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ISBN: 978-0-9860419-1-4

**Creating Global Competitive Economies:
*2020 Vision Planning & Implementation***

**Proceedings of
The 22nd International Business Information Management
Association Conference**

November 13-14, 2013
Rome, Italy

Editor

Khalid S. Soliman

International Business Information Management Association
(IBIMA)
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Relationship between Accounting Numbers and Stock Prices in the Nigerian Stock Market

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Abstract

This work investigates the value relevance of accounting data in the Nigerian stock market, with a view to determining whether accounting information has the ability to capture data that affect share prices of firms listed on the Nigerian Stock Exchange (NSE). Piece of accounting data is termed value relevant if it is significantly related to the dependent variable, which may be expressed by the stock price. The methods used for gauging information contents of various accounting numbers were Ordinary Least Squared (OLS), Random Effects Model (REM), and Fixed Effects Model (FEM). The findings show that there is a significant relationship between accounting information and share prices of companies listed on the NSE. Dividends are the most widely used accounting information for investment decisions in Nigeria, followed by earnings and net book value. The study therefore recommends that the firms should improve the quality of earnings as manipulated earnings (of which dividends are sub-sets) have large effects on share prices. The paper also recommends that all companies listed on Nigerian Stock Exchange should prepare Simplified Investor's Summary Accounts (SISA) with emphases on the most widely used accounting information along the required mandatory detailed financial statements to suit Nigerian peculiarities.

Key Words: Value Relevance, Nigerian Stock Exchange, Accounting Information, Investor Perception, Financial Statement.

Introduction

Accounting provides a vital service to broad and different users. Investors use financial accounting information for investment decisions; government agencies need it particularly for tax purposes; while regulatory agencies use it to determine whether existing statutory pronouncements are complied with, among others. According to Meyer (2007:2) "accounting plays a significant role within the concept of generating and communicating wealth of companies". Financial statements still remain the most important source of externally feasible information on companies. Nevertheless, in the wake of the recent accounting scandals and economic meltdown, where billions of naira of investment and retirement wealth have disappeared, the very integrity and survivability of value relevance of accounting service has been called into question. Value relevance of accounting information is defined as the ability of accounting numbers, contained in the financial statements, to explain the stock market measures (Beisland, 2009). Accounting data, such as earnings per share, are termed value relevant if they are significantly related to the dependent variable, which may be expressed by price, return or abnormal return (Gjerde, Knivsfla and Sættem, 2007).

Studies on value relevance of accounting information are motivated by the fact that listed companies use financial statements as one of the major media of communication with their equity shareholders and public at large (Vishnani and Shah, 2008). For instance, in Nigeria, Companies and Allied Matters Act (CAMA) (1990) requires the Directors of all companies