EFFECT OF FAIR VALUE ACCOUNTING AND FINANCIAL REPORT POLICY OF LISTED DEPOSIT MONEY BANK IN NIGERIA

BY

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BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ACCOUNTANCY, INSTITUTE OF FINANCE AND MANAGEMENT STUDIES, KWARA STATE POLYTECHNIC, ILORIN.

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CERTIFICATION

This is to certify that this project work has been written by **ANJORIN BASIRAT AJOKE** with Matriculation Number **ND/23/ACC/PT/0061** and has been read and approved as meeting part of requirement for the Award of National Diploma (ND) in the Department of Accountancy, Institute of Finance and Management Studies (IFMS), Kwara State Polytechnic, Ilorin, Kwara State

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DEDICATION

This project work is dedicated to **Almighty Allah**, the omnipotent, omnipresent, and omniscience for His blessing, protection and guidance over me.

ACKNOWLEDGEMENT

I offer my deepest gratitude to **Almighty Allah** who has been my rock and source of inspiration throughout this project".

My appreciation goes to my supervisor (**Mr. AKANBI K.A**) for his guidance and support through my project. May God almighty bless him and his family. Amen.

I must not fail to appreciate my parent (**Mr. & Mrs. ANJORIN**) May God let you live long to reap the fruit of your labour. Amen

My appreciation also goes to all my family and friends, I pray God will continue to bless you all. Amen

Once again I am grateful to God for his mercies, loves and care for the greatest opportunity he gave me to accomplish the task of being a graduate, ALHAMDULILLAHI.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The approach by which firms measure and report, on continuous basis, certain assets or liabilities (most importantly financial instruments) at the current amount they would receive if the assets were to be sold or amount to be paid if they wereto be relieved of the liabilities is described as Fair Value Accounting (FVA) (Ryan, 2021; Ijeoma, 2020).

Generally Accepted Accounting Principles defined fair value as the amount at which an asset can be purchased or sold in the most recent trading activities between buyers and sellers other than what such assets would have earned in liquidation and such amount as could be incurred or settled in current transaction between willing parties, for liability other than liquidation. It is considered the most useful market feature used in judging the quality of financial reporting (Prochazka, 2023).

Power (2019) asserts that adopting fair value for accounting measurement will definitely show better economic changes (in terms of net assets and earnings) than historical cost convention.

Francis, LaFond, Olsson and Schipper (2021) point out that earning provides useful information to various stakeholders and it is an important ingredient for decision-making to investors (Ebirien & Nwanyanwu, 2020). Schipper and Vincent (2022) and Dechow, Ge, and Schrand (2023) averred that high quality reported earnings should reflect the firm's present operating profitability, future performance and its inherent value. Earnings quality has gained the attention of scholars, standard setters, professionals and other stakeholders for multiple reasons. It is a prominent parameter for assessing the financial performance of an economic entity.

High earnings quality is used to predict the future performance of the entity and forecast cash flows (Ronen & Yaari, 2021). The significance of earnings quality to the banking sector was underscored by Gadhia (2022), who stated that the banking sector's sustainability, competitiveness and healthy growth could be determined through earnings quality. It is to this end that Soludo as governor of Nigeria's Central Bank stated that any failure in the banking sector can be disastrous to the economy considering their intermediary role as principal depositories of financial savings and avenue for the implementation of monetary and credit policies (Okpara & Ihenacho, 2021).

Banking and accounting regulators around the world and indeed the U.S. Congress, the European Commission are concerned about the contributions of FVA to recent global financial meltdown (American Bankers Association, 2019). Critics argue that FVA, often also called mark-to-market accounting (MTM), has significantly contributed to the financial crisis and exacerbated its severity for financial institutions in the U.S. and around the world. This may be so because fair value measurement is ridden with inconsistency of measurement within financial statements and could bring about volatility of earnings due to mismatch (Barth, 2022). The mixture of measurement bases used hinder the users from making judgement on what happened with their money in the area of stewardship function of accounting and what management will be able to do with their money in taking meaningful decision (Abdel-Khalik, 2018; Chea, 2022).

1.2 STATEMENT OF THE PROBLEM

Many blamed fair value accounting for being responsible for one of the financial and economic crises in Nigeria Financial System. The drop in price of many financial assets measured at fair value led banks to write down the carrying values reported in their balance sheets, thus negatively affecting their capitalization ratios. To consequently improve their capitalization ratios and to comply with regulatory requirements, these banks started to sell securities which even magnified the downdraft in quoted prices and additional devaluations of financial assets became necessary. The turmoil in the financial markets turned the fair value debate, which was before mainly of academic importance, into a debate of public interest. Even if this debate was focused on financial institutions and the valuation of financial instruments, there are further applications of fair value accounting. In this sense, IFRS permits, to a certain degree, tangible assets to be measured at fair value instead of historical cost. Reporting entities may thus voluntarily recognize land or building that is categorized as investment property or assets of property, plant and equipment (PPE) at fair value. Thirdly, opponents assume that fair value accounting are potentially misleading and do not provide relevant information, especially for assets that are possessed for a long period of time or even until maturity, they also argues that, fair values which are based on a model instead of available market prices do not provide reliable information and that fair values contribute to the pro-cyclicality of the financial system. This might be an important issue especially in the case of fair value accounting and needs to be considered when the implications of fair value accounting for users of financial statements are investigated. Though, the concept of FVA emerged to cover gaps existing in the historical cost accounting (Holt, 2021).

Historical cost accounting has co-existed with major corporate collapses and tremendous pressure from users of financial reports prompting the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) to refocus attention from historical cost accounting towards FVA (Rayman, 2022), thus the world at large is affected by this move in one way or another. In the face of Nigeria being such a volatile economy, FVA has found its way there. Therefore, it is essential to consider 'FVA' in Nigeria's context. Furthermore, There is lot of controversies surrounding the use of fair value accounting but we shall limit ourselves to four basic issues: (i)The usefulness of Fair Value Accounting (ii)Awareness of Fair Value Accounting issues (iii)Audit Challenges associated with Fair Value Accounting, and (iv) Appropriateness of Fair Value Accounting. Many are of the opinion that the contractual and transaction cost incentives existed to identify any fair value components of goodwill such as brands and intangibles.

Finally, Kumarasin (2021), outline concern over the implementation of Fair Value Accounting in developing countries such as Nigeria, as evident from the need for the Accounting Standard Board to make request for impute on the application of FVA in emerging and transition economies.

1.3 RESEARCH QUESTION

The following research questions were asked in the project study:

i. To what extent does fair value measured in the inflationary economy with a very sizeable market (for shares and property investments)?
ii. What are the benefits and limitations associated with this accounting phenomenon?
iii. Is there any perceived roles of fair value accounting on financial reporting?

1.4 OBJECTIVES OF THE STUDY

i. To explore the overall effect and implication of 'fair value accounting'on users of financial statement in Nigeria,
ii. To ascertains the benefits and limitations associated with this accounting phenomenon
iii. To determine the perceived roles of fair value accounting on financial reporting
iv. To ascertain alternatives of this method and forecasts the prominence and endurance of fair value accounting.
v. To examine the impact of the application of fair value accounting on the reliability of accounting information

1.5 RESEARCH HYPOTHESES

Researcher seeks to test the validity of the following hypothesis:

HYPOTHESIS ONE:

Hi: Nigeria capital market structure do not pose a challenge to implementation of fair value accounting

HYPOTHESIS TWO

Hi: There are no significant relationship between fair value accounting and financial statement of organisation.

1.6 SCOPE OF THE STUDY

From the foregoing discussion, the framework of the research work encompasses on the overall effects and implication of fair value accounting on users of financial statement in Nigeria (especially the Capital Market).using the accountant, auditors, investors of companies listed on the Nigeria Stock Exchange Market as case study.

1.7 SIGNIFICANCE OF STUDY

As stated above, fair value information is included in IFRS financial statements, which have the main purpose to serve the informational needs of current and possible future investors. Even if the standard setters often use the general term investor in order to outline the scope of IFRS, it is expected that the users of financial statements differ largely with regard to their profession and skills in evaluating accounting information. As such, financial statements are used by professional investors, such as funds managers or financial advisors, as well as by nonprofessional investors where every individual only holds a few shares of the regarding company. This research study, will presents a framework that can be used as a practical tool for teaching and learning existing and emerging standards on fair value accounting. It will also identifies financial instruments, including the basic ones which can be defined in terms of assets, liabilities, and owners' equity, and the derivative instruments which may be based on contingent events and may require special treatment. The study contributes to the existing literature addressing Fair Value Accounting issues particularly in a developing country like Nigeria. The study is considered unique at least in Nigeria because it also considers FVA auditing issues from the perspective of the auditors themselves.

There is no doubt fair value accounting auditing issues will continue to be of interest in Nigeria, just like in other countries of the world. This study will provide an additional insight into the accounting literature, and provided useful input to audit profession, research academic, and related governmental departments such as Income Tax and Companies Controlling Department. Finally this study will be of great significance to schools and students, it will serve as a reference point for future researchers who will want to research more on the topic.

1.8 LIMITATION OF THE STUDY

The limitation envisage in the process of the research work includes:

1. **Financial challenges:** this factors serves as a deficiency for the research work, and as a result of low financial capability, it was not enough to give us desired results.
2. **Inadequate source of data:** the researcher was faced with inability to generate enough

required materials, and relevant data for the research work. 3. Respondent negative attitude to fill questionnaire within the stipulated time also slow track the completion of the research work.

1.9 DEFINITION OF TERMS

- **Fundamental value.** The discounted present value of a future stream of payments associated with an asset.
- **Liquidity pricing model.** An economic model that seeks to explain the influence of valuation accounting on contagion of risk across financial institutions, under conditions of market illiquidity.
- **Mark to market.** The most basic form of FVA, which involves assigning a value to an asset based on the publicly quoted price for the same asset trading on an exchange under the conditions of a liquid market.
- **Valuation Model:** Statistical techniques that take into account various factors so as to provide an estimate of the value of a financial instrument. These are often called pricing or valuation models. These models are regularly subject to rigorous review by the firms employing them to ensure that they accurately reflect current market realities.
- **Mark-To-Model Values**: When fair values are estimated using valuation models, they are referred to as mark to model valuation technique.
- **Fair Value Accounting:** The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
- **Active market** A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis
- **Exit Price**: The price that would be received to sell an asset or paid to transfer a liability.
- **Historical cost**: This is the original nominal monetary value of an economic item.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter seeks to review literature of existing bodies of literature on the subject of the research. The chapter analyzed conceptual framework, theoretical framework and empirical review of the study.

2.2 CONCEPTUAL FRAMEWORK

2.2.1 THE CONCEPT OF FINANCIAL STATEMENT

The basis for financial statement planning, analysis and decision making is financial information. Financial is needed to product and compare the firm's earning ability. It is also required in economic decision making. The financial information of an enterprise are contained in the financial statement (Falayi, 2020).

According to the Meigs (2021) has defined financial statement as the means of conveying to management and to interest outsider, a concise picture of profitability and financial position of the business.

Financial statement generally can be defined as the summarized information of the firm's financial affairs organized systematically. They are the means of presently the forms financial situation to all users (Pandey, 2018).

In SAS 2, financial statements are expected to be simple, clear and easy to understand by all users. Besides, they are the means of communication to interested users or parties information on the resource obligation and performance of the reporting entity or enterprise. Financial statements are external (financial accounting) statements. The institute of cost and management accounting (ICMA) defines internal financial statement in the technology as the provisions of information required by management for such purchases as formulation of policies, planning and controlling of activities of the enterprises, decision making an alternative course of action disclose to those external to the entity, disclosure to the employees and safeguard assets (Emmanuel, 2015).

Internal financial statement are not given to parties outside the entity, they are prepared mainly for the benefit of the outside the entity, they are prepared mainly for the benefit of the management and are used exclusively by the management, therefore, they are prepared to need specific internal policies need and act as guidelines to managers (Jahmani, 2017).

2.2.2 THE CONCEPT OF INTERNAL FINANCIAL STATEMENT

Internal financial statements are concerned with the provision of information to people within the organization to help them make better decision. It is considered that the benefits from the information by management exceed the cost of collecting and the preparation. (Dury of the 2020.)

According to Pandey (2022), External financial statements are product of accounting. They are given to parties outside the entity. External parties are unable to specify guidelines for the preparation of financial statements.

The presentation presented in external financial statements help investor and other user to make between decision about the entity. Thus financial statements must present information which are relevant to economic decision that is, they must be rare for predicting the future success and failure of the business entity relevance as an important quantitative characteristics of financial statement is concerned mainly with low accounting can serve external decision makers (Hongren 2024).

External financial statement principally consist of the profit and loss account, balance sheet, note on the account, sources and application funds, value added statement.

External financial statements involve the measuring and recording of transaction of a business enterprises or other economic unit and periodic preparation of various report from such record. (Warren and Fees 1968). It can also be defined as the "Discipline responsible for the providing of the information needed to evaluate the decision of the present and planned activities of organization in the society".

2.2.3 FAIR VALUE MEASUREMENT

John & Goind (2020) opined that the guidance on fair value under the current International Financial Reporting Standards (IFRS) is covered by a number of different standards.

Recently, a new standard for accounting for measurement of fair value is issued by the international Accounting Standard Board (IASB) and this forms a single framework for fair 'value measurement; where it is required or accepted under IFRS. Under this framework, the IFRS requirements for measurement and disclosure do not apply to the following:

- Share-based payment transactions inside the scope of IFRS 2 share-based payment.
- Leasing expenditures in the scope of IAS 17
- Such measurements as net-realized value in IAS2 inventions or value utilized in IAS 36 impairment of assets that have some resemblance to fair value but are not fair value.

Also, the following do not require the disclosures required by the IFRS:

- Plan assets measured at fair value in agreement with IAS 19 employee Benefits.
- Investments pertaining to Retirement benefit plan estimated at fair value in agreement with IAS 26 Accounting and reporting by plans of Retirement Benefit.
- Recoverable amount of assets has lesser cost in fair value of disposal in agreement with IAS 36.

From the explanation of international financial reporting standards (IFRS), an entity is needed in fair value measurement define the following:

- The measurement of a particular asset or liability.
- The use of asset in the highest and best way and to ascertain if the asset is used singly or jointly with other assets
- The market in which an orderly transaction would take place for the asset or liability.
- The suitable techniques for fair value evaluation. The utilization of relevant observable inputs and unobservable inputs should be capable of being maximized and minimized respectively by the technique(s) evaluation technique (s) used. Those inputs should be in conformity with inputs a participant in the market would use while pricing the asset or liability

2.2.4 THE CONCEPT OF PROFIT AND LOSS

According to Pandey (2020), the profit and loss account is the "score Board" in the firm's performance during a particular period of time. Since the profit and loss account reflect the result of operation for a period of time. It is a flow statement. It present the summary of revenues, expenses and net income (or net loss) of a firm's profitability.

The balance sheet is one of the most significant financial statements. It indicate the financial condition or the state of affairs of a business at a particular point of time more, specifically, it contain information about resources and obligation of a business entity and about its owner's interest in the business at a particular point of time (Ajayi, 2016).

In short, financial statement can be described as a man made act which charge and improve day-in-day-out, in the process of communicating business information as it function is vital to every unit of the society. The individual must account for his or her income and so the users of financial statements use them as basis for controlling their resources (which are very limited in supply) and meaning accomplishment (Moran, 2015).

2.2.5 INFORMATION TO BE DISCLOSED IN THE FINANCIAL STATEMENT

All financial statement that will assist users to assess the financial statement or position, profitability solvency and viability of a reporting company in order to make a valuable business decision should disclose certain information in logical clear and understandable manners.

Information to be disclosed in financial statements are group into two categories, general disclosure requirement and specific disclosure requirement.

(a) The financial statement of a company should state:

i. The name of a company.

ii. The period of time covered.

iii. A brief description of activities.

iv. Its legal firm.

v. Its relation with its significant local and overseas suppliers including the immediate and ultimate present association or affiliated company.

(b) Financial statement should include the following

i. Statement of accounting policy
ii. Balance sheet
iii. III. Profit and loss accounts or income statement.
iv. Notes on the account
v. Statement of source and application of funds.
vi. Value added statement.
vii. Five years financial summary.

(c) The financial implication of inter-company transfer and technical/management agreement between the enterprises and its significant local and overseas suppliers including it immediate and alternate associated, affiliated should be disclosed (Akwu, 2017).

(d) Financial statement should show corresponding figures for the proceeding proceed.

(e) General disclosure on the balance sheet. The following disclosure should be made as regarded balance sheet in the financial statement.

i. Restriction on the little of assets.
ii. Security given in respect of liability.
iii. The method of providing for pension and retirement plan.
iv. Contingent asset and contingent liability quantified possible.
v. Amount committed for future capital expenditure.

2.3 THEORETICAL FRAMEWORK

2.3.1 AGENCY THEORY Agency theory was propounded by Jensen and Meckling in 1976. They explained that agency relationship arises when the business owner(s) employ another person and saddled such with the responsibility of managing their business or performing a service on their behalf. This entails delegation of some decision-making authority to the agent, it usually results into division of labour and might be advantageous in the advancement of resourceful and productive economy (Hoitash, Hoitash & Bedard, 2020). The agents according to Pauloni (2017) are expected to act in the best interests of the principals. In this study, management is the agent with the responsibility of delivering high quality earnings that can positively predict future earnings of Deposit Money Banks in Nigeria to the principals (stakeholders), which may include the shareholders, creditors, new investors and others. Furthermore, agency relationship exist in order to utilize the special skills and private information possessed by the agent and also to relax constraints on the principal's time but due to rationality in human reasoning, agents tend to pursue a personal goal which may contradict the goal of the principal or that of the business as a whole. In such situation, there is need for cross examination and proper monitoring of the agents by the principal thus requiringthe attention of experts in harmonizing the discrepancies of interests between the principal and the agents (Herbohn, Ragunathan & Gardsden, 2019).

2.3.2 OHLSON'S CLEAN SURPLUS THEORY The work of Feltham and Ohlson (2019) has a profound impact in accounting research in the 1990's. The empirical implications of Ohlson's clean surplus model are that stock price is a linear function of the book value of equity and earnings. The Ohlson valuation model constitutes a starting point of accounting based theoretical modeling of the firms' value. In the Ohlson valuation model, empirical research from an informative perspective focused on how financial data reported by companies is being reflected in stock prices.

The Ohlson valuation model is based on the residual income valuation model, according to the residual income valuation, the firm value is express as the book value at the end of period in addition to the residual income or abnormal earnings in the period at the period's end of the period. The firm value is contemporarily related to the accounting numbers and the other information. The market value of a firm can be expressed in terms of the net book value of the firm's assets per the statement of financial position and the expected present value of future earnings, both of these figures are used to estimate share value. This study is underpinned by the Ohlson clean surplus theory because it constitutes a starting point of accounting based theoretical modeling of value relevance. In addition, the Ohlson valuation model, provides an informative perspective bases that focuses on how financial data reported by companies is being reflected in stock prices.

2.4 EMPIRICAL REVIEW

Various studies have been conducted on fair values and earnings quality across the globe although with divergent findings as to the relationship between them. Paoloni, Paolucci and Menicucci (2020), covered a period of ten years (2007-2016) of data on European banking sector. The authors depended on cross-sectional and time series data for panel data OLS regression analysis. They measured EQ using attributes like "persistence, predictability, variability and smoothing". Results of the study portray European banks with large fair values in their reports as having higher aggregate EQ, providing better tools for investors' decisions, reducing the risk in capital allocation decisions and enhancing management decisions in banks. The study was focused on the European banks use and adoption of fair values in their financial statement and it identified and processed so many attributes of EQ which had not been prominent in Nigeria, except the estimation of predictability. The multidimensional aspect needs to be simplified to isolate the relative significance of the concepts. The study may need to be replicated in Africa to assess the comparability of findings and general application.

Ebirien & Nwanyanwu (2021) research into earnings quality of firms in the Nigeria financial services spanning from 2011 to 2015. Specifically, the study examines the differential earnings quality of Deposit Money Banks (DMBs) and insurance companies listed on the Nigeria Stock Market. The study employed panel technique to gain data efficiency after subjecting the data collected to normality test, multi colinearity test and Haussman test shows that random effect model is preferred to fixed effect model. Earnings quality is found to vary to various stakeholders and predicts that DMBs exhibit higher EQ than the insurance companies. The work has successfully assessed earnings quality in isolation, it is therefore understandable that the conclusions were towards a comparative analysis of DMBs with Insurance firms. It would have been quite interesting to link this assessment to fair value adoption in Nigeria.

Ijeoma (2023), investigated the impact of fair value accounting on corporate financial reporting in Nigeria. The study employed field survey method of data collection which involved the use of questionnaire where 562 sample were used and was analysed using Kruskal –Wallis rank sum test statistic. The study established that adoption of fair values provided investors with more relevant information than conventional reporting. However, it was noted that the present structure of the Nigeria capital market may obstruct the implementation of fair values. Adoption of full fair value for financial instruments was found to fulfil the aims of performance reporting.

Ijeoma's study has concentrated on fair value accounting in isolation without a link to earnings quality but the discovery that the adoption of fair values is bedevilled by some challenges is remarkable especially in Nigerian context. Concluding that fair values fulfils the aims of performance reporting seem to be different from findings which highlight challenges. The link between the finding and the conclusion needs to be clarified. Above all, this study has not linked its findings to earnings quality which is more succinct than general outlook of financial reporting.

Francis, LaFond, Olsson and Schipper (2004) point out that earning provides useful information to various stakeholders and it is an important ingredient for decision-making to investors (Ebirien & Nwanyanwu, 2017). Schipper and Vincent (2003) and Dechow, Ge, and Schrand (2010) averred that high quality reported earnings should reflect the firm's present operating profitability, future performance and its inherent value. Earnings quality has gained the attention of scholars, standard setters, professionals and other stakeholders for multiple reasons. It is a prominent parameter for assessing the financial performance of an economic entity.

Recently, there is a global trend towards adopting International Financial Reporting Standards (IFRS) in the banking industry using FVA (IFRS 13), this has been supported by international organisations like World Bank, International Monetary Fund and Financial Stability Board

(Jayasekara, Perera &Ajward, 2018). This will enhance single high-quality global accounting standards (World Bank 2017; FSB 2015). Fair value concept in the banking industry emerged as a result of introducing accounting standards for financial instruments measurement (IFRS 9and IFRS 7) in 2010 to replace IAS 39 (Jayasekara at al 2018).

Ting and Soo (2005) as quoted in Enahoro and Jayeoba (2013), asserted that historical cost accounting was believed to have fulfilled the consistency characteristics of financial reporting; but over the years, the preparation of financial statements are done based on accounting periodicity by companies. The adoption of historical cost is well-known, in conventional accounting. For decades, the matching principle underline the method of historical cost, where expenses are offset against the revenue. In recent time, the objectivity of gains and losses have become a crucial concern; hence the need for a more objective measurement criteria. Investors, financial analysts, shareholders, creditors, employees, and communities, believe that historical cost concept has lost the characteristic of relevance, which has led to the development of Fair Value Accounting (FVA).

Beesong and Charles (2012), in their study, examined the effect fair value accounting and historical cost accounting has on the reported profits of manufacturing companies in Nigeria. With the use of multiple regression methods, secondary data employed were evaluated. The aim of this, was to create the relationship between the dependent and independent variables. Depreciation, dividend and taxation were the explanatory variables used in their study. The results obtained revealed that the technique utilised for measuring profit has direct influence on the amount calculated as depreciation, determines the amount charged as taxes and stipulates the amount paid as dividend from the reported profit of a given time frame.

Akwu et al (2017) in their study of fair value measurement, depreciation and profitability of listed manufacturing companies in Nigeria employed panel data from the financial reports of manufacturing companies quoted on the Nigerian stock exchange for the conversion periods, 2011, 2012 and 2013 as applicable. The ordinary least square regression technique and t-statistic were used for the analysis. The study revealed that with the use of fair value and historical cost convention, International financial Reporting Standards (IFRS) has an encouraging impact though small on depreciation and in the profit reported.

Suadiye (2016), investigate value relevance of book value and earnings under the local GAAP and IFRS of Turkey firms. The study examines empirically the impact of International Financial Reporting Standards (IFRS) on the value relevance of accounting information in Turkey. The study used the equity valuation model developed by Ohlson (2014). The study analyzes the value relevance of earnings and book values of equity produced under Turkish Local Standards (during 2000-2002) and under IFRS (during 2005-2009) then these two periods were compared to investigate whether the mandatory adoption of IFRS has an impact on value relevance of accounting information. The analysis results show that earnings and book value are, jointly and individually, positively and significantly related to stock price under the two different reporting regimes. Additionally, the results provide that book value of equity is more value relevant than earnings. The short coming of their study is that the result might have been over taken by events and thereby the result may not be applicable in recent period.

Prihatnia et al. (2016), examine the relationship between earnings per share and value relevance. The study opined that earnings per share is an important determinant of value relevance and that investors use earnings per share as a factor when evaluating companies. It is said that the information contained in earnings per share will lead to changes in investors' response to future cash flow distributions, resulting in changes in stock price.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter highlights the procedures used in conducting the study. Pertinent issues discussed in this section include the research design, population of the study, sample size and sampling techniques, sources and methods of data collection, instrument of data collection and techniques for data analysis.

3.2 RESEARCH DESIGN

A research design is the basic plan which guide the data collection and analysis phase of the research project. It is structuring of investigation aimed at identifying variables and their relationships to one another. It is basically a preconceived notion of what the information, the investigation needs to generate to complete the study, why it is needed, how it is needed to be secured and how it is to be referred and related to the statement of the problem.

In management science, the research methods employed include historical, empirical, case study and survey method. Survey method was therefore employed for this study.

3.3 POPULATION OF THE STUDY

A population is an aggregate of similar things, that is the total head count of the element involved in the programme affected. Cherisnall (2018) described population as any group of people or objects which are similar in more ways and which forms the subject of the study in a particular survey.

In this research work, the population is involves the staff in the administration department and accounting department of First bank, Ilorin,. Under investigation formed the population of the study since it would be impossible for the researcher to study and investigate all the staff responsible for the information sort for. The population of the study is the entire staff of Accounting Department of First bank, Ilorin. The entire staff of this department is 30 staff.

This is according to the information provided by the Human Resources Department as at December, 2022. The sample size for this study consist of 28 staff of Accounting Department of First bank, Ilorin this is arrived at according to Yaro Yammane formula.

Sample size of the population is 30 and the researcher issue the same number of the questionnaire to the staff of the company to answer. To determine the minimum number of response from each of the section of work in the population Bowley's proportional method or formula was applied.

3.4 SAMPLE/SAMPLING TECHNIQUES

Sampling of the opinion has been drawn using simple random sampling method. The population is 30 respondents. Random sampling is used because it is the only method that gives the respondents equal chance of being selected and it is an unbiased techniques. Therefore, to determine the sample size for the study, Yaro Yamane's formula will be applied.

$$n = \frac{N}{1 + N(e)^2} \qquad N = 30$$

Where N = population

n = sample size

e = error

$$n = \frac{30}{1 + 30(5\%)^2}$$

The size of the sample is 100 staff from First bank, Ilorin. The larger the sample size, the better generalization on the population from which the sample was selected. For proper sampling, the population was stratified into junior, senior and management staff as shown below.

Stratification	Population size	Sample size	Percentage of sample size
Junior staff	60	45	45%
Senior staff	35	30	30%
Management staff	25	25	25%
Total	30	28	100%

Source: Field survey, 2025.

3.5 SOURCES AND METHOD OF DATA COLLECTION

The two basic sources of data collection used include primary and secondary data collection

1. **PRIMARY DATA COLLECTION:** This refers to data collected fresh in relation to this research work. They could also refer to as first hand raw information. These data are obtained through questionnaire administration. The use of the accessibility of the designed respondent. Also as long as they are properly designed, respondents identifies kept confidential, reliable responses are obtained.
2. **SECONDARY DATA COLLECTION:** These are existing reformation which is useful for the purpose for the specific surveys, it includes readily available data which have been collected and used for other purpose. These sources include magazines, journal, textbooks, newspaper, abstract and annual report etc.

Therefore in course of paper conduct of this research work, important and relevant information will be obtained from the members of staff and management of First bank, Ilorin. Professional journal will also be used in this regard. Also literature relevant to this thesis of high valve in the theoretical frame work. Discussion with colleagues and member of staff of First bank, Ilorin will also serve as part of the sources.

3.6 RESEARCH INSTRUMENT

The primary data was employed in gathering information from staff of all cadres. Interviews were also conducted with other stakeholders, including customers of the company. The questionnaire consists of two sections. Section A elicits demographic information like gender, working experience, while Section B contained structured items relating to the research questions that necessitated this research.

3.7 TECHNIQUES FOR DATA ANALYSIS

Data collected for the testing of the hypothesis were analyzed using simple statistical tools like mean, standard deviation, tables and percentages.

The standard hypotheses of the study were tested with the use of x^2 = chi square test statistics which is expressed as $X^2 = \sum(0 - E)^2$ with the degree of freedom of v = k-1

Here, 0 = observed frequency

E = Expected frequency

The maximum response rating for each question is 5% and this gives an expected mean score of 2.5.

In analyzing the responses to the questions, the decision rule applied is that, if calculated mean is greater than expected mean of 2.5, we accept the statement, otherwise, we reject it. With respect to the hypothesis testing, if the calculated value of x^2 is greater than the table valve, we reject the null hypothesis and accept the alternative.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 INTRODUCTION

In this chapter, data collected using the instrument of data collection were presented and analyzed. The data such presented were based on the responses from the respondents through the use of carefully administered questionnaires which was completed and returned to the researcher.

4.2 DATA PRESENTATION

As explained in the last chapter, twenty-eight (28) copies of the questionnaire were distributed and all the twenty-eight (28) questionnaires were successfully completed and returned. The data are thus present under two (2) sections. Section A being the Bio Data of Respondents and Section B being the Research Question analysis.

4.3 DATA ANALYSIS

The twenty-eight (28) questionnaires are thus analyzed as shown below:

SECTION A: PROFILE OF RESPONDENT

S/N	Demographic Variable	Category	Frequency	Percentage (%)
1	Gender	Male	20	71.6
		Female	8	28.64
		Total	**28**	**100**
2	Age	20-30	**7**	**25**
		31-40	**7**	**25**
		41-50	**7**	**25**
		51 and above	**7**	**25**
		Total	**28**	**100**
3	Marital status	Single	7	75
		Married	21	25
		Other	-	-
		Total	**28**	**100**

4	Job status	Senior staff	21	75
		Management staff	7	25
		Total	**28**	**100**
5	Years in service	1-5 years	14	50
		6-10 years	7	25
		11 years and above	7	25
		Total	**28**	**100**
6	Education	OLEVEL	5	23.9
		OND/NCE	8	28.64
		BSC/HND	15	47.7
		Total	**28**	**100**

SECTION B: RESEARCH QUESTION

TABLE 4.2: DOES FAIR VALUE ACCOUNTING HAS POSITIVE EFFECT IN YOUR COMPANY?

CHOICE	**NO OF RESPONDENTS**	**PERCENTAGE (%)**
Strongly Agree	21	75
Agree	7	25
Strongly Disagree	00	00.0
Disagree	00	00.0
TOTAL	28	100

Source: Researcher's Survey, 2023

From the table above, 21 respondents representing 75% of the total respondents strongly agreed that fair value accounting has positive effect in their company, 7 respondents representing 25% also agreed to the question. No respondent Disagreed to the posed question and No respondent strongly disagreed that fair value accounting has positive effect in their company.

TABLE 4.3: DOES FAIR VALUE ACCOUNTING INCREASE THE PROFITABILITY AND PRODUCTIVITY IN YOUR COMPANY?

CHOICE	NO. OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	14	50.0
Agree	10	47.8
Strongly Disagree	0	00.0
Disagree	4	2.2
TOTAL	28	100

Source: Researcher's Survey, 2025

From the table above, 14 respondents representing 50% of the total respondents strongly agreed that fair value accounting increase the profitability and productivity in their company, 10 respondents representing 47.8% also agreed to the question. 0 respondents representing 00.0% of the total respondents Strongly Disagreed while 4 respondents representing 2.2% also Disagreed. The researcher therefore believes that fair value accounting increase the profitability and productivity in their company.

TABLE 4.4: DOES FAIR VALUE ACCOUNTING INFLUENCE THE OPERATIONAL EFFICIENCY IN YOUR COMPANY?

CHOICE	NO. OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	20	71.6
Agree	8	28.64
Strongly Disagree	0	00.0
Disagree	0	00.0
TOTAL	28	100

Source: Researcher's Survey, 2025

From the table above, 20 respondents representing 71.6% of the total respondents strongly agreed that fair value accounting influence the operational efficiency in their company, 8 respondents representing 28.64% also agreed to the question. 0 respondents representing

00.0% of the total respondents Strongly Disagreed while 0 respondents representing 0.00% also Disagreed that fair value accounting influence the operational efficiency in their company.

TABLE 4.5: ARE THERE ANY SIGNIFICANT DIFFERECE BETWEEN THE FAIR VALUE ACCOUNTING AND FINANCIAL REPORT IN YOUR COMPANY?

CHOICE	NO OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	21	75
Agree	7	25
Strongly Disagree	00	00.0
Disagree	00	00.0
TOTAL	28	100

Source: Researcher's Survey, 2025

From the table above, 21 respondents representing 75% of the total respondents strongly agreed that there is significant difference between the fair value accounting and financial report in their company, 7 respondents representing 25% also agreed to the question. No respondent Disagreed to the posed question and No respondent strongly disagreed.

TABLE 4.6: DOES FAIR VALUE ACCOUNTING BRING DOWN INTEREST RATE AND MAKE LONG TERM FUND AVAILABLE IN YOUR COMPANY?

CHOICE	NO. OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	14	50.0
Agree	10	47.8
Strongly Disagree	0	00.0
Disagree	4	2.2
TOTAL	28	100

Source: Researcher's Survey, 20235

From the table above, 14 respondents representing 50% of the total respondents strongly agreed that fair value accounting bring down interest rate and make long term fund available in their company, 10 respondents representing 47.8% also agreed to the question. 0 respondents representing 00.0% of the total respondents Strongly Disagreed while 4 respondents representing 2.2% also Disagreed that fair value accounting bring down interest rate and make long term fund available in their company. The researcher therefore believes that fair value accounting bring down interest rate and make long term fund available.

TABLE 4.7: DOES FAIR VALUE ACCOUNTING HELP IN ATTAINING TARGET PROFIT IN YOUR COMPANY?

CHOICE	NO. OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	14	50.0
Agree	10	47.8
Strongly Disagree	0	00.0
Disagree	4	2.2
TOTAL	28	100

Source: Researcher's Survey, 2025

From the table above, 14 respondents representing 50% of the total respondents strongly agreed that fair value accounting help in attaining target profit in their company, 10 respondents representing 47.8% also agreed to the question. 0 respondents representing 00.0% of the total respondents Strongly Disagreed while 4 respondents representing 2.2% also Disagreed that fair value accounting help in attaining target profit in their company. The researcher therefore believes that fair value accounting help in attaining target profit in their company.

TABLE 4.8: DOES STAFF AND MANAGEMENT IN YOUR COMPANY HAVE EXPERIENCE ON FAIR VALUE ACCOUNTING?

CHOICE	NO. OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	20	71.6
Agree	8	28.64
Strongly Disagree	0	00.0
Disagree	0	00.0
TOTAL	28	100

Source: Researcher's Survey, 2025

From the table above, 20 respondents representing 71.6% of the total respondents strongly agreed that staff and management in their company have experience on fair value accounting, 8 respondents representing 28.64% also agreed to the question. 0 respondents representing 00.0% of the total respondents Strongly Disagreed while 0 respondents representing 0.00% also Disagreed that staff and management in their company have experience on fair value accounting.

TABLE 4.9: DOES FAIR VALUE ACCOUNTING ENHANCE EFFECTIVE PERFORMANCE OF STAFF AND MANAGEMENT IN YOUR COMPANY?

CHOICE	NO. OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	14	50.0
Agree	10	47.8
Strongly Disagree	0	00.0
Disagree	4	2.2
TOTAL	28	100

Source: Researcher's Survey, 2024

From the table above, 14 respondents representing 50% of the total respondents strongly agreed that fair value accounting enhance effective performance of staff and management in their company, 10 respondents representing 47.8% also agreed to the question. 0 respondents representing 00.0% of the total respondents Strongly Disagreed while 4 respondents representing 2.2% also Disagreed that fair value accounting enhance effective performance of staff and management in their company. The researcher therefore believes that fair value accounting enhance effective performance of staff and management in their company.

TABLE 4.10: DOES LACK OF TRAINING AFFECT THE COMPANY COST IN A POSITIVE WAY?

CHOICE	NO OF RESPONDENTS	PERCENTAGE (%)
Strongly Agree	21	75
Agree	7	25
Strongly Disagree	00	00.0
Disagree	00	00.0
TOTAL	28	100

Source: Researcher's Survey, 2025

From the table above, 21 respondents representing 75% of the total respondents strongly agreed that lack of training affect the company cost in a positive way, 7 respondents representing 25% also agreed to the question. No respondent Disagreed to the posed question and No respondent strongly disagreed that lack of training affect the company cost in a positive way.

4.4 TEST OF HYPOTHESES

HYPOTHESIS 1

Ho1: Nigeria capital market structure do not pose a challenge to implementation of fair value accounting.

Table 4.4.1

Option	No. of Respondent	Percentage (%)
Strongly agreed	14	50.0
Agreed	10	47.8
Undecided	0	0.00
Disagree	4	2.2
Strongly disagreed	0	0.0
Total	**28**	**100**

Field survey, 2025

Option	Fo	Fe	Fo – Fe	(Fo – Fe)^2	(Fo – Fe)^2/e
Strongly agreed	14	10	4	16	1.6
Agreed	10	10	0	0	0.0
Undecided	0	10	-10	100	10
Disagree	4	10	-6	36	3.6
Strongly disagreed	0	10	-10	100	10
Total	**28**				**25.2**

Therefore, D_f (r-1) (c -1)

= (5 -) (2 – 1)

= (4) (1)

= 4

Level of significance = 0.5

$$X^2 = \sum \frac{(F_o - F_e)^2}{F_e} = 25.2$$

Therefore, X^2 calculated = 2.52

X^2 Tabulated = 9.49

Decision rule

If X^2 tabulated is > X^2 calculated, accepted the null hypothesis (Ho) and reject the alternative hypothesis (H_1) but if X^2 tabulated is < X^2 calculated, accept the alternative (H_1) and reject the null hypothesis

Decision

Since X^2 tabulated 9.49 is less than X^2 calculated 2.52 alternative hypothesis (H_1) which stated that Nigeria capital market structure pose a challenge to implementation of fair value accounting is accepted while the Ho that stated that Nigeria capital market structure do not pose a challenge to implementation of fair value accounting is rejected.

4.5 DISCUSSION OF FINDINGS

Research Hypothesis One

Ho1: Nigeria capital market structure do not pose a challenge to implementation of fair value accounting.

The first research question for the study aim of findings. Since X^2 tabulated 9.49 is less than X^2 calculated 2.52 alternative hypothesis (H_1) which stated that Nigeria capital market structure pose a challenge to implementation of fair value accounting is accepted while the Ho that stated that Nigeria capital market structure do not pose a challenge to implementation of fair value accounting is rejected.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The approach by which firms measure and report, on continuous basis, certain assets or liabilities (most importantly financial instruments) at the current amount they would receive if the assets were to be sold or amount to be paid if they wereto be relieved of the liabilities is described as Fair Value Accounting (FVA).

Generally Accepted Accounting Principles defined fair value as the amount at which an asset can be purchased or sold in the most recent trading activities between buyers and sellers other than what such assets would have earned in liquidation and such amount as could be incurred or settled in current transaction between willing parties, for liability other than liquidation. It is considered the most useful market feature used in judging the quality of financial reporting.

5.2 CONCLUSION

The study concluded that that fair value has a significant to Earnings Quality. When the intervening variables, Size and Leverage of the Banks are considered, earnings quality shows a negative relationship thus may not be a dependable basis for predicting earnings, hence making investment decision. The impact of fair value accounting on earnings quality is quite significant but negative. With the adoption of Fair Values, Earnings predictability of Nigerian Deposit Money Banks became quite high due to the variability of income. This impairs the earnings quality and thus affects the choices that stakeholders can make.

5.3 RECOMMENDATION

It is recommended that the adoption of fair values in Nigerian Deposit Money Banks should be made to affect both the financial assets and the liabilities, especially the ones that connect to redemption of debt instruments issued by bank. Besides, the recent economic changes and shocks have told significantly on the earnings pattern of financial institutions in general and banks in particular, giving data on earnings with wide variation. Thus, adoption of fair value at such a period as this will distort the realities that accounting and financial reports are meant to portray. Financial statement regulators should be clear on what to do under such circumstances as this when stock market is quite unstable is challenged by liquidity.

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APPENDIX

Department of Accountancy,
Institute of Finance and Mgt. Studies,
Kwara State Polytechnic,
P.M.B 1375 Ilorin,
Nigeria.
18 June, 2025.

Dear Respondent,

REQUEST FOR THE COMPLETION OF QUESTIONNAIRE

I am a final year student of above named institution, I am currently conducting a study on **EFFECT OF FAIR VALUE ACCOUNTING AND FINANCIAL REPORT POLICY OF LISTED DEPOSIT MONEY BANK IN NIGERIA**. This study is an in partial fulfillment of the requirement for the award of National Diploma, (ND) in Accountancy.

I would be very grateful if you would kindly give your candid response to the under listed question. I promise to treat every information you supply in this questionnaires with almost confidence.

Thanks and God bless you.

Yours faithfully,

ANJORIN BASIRAT AJOKE.

QUESTIONNAIRE

Please read and follow the instruction before answering any question

Thick in ✓ the box as appropriate

1. Sex: Male (   )   Female (   )
2. Age: 20 – 30 years (   ) 31– 40 years (   ) 41 – 50 years ( ) 51 years and above ( )
3. Marital status: Single (   )   Married (   )
4. Job status: Junior staff (   ) Senior staff (   )   Management staff (   )
5. Year in service: 1 – 5 years (   )   6 – 10 years (   )   11 years and above
6. Educational qualification: OND (   ) HND ( ) B.Sc (   ) PHD ( ) Master ( )

SECTION B

1) Does fair value accounting has positive effect in your company? (a) Strongly agreed ( )

   (b) Agreed (   ) (c) Neutral (   ) (d) Disagreed (   ) (e) Strongly disagree (   )
2) Does fair value accounting increase the profitability and productivity in your company? (a) Strongly agreed (   ) (b) Agreed (   )   (c) Neutral (   ) (d) Disagreed (   ) (e) Strongly disagree (   )
3) Does fair value accounting influence the operational efficiency in your company? (a) Strongly Agreed (   ) (b) Agreed (   )   (c) Neutral (   )   (d) Disagreed (   )

   (e) Strongly disagree ( )
4) Are there any significant difference between the fair value accounting and financial report in your company? (a) Strongly Agreed (   ) (b) Agreed (   )   (c) Neutral (   )   (d) Disagreed (   ) (e) Strongly disagree (   )
5) Does fair value accounting bring down interest rate and make Long term funds available in your company? (a) Strongly agreed (   ) (b) Agreed (   ) (c) Neutral (   ) (d) Disagreed (   )   (e) Strongly disagree (   )
6) Does fair value accounting helps in attaining targeted profit in your company? (a) Strongly Agreed

( ) (b) Agreed ( ) (c) Neutral ( ) (d) Disagreed ( ) (e) Strongly disagree ( )

7) Does staff and management in your company have experience on fair value accounting? (a) Strongly agreed ( ) (b) Agreed ( ) (c) Neutral ( ) (d) Disagreed ( ) (e) Strongly disagree ( )

8) Does fair value accounting helps to boost revenue of your company? (a) Strongly agreed ( ) (b) Agreed ( ) (c) Neutral ( ) (d) Disagreed ( ) (e) Strongly disagree ( )

9) Does fair value accounting enhance effective performance of staff and management in your company? (a) Strongly agreed ( ) (b) Agreed ( ) (c) Neutral ( ) (d) Disagreed ( ) (e) Strongly disagree ( )

10) Does lack of staff training affect the company cost in a positive way? (a) Strongly agreed ( ) (b) Agreed ( ) (c) Neutral ( ) (d) Disagreed ( ) (e) Strongly disagree ( )