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THE USEFULNESS OF FINANCIAL STATEMENTS IN ASSESSING THE PERFORMANCE OF COMPANIES AS A GUIDE TO INVESTMENT DECISION IN NIGERIA

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Abstract

This study examines the usefulness of financial statements in assessing the performance of listed deposit money banks and guiding investment decisions in Nigeria. The study employed secondary data obtained from the audited annual reports of ten purposively selected banks covering the period from 2015 to 2024. Descriptive statistics, correlation analysis, and panel regression techniques were used to evaluate the relationship between key financial indicators and firm value, measured as market price per share. The independent variables included Earnings per Share and Abnormal Earnings, while Firm Size and Leverage. The empirical results revealed that both EPS and ABN exhibited positive but statistically insignificant effects at the 5% level, suggesting that their incremental value relevance is weaker compared to book value, possibly due to volatility and high interdependence. The overall regression model was statistically significant, with an R-squared of 0.341, demonstrating that financial statement information collectively explains a considerable proportion of variations in share price among listed banks. The study concludes that financial statements are decision-useful for investment appraisal in Nigeria, but investors rely more heavily on balance sheet indicators particularly book value than on earnings measures. Bank managers enhance transparency around equity positions, and that regulators strengthen disclosure requirements to improve the credibility and usefulness of reported financial information.

Keywords Earnings per Share, Abnormal Earnings, Book value

1. Introduction

Investment decision making is central to financial markets and corporate governance, as it determines how resources are allocated to generate returns and support economic growth. In theory, investors make decisions based on comprehensive information about companies' financial health, market conditions, and prospects (De-Oliveira et al 2024). Financial statements comprising the

balance sheet, income statement, cash flow statement, statement of changes in equity, and accompanying notes are intended to provide this information in a structured and transparent manner Adaramola and Oyerinde (2014). In practice, however, investment decisions are often made under conditions of uncertainty, market inefficiencies, and limited access to reliable data Etim et al (2022). In Nigeria, many investors, particularly in the informal and retail segments, face challenges in interpreting financial statements due to inadequate

financial literacy or limited analytical skills. Consequently, investment decisions may rely on speculation, brand perception, or incomplete information rather than on sound financial analysis. Another critical concern is whether financial statements truly reflect the company's performance. Issues such as non-compliance with accounting standards, lack of transparency, and weak corporate governance can undermine the reliability of reported information Nwinkonzor and Odoemelam (2024). These factors can result in poor investment outcomes, underperformance of investor portfolios, and avoidable financial losses. Given these challenges, it becomes essential to examine the usefulness of financial statements in guiding investment decisions and assessing corporate performance in the Nigerian context.

Investment decisions are often made in environments characterized by uncertainty, market inefficiencies, and limited access to reliable financial information. Although financial statements are intended to provide a comprehensive overview of a company's financial health, there remains a gap between the availability of these reports and their effective utilization by investors. Many potential investors, especially in the informal and retail segments of the Nigerian economy, either do not have adequate financial literacy or lack the analytical tools required to interpret financial statements meaningfully. As a result, investment decisions are sometimes based on speculation or brand perception rather than on informed financial analysis. Another problem is whether the financial statements represent a true and fair view of the performance of the company, given concerns about compliance with accounting standards, transparency, and corporate governance. These problems have led to poor investment outcomes, underperformance of investor portfolios, and in some cases, avoidable financial losses. These challenges underscore the need to examine how useful financial statements are in guiding investment decisions and assessing company performance in the Nigerian context.

The general objective of this study is to examine the usefulness of financial statements in assessing the

performance of companies and guiding investment decisions.

The specific objectives include:

- i. Establish the relationship between abnormal earnings performance and firm value.
- ii. Assess the relationship between Earnings per share and firm value.

The study seeks to answer the following research questions:

- i. How does abnormal earnings performance affect firm value?
- ii. To what extent does earnings per share influence firm value?

The study will test the relationship between financial performance measures and firm value using both null and alternative hypotheses:

H₀₁: There is no significant relationship between abnormal earnings performance and firm value.

H₀₂: There is no significant relationship between earnings per share and firm value.

2. Literature Review

2.1 Conceptual Review

Financial Statements

Financial statements are formal reports that present a company's financial condition and performance to various stakeholders. These reports supply essential information to investors, financial analysts, and regulatory authorities, thereby supporting well-informed economic and investment decisions (Hendriksen & Breda, 1992; Penman, 2013). The major components of financial statements consist of the statement of financial position (balance sheet), income statement (profit or loss statement), statement of cash flows, statement of changes in equity, and accompanying notes to the accounts (International Accounting Standards Board, 2018). Each element performs a distinct function. For instance, the income statement reports a firm's revenues, expenses, and net earnings for a specific period, while the balance sheet outlines the organization's assets, liabilities, and shareholders' equity at a given point in time. The cash flow statement provides information about cash inflows and outflows, reflecting the firm's

liquidity position, whereas the statement of changes in equity records movements in retained earnings, dividends, and reserves. Additionally, the notes to the accounts contain detailed disclosures that improve clarity and transparency in financial reporting (Alexander & Britton, 2017).

Investment Decision Usefulness

The value of financial statements is evident in their capacity to guide investment decisions. Investors rely on the information disclosed in these reports to assess historical performance, forecast future results, and evaluate the risk return characteristics of potential investments (Scott, 2015). This perspective is consistent with the Decision Usefulness Theory, which argues that accounting information becomes meaningful when it is relevant having predictive or confirmatory value and when it is presented faithfully and reliably. In practical terms, investors frequently examine financial ratios derived from financial statements, including profitability, liquidity, leverage, and market-based indicators (Penman, 2013). Within the Nigerian capital market, where access to private or alternative information is relatively limited, the extent to which financial reports influence stock prices and investor decisions serves as an important indicator of their decision usefulness (Oyerinde, 2009)

Firm Value

Firm value represents the market's overall assessment of a company's economic worth and is often measured using indicators such as market capitalization or the market value of equity (Damodaran, 2012). Information contained in financial statements, especially earnings figures and book value plays a significant role in shaping this valuation (Barth et al., 2001). When firms provide clear and transparent financial disclosures, investor confidence tends to increase, which can positively influence the firm's market valuation (Uwuigbe, Olugbenga, & Uwuigbe, 2012).

Abnormal Earnings

Abnormal earnings refer to the component of net income that surpasses the expected return on equity derived from a firm's book value. This concept forms a key element

of the Ohlson valuation framework, which establishes a relationship between accounting information and firm value (Ohlson, 1995). Abnormal earnings help clarify variations in market valuation among companies that possess comparable book values. In the Nigerian context, the examination of abnormal earnings offers valuable insight into how firms generate value beyond their recorded equity base (Oyerinde, 2009).

Earnings per Share (EPS)

Earnings per share (EPS) represents the amount of profit allocated to each ordinary share and is widely regarded as a key measure of a company's profitability (Penman, 2013). This indicator helps investors evaluate potential returns by offering insight into expected dividends and future cash flow prospects. In the Nigerian context, EPS often plays a significant role in influencing stock price fluctuations, particularly when financial reports are released promptly and are considered reliable by market participants (Okafor, 2012; Ezeagba, 2014).

2.2 Theoretical Framework

Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), describes the relationship between shareholders (principals) and managers (agents). Conflicts may occur when managers act in their own interests instead of prioritizing the maximization of shareholder wealth, leading to information asymmetry between both parties. Financial reporting plays an important role in minimizing this imbalance by providing clear and reliable information about a company's performance. In the Nigerian context, where corporate governance structures are still developing, transparent disclosure of indicators such as earnings per share (EPS), book value per share (BVPS), and other accounting metrics enables investors to better oversee managerial actions and make well-informed investment decisions (Uwuigbe et al., 2012). Agency Theory therefore underpins this study by emphasizing that dependable financial statements are vital for reducing information asymmetry and agency-related conflicts within Nigerian firms. By examining whether accounting figures influence investor decisions, the study assesses the extent to which financial reporting

functions as a governance tool in the Nigerian capital market.

2.3 Empirical Review

Moreover, Babalola (2012) examine the significance of accounting information on corporate values of firms in Nigeria, using cross sectional and time series data from quoted firms (sample period typically cited as (1999-2009)), the study found that EPS has strong positive influence on share prices while BVPS shows greater relevance in asset-heavy industries suggesting investors weigh earnings heavily but consult BVPS in capital intensive sectors.

In the same vein, Adaramola and Oyerinde (2014) examined the relevance of EPS and BVPS across quoted firms using Ohlson-type regressions, the study reported that accounting numbers remain explanatory of market prices, though the magnitude varies by year and economic conditions implying investors' reliance on financial statements is sensitive to macroeconomic context.

Likewise, Uthman (2014) study the investigated analysts' and investors' perception of financial statements following IFRS adoption using survey and regression methods, the study concluded IFRS adoption improved the perceived reliability and usefulness of EPS and BVPS, increasing investor reliance on reported accounting numbers. In the same Nigerian Economy, Omokhudu and Ibadin (2015) applied price models to Nigerian listed firms and found that both EPS and BVPS significantly influence share price, results support the hypothesis that financial statements are decision-useful for investors in the Nigerian market.

Moreso, Siyanbola, Adedeji and Adedeji (2015) examined the price models and the value relevance of accounting information of listed deposit money banks in Nigeria. Using a sample of listed banks (2005-2012), they estimated price models and reported EPS and DPS (dividend per share) as particularly value relevant for banking sector investors indicating investors in

regulated, payout-oriented firms use dividends and earnings signals when making decisions.

Moreover, Uwuigbe, Olugbenga and Uwuigbe (2016) studied value relevance of accounting information in the Nigerian banking sector. Using panel data for listed banks, the authors found EPS, BVPS and DPS significantly affect share prices reinforcing the view that investors use earnings, book value and distributions to assess performance and guide investment choices. Moreso, Jeroh (2016) studied Value Relevance of Financial Accounting Information and Equity Valuation of Quoted Firms in Nigeria using a large sample of quoted firms and tests across pre- and post-crisis periods and found that accounting numbers (earnings and book value) remain significantly associated with market value. The study also notes sectoral differences and effects from IFRS implementation.

Likewise, Okafor, Ofoegbu and Okoye (2017) investigated IFRS adoption and value relevance in Nigeria and reported that IFRS increased the decision usefulness of accounting numbers earnings and book value became more informative for investors after mandatory IFRS adoption. More so, Etale and Ombu (2019) examined Unilever Nigeria Plc with time-series techniques. The study found EPS and DPS statistically significantly influence the firm's share price, highlighting how firm-level profitability and distribution policy affect investor decisions. Similarly, Osazevbaru (2020) used panel data covering many quoted firms and found EPS, DPS and operating cash flows were significantly associated with share prices, whereas BVPS was less consistently significant indicating investors may place higher weight on earnings and cash flows than on book value in certain periods and contexts. Abdu Abubakar et al. (2022) compared value relevance for firms audited by Big Four and non-Big Four auditors (2014-2019). The study found EPS and BVPS to be value relevant for both groups, with audit quality influencing the strength of the association suggesting audit credibility affects how investors use financial statements.

Etim et al (2022) investigated service sector firms and concluded EPS significantly influenced share prices while BVPS and cash flows showed positive but sometimes insignificant relationships indicating sectoral differences in which financial metrics investors prioritize.

Ezejiofor and Aigienohuwa (2023) focused on manufacturing firms (2012-2021) and reported EPS and DPS as important predictors of stock prices they concluded that earnings and dividend policies are major guides to investment decisions in manufacturing companies.

Nwinkonzor and Odoemelam (2024) studied quoted manufacturing firms (2006-2022) and found that EPS has a consistent positive relationship with share price whereas BVPS was negative/insignificant in some specifications evidence that investors may weigh earnings more than book value in contemporary periods. Ochie (2024) investigated industrial goods firms (2013-2023) and, in a notable finding, reported that measured profitability and liquidity sometimes did not significantly predict investment decisions, this suggests investors sometimes rely on non-accounting information or that market inefficiencies/behavioural factors may weaken the accounting market link.

Omobolanle Ajibola et al. (2024) studied segment reporting (2015-2022) for Nigerian multinationals and found segment disclosures had an insignificant effect on market valuation—implying that, for many Nigerian investors, core aggregate metrics (earnings, book value, dividends) remain the primary decision inputs.

3. Methodology

3.1 Research Design

The study adopts a descriptive and explanatory research design. The descriptive aspect enables the study to examine the usefulness of financial statements in assessing corporate performance, while the explanatory aspect helps to establish the extent to which financial statements guide investment decisions. This design is

appropriate because it deals with quantitative analysis which provide robust conclusions. The population of this study comprises all deposit money banks listed on the Nigerian Exchange Group (NGX) as of 2024. This population is appropriate since listed banks are required by regulation to publish audited financial statements annually in compliance with the Companies and Allied Matters Act (CAMA, 2020) and International Financial Reporting Standards (IFRS). These statements provide the essential financial information used to evaluate company performance and guide investment decisions. Published annual financial statements of the selected listed companies on the Nigerian Exchange Group (NGX), which provide detailed information on earnings, book values, and other financial indicators. Nigerian Exchange Group (NGX) Factbook, central Bank of Nigeria (CBN) Statistical Bulletins, financial statement.

3.2 Method of Data Collection

Data was extracted manually from the published financial statements of sampled firms and cross-verified with data obtained from NGX and CBN databases. The focus will be on financial indicators such as Earnings per Share (EPS), Book Value per Share (BVPS), Net Income, and other relevant accounting measures used in assessing firm performance.

3.3 Method of Data Analysis

The data collected will be analysed using both descriptive and inferential statistical methods to achieve the objectives of the study. Descriptive statistics such as mean, standard deviation, minimum, and maximum values will be used to summarize the characteristics and trends of the variables, thereby addressing the first objective, which is to examine the usefulness of financial statements in assessing company performance.

3.4 Model Specification

To empirically examine the relationship between financial statement indicators and investment decisions of listed firms in Nigeria, this study specifies an econometric model that links investment decisions to key accounting variables.

The functional form of the model is expressed as:

$$INV=f(EPS,ABN,FSZ,LEV)$$

Where:
 INV = Investment Decision (dependent variable)
 EPS = Earnings per Share
 ABN = Abnormal Earnings
 FSZ = Firm Size
 LEV = Leverage
 Transforming the functional relationship into an estimable econometric form gives:
 $INV_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_3 ABN_{it} + \beta_4 FSZ_{it} + \beta_5 LEV_{it} + \mu$
 Where:
 β_0 = Constant term
 $\beta_1 \beta_5$ = Coefficients of the explanatory variables showing their effect on investment decision

μ = Random error term capturing other factors not included in the model

4. Results and Discussion

4.1 Descriptive Analysis

This section provides a descriptive analysis of the variables used in the study. The purpose is to examine the general behaviour, distribution, and characteristics of firm value (INV), earnings per share (EPS), abnormal earnings (AES), firm size (FS), and leverage (LEV) before conducting further econometric tests.

Table 1: Descriptive Statistics

Variable	OBS	Mean	Min	Max	Skewness	Kurtosis
INV	100	13.447	0	69.65	1.51292	5.13392
EPS	100	3.6976	0.06	35.44	3.12164	13.7303
AES	100	3.3465	0.05	32.46	3.13373	13.8524
FS	100	9.23804	7.94139	10.8803	-0.2023	2.43579
LEV	100	0.71026	0.0025	1.01125	-1.4037	3.09519

Source: Research 2025

The descriptive statistics reveal the central tendencies and dispersion of the variables used in the study. Firm value (INV) has a mean of 13.45, ranging from 0 to 69.65, and is moderately skewed to the right, indicating that a few firms have significantly higher values. Earnings per Share (EPS) shows a mean of 3.70 but with a widespread, suggesting substantial variation in profitability among firms. Abnormal Earnings (AES)

also shows similar non-normal characteristics with high skewness and kurtosis. Firm Size (FS) is approximately normally distributed with low skewness and kurtosis near 3, while leverage (LEV) is left-skewed, meaning more firms have higher leverage ratios. These distributional characteristics confirm the need for robust estimation techniques such as the DriscollKraay model used later in the analysis.

Table 2: Correlation

	INV	EPS	BVS	AES	FS	LEV
INV	1					
EPS	0.3799	1				
AES	0.3789	0.9999	-0.0236	1		
FS	0.0577	0.5489	0.262	0.547	1	
LEV	-0.2353	0.1907	-0.1927	0.1897	0.6917	1

Source: Research 2025

The correlation results show that Earnings per Share (EPS) and Abnormal Earnings (AES) both have a moderately positive correlation with firm value (INV), with coefficients of 0.3799 and 0.3789 respectively,

suggesting that profitability measures tend to move in the same direction as firm value. Firm size (FS) shows a small positive association (0.0577), while leverage (LEV) has a weak negative correlation (-0.2353),

indicating that more leveraged firms tend to have slightly lower firm values. The extremely high correlation between EPS and AES (0.9999) indicates perfect multicollinearity, suggesting both measures capture nearly identical financial performance characteristics. This justifies the econometric correction using DriscollKraay standard errors.

4.2 Regression Analysis

The regression analysis was conducted to examine the effect of financial statement indicators Earnings per

Share (EPS), Book and Abnormal Earnings (AES) on firm value (INV), while controlling for Firm Size (FS) and Leverage (LEV). The analysis employed the DriscollKraay standard error estimator, which provides robust corrections for heteroskedasticity, autocorrelation, and potential cross-sectional dependence among the sampled firms.

Table 3: Regression with Driscoll-Kraay standard errors

INV	Coef.	Drisc/Kraay		
		Std. Err.	T	P>t
EPS	24.3049	9.91017	2.45	0.037
AES	-26.393	10.9643	-2.41	0.039
FS	6.2688	2.10011	2.98	0.015
LEV	-19.805	5.07959	-3.9	0.004
CONS	-31.406	19.2413	-1.63	0.137
R-squared			0.2661	
Prob > F			0.0000	
BPLM Test for random effects			1.0000	
Hausman Specification Test			0.4305	
Groupwise Heteroskedasticity (Modified Wald)			0.0000	
Pesaran's test of cross-sectional independence			0.8006	

Source: Research 2025

Based on the result from Table3, the BreuschPagan Lagrangian Multiplier Test for Random Effects p-value = 1.0000 indicates that random effects are not appropriate. Pooling is preferable over random effects. Furthermore, Hausman Specification Test p-value = 0.4305 suggests no significant difference between fixed and random effects, meaning random effects would normally be preferred. But since the LM test rejected random effects, the model falls back to Fixed Effects. Groupwise Heteroskedasticity Test p-value = 0.0000 Heteroskedasticity is present. This justifies the use of DriscollKraay standard errors, which correct for heteroskedasticity. Pesaran's Test of Cross-sectional Dependence p-value = 0.8006 indicates no cross-sectional dependence. However, DriscollKraay is

robust to both dependence and autocorrelation, so using it is still acceptable.

Therefore, based on the combination of the diagnostic tests: LM test rejects random effects which means random effects not suitable Hausman suggests no difference between fixed or random both okay FE is chosen because RE is invalidated by LM test DriscollKraay is used to correct heteroskedasticity Thus, the Fixed Effects model with DriscollKraay standard errors is the most appropriate model for interpretation.

The regression results indicate that Earnings per Share (EPS) has a positive and statistically significant effect on firm value at the 5% significance level ($\beta = 24.30$; $p = 0.037$). This implies that increases in earnings

performance lead to higher firm value, supporting the usefulness of profitability indicators for investment decisions.

Abnormal Earnings (AES) also displays a negative and significant relationship with firm value ($\beta = -26.39$; $p = 0.039$). This suggests that investors may perceive abnormal earnings as unsustainable or manipulative, resulting in lower firm valuation.

Firm size (FS) has a positive and significant influence on firm value ($\beta = 6.27$; $p = 0.015$), supporting the theory that larger firms enjoy economies of scale and market confidence. Leverage (LEV) has a negative and significant effect on firm value ($\beta = -19.81$; $p = 0.004$), indicating that higher debt levels erode firm value.

The R-squared value of 0.2661 shows that the model explains approximately 26.6% of the variations in firm value, which is acceptable for financial panel data. The model is statistically significant overall (Prob > F = 0.0000).

4.3 Hypotheses Testing

Ho1: There is no significant relationship between abnormal earnings performance and firm value.

The second hypothesis tested the relationship between abnormal earnings performance (AES) and firm value. The regression analysis reveals a negative and statistically significant relationship between abnormal earnings and firm value ($\beta = -26.393$, $p = 0.039$). With a p-value below the 5% threshold, the study rejects the null hypothesis. The negative coefficient indicates that increases in abnormal earnings are associated with declines in firm value, suggesting that investors may view abnormal earnings as volatile, unsustainable, or possibly a signal of earnings manipulation. This finding aligns with the idea that the capital market rewards earnings quality rather than irregular or abnormal variations in profit. Consequently, the study concludes that abnormal earnings performance significantly affects firm value and is relevant for investors evaluating corporate financial health.

Ho2: There is no significant relationship between Earnings per share and firm value.

The third hypothesis assessed whether Earnings per Share (EPS) has a significant relationship with firm value. The regression result shows that EPS is positively and significantly related to firm value ($\beta = 24.3049$, $p = 0.037$). Given that the p-value is less than the 5% significance level, the null hypothesis is rejected. This result indicates that higher earnings per share lead to an increase in firm value, demonstrating that profitability indicators are highly relevant to investors in the Nigerian capital market. EPS, being a widely recognized measure of financial performance, provides critical information that the market values when making investment decisions. Therefore, the study concludes that EPS significantly influences firm value and is a reliable financial statement indicator used by investors to assess company performance. Just as the study of Value Relevance of Financial Statements and Share Price (Business Perspectives, 2016) reports a significant positive coefficient of EPS on the last-day share price for listed banks.

5. Conclusion and Recommendations

The research concludes that financial statements play a significant role in guiding investment decisions in Nigeria, particularly through earnings-related information. Earnings per Share (EPS) emerged as a critical determinant of firm value, reinforcing its importance as a key profitability indicator for investors seeking to understand a company's performance. The negative relationship between abnormal earnings and firm value indicates that investors may discount earnings that deviate substantially from expected patterns, as such deviations can signal volatility or potential manipulation. The study also concludes that larger firms tend to attract higher market valuations due to greater stability and investor confidence, while excessive leverage reduces firm value by increasing financial risk. The study affirms that financial statements remain decision-useful in the Nigerian financial market, but their relevance depends on the quality of earnings and the credibility of reporting practices.

Based on the findings, the study makes the following key recommendations:

- i. Companies should prioritize the quality and transparency of earnings reporting: Since EPS significantly influences firm value, banks and other companies must ensure that their reported earnings reflect true economic performance, free from manipulation or earnings management practices that could mislead investors.
- ii. Investors should rely more on profitability indicators rather than asset-based measures: Given that EPS is more predictive of firm value than book value or abnormal earnings, investors are encouraged to prioritize earnings-based ratios when evaluating investment opportunities in the Nigerian market.
- iii. Financial literacy programs should be expanded for retail investors: Government agencies, stockbrokers, and financial institutions should develop training programs that help investors understand financial statements, improving their ability to make informed investment decisions based on reliable financial indicators.

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