision rule determines that the null hypothesis

**Table 4.9: Coefficients<sup>a</sup>**

<i>Model</i>		<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>T</i>	<i>Sig.</i>	<i>Collinearity Statistics</i>	
		<i>B</i>	<i>Std. Error</i>	<i>Beta</i>			<i>Tolerance</i>	<i>VIF</i>
1	(Constant)	5.978	1.384		4.318	.000		
	FVA	.324	.163	.383	1.986	.059	1.000	1.000

a. Dependent Variable: MARKET CAPITALISATION

Source: Researcher's Computation (2022)

2 is accepted since the alternative hypothesis is rejected and the p-value of 0.59 in Table 4.9 is greater than 0.05. The fact that the crucial value of  $t$ , which was 2.063, is less than the  $t$ -cal value of 1.986, further supports the null hypothesis. Fair value accounting and the market capitalization of Nigerian banks, therefore, do not substantially correlate.

#### 4.4. Discussion of the Findings

Regression coefficient for bank earnings in the research was 0.514. This suggests that the fair value of banks' assets may account for 51.4% of the volatility in bank earnings per share. This analysis demonstrates that a 51.4% increase in fair value accounting can boost the profitability of Nigerian banks. As can be seen in Table 4.6, the investigation's findings also demonstrate a positive association between fair value accounting and bank earnings per share in Nigeria. This result is consistent with the findings of Bessong and Charles (2012).

Additionally, the results of the investigation revealed that the regression coefficient for bank capitalization was 0.383. The fair value of banks' assets in Nigeria might therefore account for 38.3% of the fluctuation in banks' market capitalization. This implies that when Nigerian banks' fair value assets rise, their market capitalization will drop by 38.3%. Based on the data, Table 4.9 indicates that there is no significant correlation between fair value accounting and bank market capitalization in Nigeria. This result is consistent with the 2022 results of Ogiriki and Ikegima.

## 5. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

From 2017 to 2021, the study looked at how fair value accounting affected the market value of deposit money banks in Nigeria. The following are the findings of empirical research in relation to each particular study aim:

### 5.1. Summary of Findings

- (i) The investigation's findings showed that profitability had a beta coefficient of 0.514. It may be concluded from this that fair value accounting accounts for 51.4% of the fluctuation in earnings per share. As a result, fair value accounting significantly affects Nigerian banks' profitability per share.
- (ii) The analysis findings show that bank value has a 0.383 beta coefficient. Accordingly, fair value accounting may be responsible for 38.3% of the fluctuation in banks' market capitalization. Fair value accounting therefore has no impact on the market capitalization of Nigerian banks.

### 5.2. Conclusion

According to reports, businesses that use fair value accounting usually see an increase in profitability. The results suggest that there is no correlation between fair value accounting and banks' market capitalization when market capitalization is calculated using the fair value accounting technique.

### 5.3. Recommendations

In accordance with the study's conclusions, the following suggestions were made:

- (i) In compliance with global financial standards, banks are advised to use it.
- (ii) To determine the market capitalization of banks, alternative approaches should be utilized instead of the fair value accounting methodology, which yielded an insignificant connection.

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## APPENDIX A

## Data Set

S/N	NAME OF BANK	YEAR OF OBSERVATION	FAIR VALUE ASSETS	PROFIT FOR THE YEAR	NO. OF SHARES	PRICE PER SHARE	MARKET CAPITALISATION
1	ACCESS BANK PLC	2017	511,569,980.00	61,990,852.00	28,927,971.00	10.45	302,297,296.95
2	ACCESS BANK PLC	2018	752,578,491.00	94,578,491.00	28,927,971.00	6.80	196,710,202.80
3	ACCESS BANK PLC	2019	825,616,285.00	97,509,659.00	35,545,225.00	10.00	355,452,250.00
4	ACCESS BANK PLC	2020	5,742,369,098.00	106,009,695.00	35,545,225.00	8.45	300,357,151.25
5	ACCESS BANK PLC	2021	2,113,534,124.00	160,215,536.00	35,545,225.00	9.30	330,570,592.50
6	ZENITH BANK PLC	2017	594,023,000.00	177,933,000.00	31,396,493.00	25.64	805,006,080.52
7	ZENITH BANK PLC	2018	812,491,000.00	193,424,000.00	31,396,493.00	23.05	723,689,163.65
8	ZENITH BANK PLC	2019	928,913,000.00	208,843,000.00	31,396,493.00	18.60	583,974,769.80
9	ZENITH BANK PLC	2020	863,868,000.00	230,565,000.00	31,396,493.00	24.80	778,633,026.40
10	ZENITH BANK PLC	2021	1,137,434,000.00	244,558,000.00	31,396,493.00	25.15	789,621,798.95
11	FCMB PLC	2017	168,682,874.00	9,410,204.00	19,800,000.00	1.48	29,304,000.00
12	FCMB PLC	2018	209,251,913.00	14,971,528.00	19,800,000.00	1.89	37,422,000.00
13	FCMB PLC	2019	178,494,905.00	17,337,274.00	19,800,000.00	1.85	36,630,000.00
14	FCMB PLC	2020	1,539,613,998.00	19,610,454.00	19,800,000.00	3.33	65,934,000.00
15	FCMB PLC	2021	244,232,252.00	20,916,725.00	19,800,000.00	2.99	59,202,000.00
16	FIRST BANK PLC	2017	82,678,000.00	40,011,000.00	35,895,000.00	8.80	315,876,000.00
17	FIRST BANK PLC	2018	109,161,000.00	59,744,000.00	35,895,000.00	7.95	285,365,250.00
18	FIRST BANK PLC	2019	282,660,000.00	73,655,000.00	35,895,000.00	6.15	220,754,250.00
19	FIRST BANK PLC	2020	399,791,000.00	89,730,000.00	35,895,000.00	7.15	256,649,250.00
20	FIRST BANK PLC	2021	261,224,000.00	151,079,000.00	35,895,000.00	11.40	409,203,000.00
21	GTB PLC	2017	603,244,599.00	170,469,633.00	29,431,179.00	40.75	1,199,320,544.25
22	GTB PLC	2018	610,652,060.00	184,639,594.00	29,431,179.00	34.45	1,013,904,116.55
23	GTB PLC	2019	776,011,394.00	196,849,281.00	29,431,179.00	29.70	874,106,016.30
24	GTB PLC	2020	852,829,721.00	201,439,940.00	29,431,179.00	32.35	952,098,640.65
25	GTB PLC	2021	448,530,645.00	174,839,487.00	29,431,179.00	26.00	765,210,654.00

Source: Annual Reports of Selected Banks (2017-2021)