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Effect of Accounting Information on Stock Price of Listed Consumer Goods Company in Nigeria

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Abstract

This research looked at how accounting information affected the stock price of Nigerian consumer goods firms that were listed. This research utilised ex post facto design. Ten consumer products firms were chosen for the duration of the investigation (2010–2023). This investigation used financial statements and annual reports from consumer product companies in Nigeria. Regression was used to analysis the collected data. We used the R-squared coefficient of determination to illustrate the extent to which the adoption of explanatory variables may account for stock price variety. The degree of influence that the independent variable had on the dependent variable was shown using the t-statistic and the F-statistic. At the 5% level of significance, regression analysis revealed that cash flow ratio and book values had a significant effect on stock price. The study advises policymakers to take into account the necessary lag in any programme intended to regulate the stock prices of consumer product companies.

Keywords: *Accounting Information, Book Value, Cash Flow Rate, Stock Price, Consumer Goods Firms*

1. Introduction

In the dynamic landscape of financial markets, the interplay among accounting information and stock prices is a crucial area of study, particularly for quoted consumer goods corporations in Nigeria. The Nigerian stock market is a significant platform for investors seeking opportunities in various industries, with consumer goods companies playing a pivotal role in shaping the market's trajectory. The intricate interplay among accounting information and stock prices forms the backbone of investment decisions, influencing stakeholders' perceptions and shaping the overall financial landscape (Ana & Rizal, 2016).

The first key factor in understanding this relationship lies in the role of financial statements. Accounting information encapsulated in financial statements provides investors with a complete summary of an enterprise's financial health, performance, and position (Omolehinwa, & Obigbemi, 2017). For quoted firms, these financial statements become instrumental in evaluating the company's profitability, liquidity, and overall stability. Investors often rely on metrics such as earnings per share (EPS), revenue growth, and return on equity (ROE) to gauge the company's operational efficiency and potential for future growth.

Furthermore, Nigeria's regulatory environment significantly influences the dissemination and reliability of accounting information. The adherence to international accounting standards and regulatory frameworks enhances transparency, ensuring that the financial information presented by consumer goods companies is accurate and comparable. Mohammed (2018) submitted that this transparency, in turn, instils confidence among investors and contributes to a more efficient pricing mechanism in the stock market. The financial and reporting regulatory bodies in Nigeria play pivotal roles in maintaining the integrity of accounting information, thereby fostering a conducive environment for investors.

A notable dimension involves market reactions to accounting information releases. The stock market responds promptly when consumer goods companies disclose their financial results. Positive financial performance often leads to increased stock prices, reflecting investor optimism and a positive outlook for the company (Ogbonnaya, et al., 2016). Conversely, negative financial indicators can trigger a decline in stock prices, signalling concerns among investors. The efficiency of the stock market is evident in the swift incorporation of relevant accounting information into stock prices, highlighting the market's ability to reflect changing fundamentals promptly.

The consumer goods sector has been chosen because it is one of the most vibrant sectors of the Nigerian capital market. The sector has attracted and retained foreign investment over decades, resulting in a retail sector boom. The fall in crude oil prices since 2014 has adversely affected the industry, resulting in high production costs and a reduction of profits, and this is mainly due to the scarcity of foreign exchange in importing inputs for the companies. However, despite the importance of the household goods enterprises to the Nigerian market, there is a lack of studies on the efficiency of ownership accounting information on the stock price of listed Nigerian household goods firms. The intricate interplay among accounting information and stock prices is vital for investors navigating the Nigerian stock market, especially when considering consumer goods companies. The reliability of financial statements, the regulatory environment, and market reactions collectively shape the investment landscape.

1.1 Statement of the Problem

The implication of accounting information on the stock prices of quoted consumer goods businesses in Nigeria comes with complex problem with significant implications for investors and market efficiency. One key issue lies in the potential information asymmetry between corporate entities and investors, where the accuracy and transparency of financial disclosures may vary. This discrepancy could hinder investors' ability to make informed decisions, impacting stock prices and distorting market dynamics. Additionally, the effectiveness of regulatory bodies in ensuring adherence to international accounting standards and maintaining the integrity of financial information becomes a critical concern, as any lapses in oversight may lead to misinformation, eroding investor trust and impacting stock valuation in the consumer goods sector. Addressing these challenges is essential for fostering a more transparent and efficient stock market in Nigeria, particularly within the context of consumer goods companies.

1.2 Aim and Objectives of the Study

This research looked at the impact of accounting data on Nigerian consumer goods firms' stock prices. More precisely, the research aimed to accomplish the subsequent:

1. Establish the relationship between the stock price of household goods firms listed in Nigeria and the book value of firm equity.
2. Assess the correlation between the stock prices of household goods firms listed in Nigeria and the cash flow rate.

1.3 Research Questions

The following research questions guided the study:

1. How much does book value influence the stock prices of Nigerian listed household goods firms?
2. How much does the cash flow rate of Nigerian-listed household goods firms affect their stock price?

1.4 Hypotheses

H01: Book value has no substantial association with stock price of listed household goods firms in Nigeria.

H02: Cash flow rate has no substantial association with stock price of listed household goods firms in Nigeria.

2. Literature Review

2.1 Conceptual Review

2.1.1 Accounting Information

Accounting information serves as the backbone of financial decision-making, providing a systematic and organized representation of a company's economic activities. It encompasses a diverse sets like income statements, cash flow and statement of financial position, which collectively offer insights into a firm's financial performance, position, and liquidity. Latif and Abdullahi (2017) disclosed that the primary purpose of accounting information is to flender, and regulatory organisations. By adhering to established accounting principles and standards, businesses ensure the dependable, comparability, and useful of the information presented, fostering transparency and aiding in the assessment of a company's financial health.

Accounting information is not solely a record-keeping mechanism but a strategic tool for decision-makers. It enables stakeholders to assess the profitability and efficiency of operations, evaluate risk exposure, and make informed investment or lending decisions. As businesses navigate an increasingly complex economic landscape, the conceptual foundation of accounting information remains integral in providing a clear and standardized representation of financial performance, playing a pivotal role in fostering trust and confidence among stakeholders (John-Akamelu, et al., 2019).

2.1.2 Book Value

Book value, as a measure of accounting information, represents the net asset value of a company and is derived from its balance sheet. The determination involves the subtraction of the aggregate liabilities from the total assets of a company, thereby furnishing a momentary depiction of the firm's equity. Investors frequently employ the book value per share as a per-share proxy for determining the intrinsic value of a company. While book value provides a tangible and historical perspective on a firm's financial position, which does not always reveal the market value or the company's true economic value, as it does not consider factors such as market sentiment, brand value, or intellectual property that might contribute to a company's overall worth (Mazi & Ebere, 2019).

Investors often use the book value as a fundamental metric to evaluate the financial state of a business and the undervaluation or overvaluation of a stock. A company trading below its book value may be considered a potential value investment, signalling that the market is valuing the company lower than its accounting-based net worth. However, it's important to recognize the limitations of book value, particularly in companies where intangible assets and intellectual property play an important role, as it may not capture the full spectrum of a company's value in the rapidly changing business landscape.

2.1.3 Cash Flow Rate

The cash flow rate is a significant metric in accounting that offers helpful information into the capacity of a business to produce and control cash, which is vital for determining its financial well-being. Unlike traditional accounting metrics such as net income, which can be influenced by non-cash items, the cash flow rate focuses specifically on the movement in a business (Nwanyanwu, 2015). There are three main categories of cash flows: operating, investing, and financing activities. Operating cash flow reflects the cash generated or used in the core business operations, indicating the firm’s capacity to sustain its day-to-day operations. Investing cash flow accounts for cash transactions pertaining to the purchase and sale of assets, while financing cash flow includes dealings with the firm's creditors and owners, such as debt repayment and the issuance or purchase of shares.

2.1.4 Stock Price

Stock price reflects the market's valuation of a company's shares at any given point in time. It is a dynamic metric influenced by several elements such as investor sentiment, market conditions, and the firm's fundamental financial health. Adelegan (2023) disclosed that stock price is determined through the interplay of supply and demand in the stock market, where investors buy and sell shares based on their perceptions of a company's future prospects. For investors and analysts, the stock price function as timely pointer of the market's collective assessment of a company's total performance, growth potential, and risk profile.

Market sentiments, speculation, and external economic factors can lead to fluctuations that might not necessarily reflect the underlying health of the business. Long-term trends in stock price, however, can offer essential understandings into a business's sustained financial success or challenges. Investors often use stock price trends alongside other financial metrics to make informed choices about buying, selling, or holding shares in a firm. Overall, the stock price is a dynamic and responsive measure that encapsulates the market's collective judgment of a business's financial viability and future prospects.

2.2 Theoretical review

2.2.1 Contingency Theory

Contingency Theory provides a valuable framework to understand the effects of accounting information on the stock price of Nigerian household product firms. Wickranmasingle and Alawattage (2017) submitted that organizational effectiveness is contingent upon the alignment between the organization's structure, processes, and environmental factors. In the context of consumer goods firms, the quality and transparency of accounting information serve as crucial organizational factors. The effectiveness of accounting information in influencing stock prices depends on how well it aligns with the dynamic and multifaceted business environment in Nigeria, which is subject to regulatory changes, economic fluctuations, and consumer behaviour shifts.

The contingency perspective suggests that different situations demand different responses, and the implication of accounting information on stock prices is contingent upon the specific contextual factors at play. In Nigeria, consumer goods companies operate in a diverse and rapidly evolving market. The regulatory environment, including financial reporting standards and corporate governance practices, can significantly shape the quality of accounting information. Contingency Theory would argue that the effectiveness of accounting information in influencing stock prices depends on the adaptability of consumer goods firms to the regulatory landscape and their ability to provide information that is not only accurate but also responsive to the unique challenges posed by the Nigerian market.

Contingency Theory emphasizes the need for flexibility and adaptability in organizational responses. Consumer goods firms in Nigeria must tailor their accounting practices to the specific characteristics of their industry and the regulatory environment. The theory suggests that firms that can strategically align their accounting information with the contingencies of the Nigerian consumer goods market are likely to experience a more positive impact on their stock prices. In essence, Contingency Theory provides a lens through which to analyze the nuanced relationship between accounting information, organizational strategies, and the contingent factors influencing stock prices in the dynamic and evolving landscape of Nigerian household product firms.

2.2.2 Agency Theory

Agency Theory offers insights into the interplay among principals (shareholders) and agents (management) within organizations, providing a framework to understand how accounting information influences stock prices for consumer goods firms in Nigeria. In this context, shareholders delegate decision-making authority to management, creating a principal-agent relationship. The theory posits that the interests of shareholders and management may not always align perfectly, leading to agency conflicts. Accounting information serves as a mechanism to mitigate these conflicts by providing transparency and aligning the incentives of both parties. Shareholders rely on financial reports to monitor managerial performance, assess the financial stability of the business, and make wise investment choices, all of which contribute to shaping stock prices (Oladiture& Agbaje, 2019). In Nigeria's consumer goods sector, where market dynamics and economic conditions can be challenging, the role of accounting information in reducing agency conflicts becomes crucial in influencing stock prices positively.

Agency Theory suggests that the effectiveness of accounting information in aligning principal and agent interests is contingent upon the monitoring mechanisms in place. In the Nigerian consumer goods industry, regulatory bodies act as external monitors. These entities play a vital role in ensuring that accounting information is accurate and transparent, thereby enhancing shareholder confidence. As per the theoretical framework, the implication of accounting information on stock prices is anticipated to be more favourable when it is perceived as reliable and aligns with the objectives of shareholders and management. This phenomenon occurs because it mitigates information asymmetry and enhances the efficiency of the connection between the principal and the agent in Nigeria's consumer goods industry.

2.3 Empirical review

Chaturvedi and Sharma (2021) investigated and assessed the “effect of accounting information systems (AIS) on insurance firm financial viability in India.” The results of this research may be used by managers and owners of businesses to gain a better understanding of how AIS might support their efforts to increase productivity and profitability. Numerous aspects, such as efficiency, dependability, usability, and the quality and accuracy of the data, affected the success of companies after the deployment of AIS. Two hundred answers were collected for the study. Using regression and correlation approaches, the researcher in this paper observed the implication of the AIS on the viability and profitability of insurance businesses in India.

Mazi and Ebere (2019) conducted an experimental investigation on the management accounting systems of Nigerian listed insurance firms to determine the interplay among these systems and the viability of listed insurance businesses in Nigeria. Ten of the 29 insurance companies that were quoted provided information, and regression analysis was performed to assess the data in order to meet the study's objectives. Planning and control, effectiveness, employee engagement, and corporate social responsibility have all been linked, according to research. Planning and control have a significant influence on the performance of Nigerian insurers, according to research. According to new research, Nigerian insurance companies should use a regular management accounting system to ensure effective performance and keep the organisation's goals front of mind.

Abubakar et al. (2018) examined the “business futures and financial viability of insurance Nigerian firms.” The study's data came from insurance companies that were listed between 2007 and 2016. The study indicates that age and liquidity negatively impact the bottom lines of Nigerian insurance firms. To improve financial performance, productive assets should be converted from cash and cash equivalents, according to the study.

The literature analysed indicates that, as of 2010, there is a dearth of empirical data concerning the real nature of the interplay among accounting information and the stock prices of Nigerian consumer products businesses that are listed on stock exchanges. The study period of 2010–2023 was chosen due to several factors, including the shift in political power from the incumbent PDP to the APC (in 2015), which brought about fresh economic upheavals; the economic downturn that occurred in 2016 and 2017; and the much dreaded COVID-19 halt, which had an array of effects on the majority of businesses. Book value per share and cash flow ratio were seldom included in research as stand-ins for accounting data. Our present study aims to bridge the aforementioned gaps.

3. Methodology

An "ex-post facto design" was used to conduct the study. In these investigations, observers are unable to directly affect independent variables because their manifestations are either essentially unmodifiable or have already occurred. Because of this study's nature, no variables have been manipulated. The study's population comprises all 28 listed household goods businesses on the Nigerian Exchange Group as of September 31, 2023. In order to ensure data accuracy and reliability, the criterion sampling technique was employed to select the sample for the study. The criteria are:

1) The firms must not be delisted during the period of study (2010–2023).

2) They must have all the information required to measure the variables of the study within the period.

After using these criteria, 10 firms met the conditions, and hence they formed the sample of the study. The analysis was based on panel data from consumer goods businesses' published financial statements for the years 2010 through 2023.

The relationship between the variables was investigated using Pearson correlation and simple regression, both of which were made possible using E-View version 9.

Model of Specification

$SP = f(AI)$
$SPit = \beta_0 + \beta_1 BV_{it} + \beta_2 CFR_{it} + \epsilon t$
Where:
$SP = "StockPrice"$
$AI = "Acccounting$ Information"
$BV = "BookValue = NetIncome/Ave$rage Asset"
$CFR = "CashF$log $Ratio = Cas$h flow scaled by revenue"
$i = "company$
$t = "time(year)"$
$\epsilon = "errorterm"$

Decision criterion

Testing for significance at the 5% level, the null hypothesis is accepted if $p<0.05$ and rejected $if p > 0.05$.

4. Result and Analysis

4.1 Data Presentation

H01: Book value has no substantial association with stock price of listed household goods firms in Nigeria.

Table 4.4.1: Regression Analysis on book value and stock price of listed consumer goods companies in Nigeria

Dependent Variable: SP

Method: Panel Least Squares

Total panel (balanced) observations: 140

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BV	0.015738	0.003666	4.293343	0.0000

R-squared	0.384018	Mean dependent var	6851807.
Adjusted R-squared	0.384018	S.D. dependent var	14408345
S.E. of regression	15001417	Akaike info criterion	35.89230
Sum squared resid	3.13E+16	Schwarz criterion	35.91332
Log likelihood	-2511.461	Hannan-Quinn criter.	35.90084
Durbin-Watson stat	0.955102		

SOURCE: E-VIEWS OUTPUT (2024)

The results in Table 4.4.1 demonstrated that book value had an affirmative implication on the stock price of quoted household goods businesses in Nigeria. The coefficients' signs, namely β1, which is 0.015738, indicate this. When all other elements are held constant, a 1% rise in BV would result in a 0.015738 increase in SP, since the coefficient of the independent variable is positive. The model's explanatory power, also known as adjusted R-squared, has a coefficient of 0.384018. This suggests that, within the context of the model, BV accounts for 38.4% of the variance in SP. The tables also showed that BV has a p-value of 0.000. H01 is rejected because the selected significance threshold, 5%, is less than the t-statistics' p-value of 4.29. Consequently, the book value and stock price of Nigerian consumer products industries that are listed have a strong correlation.

H02: Cash flow rate has no substantial association with stock price of listed household goods firms in Nigeria.

Table 4.4.2: Regression Analysis on cash flow rate and stock price of listed consumer goods companies in Nigeria

Dependent Variable: SP
Method: Panel Least Squares
Total panel (unbalanced) observations: 139

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CFR	0.013143	0.001553	8.463033	0.0000

R-squared	0.190423	Mean dependent var	6900721.
Adjusted R-squared	0.190423	S.D. dependent var	14448785
S.E. of regression	13000513	Akaike info criterion	35.60604
Sum squared resid	2.33E+16	Schwarz criterion	35.62716
Log likelihood	-2473.620	Hannan-Quinn criter.	35.61462
Durbin-Watson stat	1.150101		

SOURCE: E-VIEWS OUTPUT (2024)

The cash flow value of listed household goods businesses in Nigeria had a positive influence on stock prices, according to the results in Table 4.4.2. The coefficients' signs, namely β2, which is 0.013143, indicate this. When all other elements are held constant, a 1% rise in CFR would result in a 0.013143 increase in SP, since the coefficient of the independent variable is positive. The model's explanatory power, or adjusted R-squared, has a coefficient of 0.190423, meaning that 19.0% of the variance in SP can be explained by CFR in the model context. The tables also showed that CFR has a 0.000 p-value. H02 is rejected because the selected threshold of significance, 5%, is less than the t-statistics' p-value of 8.46. As a result, there is a strong correlation between the stock price of Nigerian consumer product firms and their cash flow rate.

4.2 Discussions

The result revealed that a unit increase in BV by 1% would cause 0.015738 increase in SP when all other factors are kept constant and that BV is responsible for 38.4% variation in SP. Also, there is a significant relationship between book value and stock price of quoted Nigerian household goods companies.

The outcome revealed that a unit rise in CFR of 1% would cause a 0.013143 rise in SP when all other factors are kept constant and that CFR is responsible for 19.0% of the variation in SP. Also, "there is a substantial interplay among the cash flow rate and the stock price of quoted consumer goods firms in Nigeria." This conforms to the results of Abubakar et al. (2018), who found a negligible and unfavourable correlation between the profitability of insurance houses in Nigeria and accounting information. The results are in opposition to those of Chaturvedi and

Sharma (2021), who found a substantial correlation between the financial performances of listed insurance businesses in India and Nigeria, respectively, and accounting information.

5.1 Conclusion

The intricate interplay between stock prices and accounting data forms the backbone of investment decisions, influencing stakeholders' perceptions and shaping the overall financial landscape. "The influence of accounting information on the stock price of public consumer goods businesses in Nigeria" was the subject of this study. The research findings indicate that there exists a noteworthy correlation between the stock price of consumer goods businesses listed in Nigeria and their book value and cash flow rate.

5.2 Recommendations

In light of the conclusion drawn, the study recommends that:

1. Policymakers should evaluate the needed lag in any scheme meant to manage the stock prices of consumer products.
2. The management of consumer goods companies should ensure sincere accounting information disclosure, since it serves as an indicator to track the confidence and preferences of investors.

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