

THE USE OF FAIR VALUE ACCOUNTING IN FINANCIAL REPORTING



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**BEING A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF ACCOUNTING,
FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF BENIN ,BENIN CITY. IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE
BACHELOR OF SCIENCE (B.SC) DEGREE IN ACCOUNTING**

NOVEMBER, 2025.

DECLARATION

I, **YAKUBU GREAT ADEIZA** declare that, This study is based on a study undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of Dr. G.O. Audu of the Department of Accounting, Management Sciences, University of Benin, Benin City, Nigeria. This work has not been submitted for the award of degree elsewhere. Ideas and views are product of my personal research and where the view of others has been expressed, they have been duly acknowledged. Any liability arising from this work is to be wholly borne by me alone

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DATE

CERTIFICATION

We, certify that this research project was carried out by YAKUBU GREAT ADEIZA in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Nigeria. It is adequate in scope and quality in partial fulfilment of the requirements for the award of Bachelor of Science (BSc.) degree in Accounting.

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DEDICATION

This project work is dedicated to God Almighty for His abundant grace in my life and for seeing me through my academic pursuit and aspirations. He has been my source of strength and on his wings only I have soared. I also want to dedicate this project to my Family and friends for the love and encouragement they have shown towards me during the course of this program, all I can say is thank you and God bless you.

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ABSTRACT

This study examined the influence of fair value accounting on firm value among thirteen deposit money banks listed on the Nigerian Exchange Group (NGX) over the period 2013–2023. The study specifically investigated the effects of institutional ownership, investor reaction, leverage, firm size, compliance, and audit fees on firm value. Secondary data were collected from the audited annual reports of the sampled banks and analyzed using descriptive statistics, correlation analysis, and panel least squares regression in EViews 13. The descriptive analysis revealed moderate firm value, high institutional ownership, large firm size, and significant investment in audit fees, while the correlation analysis showed weak relationships among the study variables, indicating no multicollinearity concerns. Regression results indicated that none of the independent variables had a statistically significant impact on firm value, with the model explaining only 2% of the variation in firm value ($R^2 = 0.0204$). The findings suggest that fair value accounting, as proxied by the selected measures, does not significantly influence the valuation of Nigerian banks. It is concluded that other factors, including external market conditions and unobserved firm-specific characteristics, may play a more substantial role in determining firm value. The study recommends that bank management, investors, and regulators consider broader financial, operational, and market factors in evaluating firm performance and valuation.

Keywords: *Fair value accounting, firm value, institutional ownership, investor reaction, leverage, compliance, audit fees, Nigerian banks*

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Fair value accounting (FVA) has emerged globally as a pivotal approach in financial reporting, requiring entities to measure certain assets and liabilities at their current market value rather than historical cost. This shift aims to enhance the relevance and timeliness of financial information, providing users with more economically meaningful data that reflect current market conditions (Okafor & Ogiedu, 2012). In Nigeria, where economic volatility and market inefficiencies are prevalent, the adoption of FVA through IFRS 13 represents a significant transformation in accounting practice, aligning local standards with international norms and improving comparability for foreign investors.

Historically, Nigerian financial reporting was grounded in the historical cost accounting model, where assets and liabilities were recorded at their original purchase price. This system was favored for its clarity and verifiability in Nigeria's relatively less complex economic structure before the globalization of accounting standards. However, this approach often failed to reflect the true economic value of resources, especially in an environment characterized by high inflation and exchange rate volatility, which sometimes rendered reported figures less relevant for decision-making by investors and other stakeholders.

The Nigerian economy's volatility, characterized by fluctuating exchange rates and unstable commodity prices, makes historical cost accounting less informative for decision-making. Fair value accounting, by reflecting real-time market values, promises to reduce information asymmetry between management and external users, thereby enhancing the quality of financial statements. However, the practical application of FVA in Nigeria is complicated by the limited availability of active markets for many assets, which forces reliance on unobservable inputs and subjective estimates, raising concerns about measurement reliability and auditability (Okafor & Ogiedu, 2012).

Over time, the limitations of historical cost accounting became increasingly evident. The Nigerian economy's fluctuating inflation and exchange rates, coupled with the need for greater financial transparency, raised concerns about the relevance of historical-cost based financial statements. These shortcomings laid the foundation for Nigeria's transition towards measurement bases that better capture current market conditions and provide more useful financial information (Assessment of Fair Value Measurement, 2023).

The formal adoption of International Financial Reporting Standards (IFRS) by the Nigerian government in 2010 marked a pivotal shift in financial reporting practice. The IFRS Roadmap mandated listed companies and other public interest entities to transition from NGAAP-based historical cost accounting to IFRS-compliant reporting beginning in 2012. This transition was

aimed at harmonizing Nigerian financial reporting with global best practices to enhance comparability, transparency, and access to international capital markets.

Among the significant changes introduced under IFRS was the incorporation of fair value accounting, embodied in IFRS 13 – Fair Value Measurement, effective in Nigeria for reporting periods beginning after January 1, 2013. Fair value accounting requires companies to measure applicable assets and liabilities at prices that reflect an exit transaction in an active market or, when unavailable, through valuation techniques based on market participant assumptions. These measures provide more timely and relevant information about an entity's financial position and performance (Research Journal of Finance and Accounting, 2022).

Following the adoption of IFRS and fair value accounting, Nigerian entities, particularly in sectors such as banking and manufacturing, began disclosing fair value information extensively. Research indicates that fair value accounting in Nigeria has improved the transparency and decision-usefulness of financial statements by reflecting more accurate economic values. However, challenges surrounding valuation techniques and audit verification remain areas of active development and professional focus (Fair Value Accounting & Challenges of Audit Practice in Nigeria, 2017).

The adoption of fair value accounting has brought new challenges and opportunities within the Nigerian environment. While it has improved financial reporting quality by providing timely and relevant information that supports investor decision-making, it also requires sophisticated valuation techniques and greater auditor expertise to ensure reliability (RSIS International, 2023). Nigerian regulators and professional bodies continue to work on building capacity to address these practical complexities to maximize the benefits of fair value adoption.

1.2 Statement of the Problem

The adoption and implementation of fair value accounting in Nigeria represents a significant paradigm shift in financial reporting that has introduced numerous research opportunities and challenges for academic inquiry. Since Nigeria's adoption of International Financial Reporting Standards (IFRS) in 2012, including the mandatory application of IFRS 13 from 2013, there has been a growing need to understand the multifaceted implications of fair value measurement within the Nigerian business environment. While fair value accounting aims to enhance the relevance and transparency of financial information by reflecting current market conditions, its implementation in Nigeria's unique economic context has created substantial gaps in academic knowledge that require comprehensive investigation.

The first major area requiring research attention concerns the technical and methodological challenges associated with fair value implementation in Nigeria's developing market

environment. Nigerian entities operate in an economy characterized by limited active markets for many assets and liabilities, requiring extensive reliance on unobservable inputs (Level 3) and valuation models. Research indicates that auditors face significant difficulties in verifying fair value estimates due to the lack of sufficient reliable market information and the complex nature of valuation techniques required. This situation presents opportunities for academic research to develop context-specific valuation methodologies, establish best practices for fair value estimation in illiquid markets, and examine the effectiveness of different valuation approaches within Nigeria's institutional framework.

A second critical research gap exists in understanding the educational and professional competency requirements for effective fair value implementation. Studies consistently highlight inadequate knowledge and training among Nigerian accounting professionals, auditors, and preparers regarding fair value measurement techniques and IFRS 13 requirements. This knowledge deficit creates opportunities for research into curriculum development, professional training programs, and competency frameworks that could enhance the quality of fair value implementation. Academic inquiry is needed to assess the current state of fair value education in Nigerian universities, identify specific knowledge gaps, and develop pedagogical approaches that better prepare graduates for the complexities of modern financial reporting.

The third significant research opportunity lies in examining the institutional and regulatory factors that influence fair value accounting adoption and effectiveness in Nigeria. Research has identified challenges related to regulatory oversight, enforcement mechanisms, and coordination between accounting standards and existing corporate laws. There is substantial scope for academic investigation into how regulatory frameworks can be optimized to support fair value implementation, the role of professional bodies in enhancing compliance, and the development of industry-specific guidance for fair value application in different sectors of the Nigerian economy.

Finally, there exists a considerable research gap concerning the empirical measurement and assessment of fair value accounting outcomes within the Nigerian context. While some studies have examined the relationship between fair value accounting and financial performance or investment decisions, there is limited comprehensive research on the broader economic implications, stakeholder perceptions, and long-term effects of fair value adoption. This presents opportunities for longitudinal studies, cross-sectoral analyses, and comparative research that could provide deeper insights into how fair value accounting functions within Nigeria's evolving financial reporting landscape and its impact on capital market development, foreign investment attraction, and economic growth.

1.3 Research Questions

Based on the identified research problem, this study seeks to address the following research questions:

- i. How has IFRS 13 influenced the valuation practices of Nigerian quoted companies?
- ii. What challenges do Nigerian auditors encounter when verifying fair value measurements?
- iii. To what extent does fair value measurement affect reported profitability and volatility in Nigerian manufacturing and banking sectors?
- iv. How do investors perceive the relevance of fair value-based information relative to historical cost data?
- v. What institutional factors (e.g., market liquidity, regulatory oversight, professional competence) moderate the usefulness of FVA in Nigeria?

1.4 Objectives of the Study

The primary objective of this study is to comprehensively evaluate the implementation and impact of fair value accounting in financial reporting. The study aims to provide empirical evidence and practical insights that will contribute to the ongoing debate about the effectiveness of fair value accounting as a measurement basis for financial reporting. The objectives of this study is to:

- i. examine the conceptual justification and international evolution of FVA.
- ii. assess the implementation status of IFRS 13 among Nigerian listed entities.
- iii. identify key audit and valuation challenges associated with fair value estimates in Nigeria.
- iv. evaluate the impact of fair value measurements on earnings quality, volatility, and investor decision-making.
- v. recommend policy and educational interventions that can enhance the reliability of fair value disclosures in Nigeria.

1.5 Hypothesis of the Study

Based on the research problem, questions, and objectives identified above, the following research hypothesis are formulated to guide this study:

H₀₁: Fair value accounting has no significant effect on the earnings volatility of Nigerian listed banks.

H₀₂: There is no significant relationship between the proportion of level 3 inputs and the magnitude of discretionary accruals among Nigerian firms.

H₀₃: Trading volume reactions to annual report releases shows that fair value measurement has no significant impact on investor decisions.

H₀₄: The extent of IFRS 13 compliance has no significant association with audit fees paid by Nigerian firms.

H₀₅: Fair value gains or losses have no significant predictive power for future cash flows compared with historical cost adjustments.

1.6 Scope of the Study

This research focuses primarily on the application and implications of fair value accounting within the Nigerian financial reporting environment, with a particular emphasis on companies listed on the Nigerian Exchange Group (NGX). The study covers the period from 2012, when Nigeria fully adopted International Financial Reporting Standards (IFRS), including IFRS 13 on fair value measurement, up to the present. This timeframe allows for an examination of both the initial implementation challenges and the evolving impact of fair value accounting on financial statements over more than a decade. The sectors under review include banking, manufacturing, and other major listed industries, as these sectors have been identified in prior studies as significant users of fair value measurements due to their asset structures and regulatory requirements. The study also considers the perspectives of auditors, preparers, and investors to provide a holistic understanding of the practical challenges and benefits of fair value accounting in Nigeria's unique economic and market context.

Moreover, the scope extends to the technical and institutional factors that influence the adoption and reliability of fair value estimates in Nigeria. This includes the availability and liquidity of active markets for assets, the level of auditors' technical competence in fair value verification,

and the regulatory framework governing financial reporting and auditing practices. Given documented concerns about the complexity and verifiability of fair value estimates, particularly those relying on unobservable inputs (level 3 inputs), the study investigates how these challenges affect audit quality and financial statement credibility. The research also explores the implications of fair value accounting on earnings volatility and investment decisions, recognizing that increased volatility may affect investor confidence and market stability in Nigeria's emerging economy.

1.7 Significance of the Study

This research holds substantial significance for multiple stakeholders in the financial reporting ecosystem, contributing to both academic knowledge and practical understanding of fair value accounting implementation in developing economies.

For academic researchers, this research makes a substantial contribution to the global academic literature by providing comprehensive empirical evidence on fair value accounting implementation in an emerging economy context, specifically Nigeria. By examining the practical application of IFRS 13 in Nigeria's unique socio-economic environment, characterized by market illiquidity, regulatory challenges, and institutional constraints, the research extends theoretical understanding of fair value measurement effectiveness across different economic contexts. The findings enhance academic discourse on the interaction between institutional

factors and accounting standards implementation, contributing to the broader literature on international accounting convergence and its implications for emerging markets.

For audit practitioners and professional bodies, this research is significant as it offers extensive benefit from the study's detailed analysis of fair value verification challenges and audit quality implications in the Nigerian context. The research provides empirical evidence on specific valuation difficulties encountered by auditors, enabling the development of more effective audit procedures and risk assessment methodologies for fair value measurements. Professional bodies such as the Institute of Chartered Accountants of Nigeria (ICAN) can leverage these findings to design targeted continuing professional education programs that address identified competency gaps in fair value measurement and verification techniques. The study's documentation of audit complexities and industry-specific challenges serves as a foundation for developing specialized training modules, improving audit quality standards, and establishing best practices for fair value auditing in emerging markets.

Regulatory authorities and policy makers derive significant benefits from this study's findings to formulate more effective oversight mechanisms and improve the regulatory framework governing fair value accounting in Nigeria. The Financial Reporting Council of Nigeria (FRCN), Securities and Exchange Commission (SEC), and the Central Bank of Nigeria (CBN) can utilize

the research evidence to develop targeted guidance for fair value implementation in illiquid markets, addressing the specific challenges faced by Nigerian entities when applying IFRS 13.

Capital market participants, including investors, financial analysts, and fund managers, gain valuable insights that enhance their ability to interpret and utilize fair value information for investment decision-making in the Nigerian market. The study provides empirical evidence on the value relevance of fair value disclosures and their impact on earnings quality, enabling investors to make more informed assessments of company performance and financial position. By examining the relationship between fair value measurements and market volatility, the research helps investors distinguish between market-driven fluctuations and underlying business fundamentals, thereby reducing information asymmetry and improving investment decision quality.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides a review of literature on the use of fair value accounting in financial reporting, with emphasis on its relevance in Nigeria. It discusses key independent variables such as IFRS 13 adoption, fair value measurement, and the comparison between fair value and historical cost, and connects these to dependent variables like company valuation practices, auditor challenges, profitability and volatility, and the usefulness of financial information. The review brings together conceptual, theoretical, and empirical perspectives to show both the benefits and challenges of applying fair value in practice. In doing so, it sets the stage for understanding how fair value accounting shapes transparency, comparability, and decision-making in the Nigerian financial reporting environment.

2.2 Conceptual Framework

2.2.1 IFRS 13 Adoption/Implementation

IFRS 13 was issued by the International Accounting Standards Board (IASB) in 2011 to provide a comprehensive and consistent framework for fair value measurement across all IFRS standards. The standard defines fair value as 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.

This market-based definition differentiates fair value from historical cost accounting, which is entity-specific and backward-looking (Barth, 2014; Christensen & Nikolaev, 2013). In Nigeria, IFRS adoption was formally implemented in 2012, and IFRS 13 quickly became one of the most significant components, especially for listed firms that needed to attract international investment and demonstrate compliance with global norms (Iyoha & Faboyede, 2011).

The central contribution of IFRS 13 is the introduction of a fair value hierarchy designed to guide preparers and auditors in determining the most reliable measurement approach. Level 1 relies on observable inputs such as quoted market prices for identical assets in active markets, Level 2 incorporates inputs other than quoted prices that are observable, and Level 3 relies heavily on unobservable inputs such as models and assumptions (Laux & Leuz, 2009; Penman, 2007). In advanced economies, Level 1 inputs are widely available, making fair value measurement straightforward. However, in Nigeria, most assets do not have active markets, leaving preparers to rely on Level 2 and Level 3 inputs. This increases subjectivity, introduces the risk of bias, and complicates verification, yet it remains the only feasible option for many firms (Oyewo, 2020).

The Nigerian experience with IFRS 13 has revealed important institutional weaknesses. While the standard requires detailed disclosure of inputs, techniques, and assumptions, companies often

provide limited explanations that make it difficult for users to evaluate the reliability of reported fair values (Okafor & Ofoegbu, 2018). Regulators such as the Financial Reporting Council of Nigeria (FRCN) have issued guidelines on compliance, but enforcement has been inconsistent. This weak monitoring environment creates opportunities for firms to apply IFRS 13 selectively, focusing more on symbolic compliance than substantive transparency (Ogundana, Iyoha, Fakile, & Joshua, 2018). Consequently, the credibility of reported values varies significantly across industries and companies.

Several studies have assessed the impact of IFRS 13 adoption in Nigeria. Ogundana et al. (2018) found that fair value disclosures improved the quality of information available to investors, particularly in the manufacturing sector, by offering a clearer picture of asset values. Conversely, Ofoegbu and Odo (2018) observed that many firms lacked the technical expertise to apply the fair value hierarchy effectively, which led to inconsistencies and reduced comparability. These mixed results suggest that adoption alone is insufficient; without adequate capacity building and strong regulatory oversight, the benefits of IFRS 13 remain only partially realized. The findings also underline the importance of contextualizing international standards within local institutional realities.

Another challenge linked to IFRS 13 adoption in Nigeria concerns the audit function. Auditors are now expected to evaluate complex valuation models and assumptions, often without sufficient access to reliable market data. This has created a growing demand for valuation specialists, yet the Nigerian market has only a limited pool of professionals with the required skills (Oyewo, 2020). Auditors therefore face difficulties in independently verifying reported fair values, which undermines confidence in the financial statements of quoted companies. The problem is particularly acute in industries such as agriculture and banking, where asset valuation often involves highly specialized knowledge (Ubesie, Nnajieze, & Mbah, 2019).

In summary, the adoption of IFRS 13 in Nigeria represents a major step toward aligning with international financial reporting practices. It has introduced a robust framework that, in principle, enhances comparability, transparency, and investor confidence. However, its effectiveness is curtailed by challenges such as illiquid markets, insufficient valuation expertise, weak enforcement, and auditor difficulties in verification (Iyoha & Faboyede, 2011; Oyewo, 2020). Addressing these challenges requires capacity development through training, improved regulatory oversight, and collaboration with professional bodies to ensure that preparers and auditors can apply the fair value hierarchy appropriately. Without such measures, the promise of IFRS 13 adoption in Nigeria will remain largely aspirational rather than transformative.

2.2.2 Fair Value Measurement

Fair value measurement refers to the process of estimating the price at which an asset could be sold or a liability transferred in an orderly transaction between market participants at the measurement date. Unlike historical cost, which records assets based on their original purchase price, fair value emphasizes current market-based information, thereby providing users with more relevant financial insights (Barth, 2014; Penman, 2007). IFRS 13 offers a structured framework for fair value measurement, requiring companies to prioritize observable market inputs while disclosing assumptions when such inputs are unavailable. The concept has gained global relevance because it enhances comparability and helps investors assess an entity's real-time economic position.

The importance of fair value measurement in financial reporting is reflected in its ability to improve transparency and decision usefulness. Investors and other stakeholders often prefer fair values because they reflect up-to-date market conditions, enabling more accurate assessments of performance and risk (Christensen & Nikolaev, 2013; Laux & Leuz, 2009). For example, in volatile industries such as banking or insurance, fair value provides timely insights into asset and liability fluctuations that historical cost cannot capture. However, this increased relevance comes with a trade-off: fair values can also introduce volatility into financial statements, making earnings appear less stable and potentially complicating performance evaluation.

The fair value hierarchy introduced under IFRS 13 addresses these concerns by ranking inputs based on reliability. Level 1 inputs, derived from active markets, are considered the most reliable, while Level 3 inputs, which depend on management assumptions and complex models, carry the greatest risk of bias (Penman, 2007; Barth, 2014). In Nigeria, many firms rely heavily on Level 2 and Level 3 inputs due to the absence of deep and liquid capital markets (Okafor & Ofoegbu, 2018). This reliance raises issues of subjectivity and credibility, especially since regulators often lack the resources to enforce strict compliance with disclosure requirements.

Empirical evidence shows both positive and negative implications of fair value measurement. Ogundana, Iyoha, Fakile, and Joshua (2018) reported that fair value disclosures significantly improved investor decision-making in Nigeria, highlighting their role in enhancing market confidence. On the other hand, Oyewo (2020) found that preparers and auditors faced challenges with valuation techniques, leading to concerns about manipulation and non-compliance when observable data were unavailable. These contrasting findings suggest that while fair value measurement enhances information quality in principle, its practical application in Nigeria is often undermined by limited technical capacity and weak enforcement structures.

Overall, fair value measurement has become a cornerstone of modern financial reporting because it bridges the gap between accounting numbers and economic reality. Its adoption in Nigeria

under IFRS 13 has improved the relevance of financial statements but has also exposed systemic weaknesses, particularly in valuation expertise and regulatory oversight. For Nigerian quoted companies, the benefits of improved transparency and investor confidence will only be fully realized when challenges such as subjectivity, inadequate disclosure, and enforcement gaps are addressed (Iyoha & Faboyede, 2011; Oyewo, 2020). Until then, fair value measurement remains a double-edged sword—capable of improving financial reporting quality, but equally prone to misuse in weak institutional environments.

2.2.3 Types of Accounting Basis (Fair Value vs. Historical Cost)

One of the most fundamental debates in financial reporting revolves around the choice between fair value accounting and historical cost accounting. Historical cost records assets and liabilities at their original transaction price, providing stability, verifiability, and simplicity (Penman, 2007; Barth, 2014). In contrast, fair value reflects current market prices, emphasizing relevance and timeliness in capturing the economic reality of assets and liabilities. While historical cost offers a conservative view that reduces volatility, it often becomes less useful over time as values diverge from market conditions, limiting the decision usefulness of financial statements for investors and other stakeholders (Laux & Leuz, 2009).

Fair value accounting has gained prominence because it allows companies to present a more accurate reflection of their financial position at a given time. This dynamic measurement

approach can be particularly valuable in volatile markets where prices fluctuate frequently, giving investors real-time insights into risks and opportunities (Christensen & Nikolaev, 2013). However, critics argue that fair value introduces artificial volatility into earnings and capital, as temporary market changes may distort long-term performance evaluations (Plantin, Sapra, & Shin, 2008). Historical cost, by contrast, shields companies from such volatility, but at the expense of relevance, as it may fail to reflect current market realities.

Comparative studies suggest that both bases of accounting have strengths and weaknesses depending on the context. For instance, Barth, Landsman, and Lang (2008) found that fair value accounting improved the value relevance of financial information for investors compared to historical cost. However, they also noted that fair value's reliability depended on the availability of active markets. In Nigeria, where many markets remain shallow and illiquid, reliance on fair value often means depending on Level 2 or Level 3 inputs, which increases subjectivity (Okafor & Ofoegbu, 2018). Historical cost therefore continues to be favored by some firms, especially where market-based data is scarce.

From a regulatory perspective, IFRS standards promote fair value where feasible, but they also acknowledge situations where historical cost may remain practical. Nigerian regulators and firms thus often apply a hybrid approach, using fair value for financial instruments and investment

properties while retaining historical cost for assets like property, plant, and equipment (Iyoha & Faboyede, 2011). This dual application creates inconsistencies that can confuse financial statement users. Empirical studies, such as Ogundana, Iyoha, Fakile, and Joshua (2018), show that investors generally prefer fair value information, but preparers often highlight the costs and complexity of implementation as reasons for continuing reliance on historical cost.

In summary, the tension between fair value and historical cost accounting reflects a broader trade-off between relevance and reliability. Fair value offers greater decision usefulness by aligning reported figures with current market realities, while historical cost provides stability and verifiability that appeal to more conservative users of financial statements (Barth, 2014; Laux & Leuz, 2009). For Nigerian quoted companies, the choice is not absolute but contextual, with firms weighing investor expectations, regulatory requirements, and market limitations. Ultimately, the co-existence of both bases of accounting highlights the evolving nature of financial reporting in Nigeria, where the push for global comparability must be balanced against local institutional realities.

2.2.4 Auditor Challenges in Verifying Fair Value

One of the most widely acknowledged challenges associated with fair value accounting is the burden it places on auditors. Under IFRS 13, auditors must verify that reported fair values are consistent with the fair value hierarchy and supported by reliable evidence. In countries with

active and liquid markets, this process is relatively straightforward because Level 1 inputs provide objective market prices. However, in Nigeria, auditors are frequently confronted with Level 2 and Level 3 inputs that involve estimation models and subjective assumptions (Oyewo, 2020; Okafor & Ofoegbu, 2018). This reliance on judgment creates difficulties in assessing whether valuations are reasonable and in line with professional standards.

The subjectivity of Level 3 inputs is particularly problematic. These inputs require management to make assumptions about future cash flows, discount rates, and market behavior, which auditors must evaluate despite lacking observable benchmarks. Auditors face the dual challenge of ensuring that management's assumptions are not overly optimistic while also recognizing the limited availability of reliable alternative data (Christensen & Nikolaev, 2013; Laux & Leuz, 2009). This increases the risk of disputes between auditors and management and raises concerns about potential earnings management through fair value estimates.

Another critical issue is the lack of adequate valuation expertise in Nigeria. Many auditors are trained primarily in traditional historical cost accounting and may not possess the specialized knowledge required to evaluate complex valuation models or sophisticated financial instruments (Iyoha & Faboyede, 2011). This gap forces audit firms to rely on external specialists, which increases audit costs and sometimes creates coordination problems between auditors and

valuation experts (Oyewo, 2020). Smaller audit firms, in particular, may struggle to afford such expertise, resulting in weaker audit quality.

Access to reliable data also complicates the audit process. Nigerian markets are relatively illiquid, and market prices for many assets, such as agricultural produce, real estate, and certain financial instruments, are either unavailable or inconsistent. This makes it difficult for auditors to independently verify reported values, leaving them dependent on management-provided information (Okafor & Ofoegbu, 2018). The scarcity of reliable data undermines both the efficiency and the credibility of the audit process, exposing auditors to potential liability if valuations are later proven inaccurate.

Regulatory oversight further intensifies the challenge. Although the Financial Reporting Council of Nigeria (FRCN) and other professional bodies have issued guidelines on fair value accounting, enforcement mechanisms remain weak. This limited oversight puts pressure on auditors to act as the primary gatekeepers of fair value compliance, a role that extends beyond their traditional responsibilities (Ogundana, Iyoha, Fakile, & Joshua, 2018). As a result, auditors are often caught between regulatory expectations and practical constraints, heightening the risk of audit failures.

In conclusion, verifying fair value in the Nigerian context presents auditors with significant challenges, including subjectivity in Level 3 inputs, lack of expertise, inadequate market data,

and weak regulatory support. While fair value accounting enhances transparency, it also expands the scope and complexity of the audit process, requiring auditors to exercise more professional judgment than under historical cost systems (Oyewo, 2020; Laux & Leuz, 2009). Strengthening auditor training, improving access to reliable valuation data, and enhancing regulatory enforcement are crucial steps toward reducing these challenges and ensuring that fair value accounting contributes meaningfully to financial reporting credibility in Nigeria.

2.2.5 Reported Profitability and Volatility

One of the most significant consequences of fair value accounting is its effect on reported profitability. Because fair value reflects current market conditions, changes in asset and liability values are immediately recognized in financial statements, influencing profit or loss. This approach increases the timeliness of information but often results in fluctuations in earnings, which may not always reflect underlying operational performance (Barth, 2014; Penman, 2007). Nigerian companies, particularly in sectors such as banking and agriculture, have reported substantial swings in profitability due to market-driven revaluations rather than business fundamentals (Oyewo, 2020).

The increased volatility associated with fair value has sparked debate about its usefulness in evaluating financial stability. On the one hand, volatility can provide a more realistic picture of risks and opportunities faced by companies, allowing investors to adjust their decisions

accordingly (Laux & Leuz, 2009). On the other hand, excessive fluctuations may distort perceptions of a firm's performance and make it harder for stakeholders to distinguish between temporary market shocks and long-term value creation (Christensen & Nikolaev, 2013). This challenge is particularly relevant in Nigeria, where market inefficiencies often amplify price swings.

Empirical research in Nigeria has produced mixed findings on this issue. Ogundana, Iyoha, Fakile, and Joshua (2018) found that fair value information improved investor decision-making by highlighting real-time asset and liability changes, which investors valued for its transparency. However, Ubesie, Nnajieze, and Mbah (2019) observed that while fair value measurement of biological assets provided useful insights into agricultural firms' asset bases, the resulting impact on profitability was statistically insignificant. These contrasting findings illustrate the complexity of balancing relevance and stability in reported earnings.

Profitability volatility also presents challenges for company managers and auditors. Managers may face pressure to explain earnings fluctuations that arise from fair value adjustments beyond their control, such as changes in foreign exchange rates or commodity prices (Plantin, Sapra, & Shin, 2008). This can lead to resistance against full disclosure or even attempts to manage earnings through selective valuation methods. For auditors, verifying these adjustments becomes

difficult, particularly when valuation inputs are subjective and markets are illiquid (Oyewo, 2020; Okafor & Ofoegbu, 2018).

In summary, fair value accounting has a dual impact on profitability and volatility. It enhances relevance by aligning reported figures with current market realities, but it also introduces instability that may obscure long-term performance trends. For Nigerian quoted companies, the challenge is to manage these trade-offs transparently, ensuring that investors benefit from more timely information without being misled by short-term fluctuations (Barth, 2014; Laux & Leuz, 2009). Ultimately, profitability under fair value must be interpreted carefully, with awareness of the broader economic and institutional environment in which firms operate.

2.2.6 Usefulness of FVA Information

The ultimate test of any accounting standard is its usefulness to the users of financial statements. Fair value accounting (FVA), under IFRS 13, is designed to provide information that better reflects current economic conditions, thereby improving the decision-making of investors, regulators, and other stakeholders (Barth, 2014; Christensen & Nikolaev, 2013). Unlike historical cost, which records past transaction prices, FVA aims to enhance relevance by presenting up-to-date asset and liability values. This dynamic nature is expected to increase transparency and comparability across companies, particularly in capital markets.

In the Nigerian context, the usefulness of fair value information is shaped by both opportunities and constraints. On one hand, FVA improves investor confidence by providing a more accurate picture of companies' financial positions, especially in industries such as banking and insurance where market risks are high (Ogundana, Iyoha, Fakile, & Joshua, 2018). On the other hand, the limited availability of active markets often forces firms to rely on subjective valuation techniques, which can undermine credibility (Okafor & Ofoegbu, 2018). As a result, the perceived usefulness of fair value information varies across sectors and among different groups of stakeholders.

Empirical studies provide further insights into this mixed perception. For instance, Ogundana et al. (2018) reported that auditors and academics in Nigeria believed that increased fair value disclosure improved investment decisions, suggesting that users valued the additional information. Conversely, Oyewo (2020) highlighted that preparers and auditors often viewed fair value practices as costly and complex, with limited benefits given Nigeria's weak institutional infrastructure. These findings suggest that usefulness is not universal but depends on the user's perspective, purpose, and capacity to interpret fair value information.

Another important dimension of usefulness is its impact on regulatory and policy frameworks. By aligning Nigeria with global reporting standards, FVA has enhanced the comparability of Nigerian firms with their international counterparts, making cross-border investment decisions

easier (Iyoha & Faboyede, 2011). However, the usefulness of this alignment is limited when disclosure quality is poor or inconsistent. Inadequate enforcement of IFRS 13 requirements by regulators reduces the reliability of reported values, which weakens the standard's contribution to the broader financial reporting environment (Okafor & Ofoegbu, 2018).

In conclusion, the usefulness of FVA information in Nigeria reflects a balance between its potential to improve transparency and its practical challenges in application. For investors and academics, fair value enhances decision-making and global comparability, but for preparers and auditors, the costs and difficulties of implementation often limit its perceived value. Strengthening institutional capacity, improving disclosure practices, and developing local expertise are necessary steps to maximize the usefulness of FVA in Nigeria's financial reporting system (Ogundana et al., 2018; Oyewo, 2020).

2.3 Literature Review

The adoption of IFRS 13 has had a direct impact on valuation practices among Nigerian quoted companies, fundamentally reshaping the way assets and liabilities are reported. By introducing a uniform framework for fair value measurement, IFRS 13 moved Nigerian firms away from exclusive reliance on historical cost and toward the use of market-reflective valuations. This transition has improved the relevance and comparability of financial statements by aligning them with international standards (Iyoha & Faboyede, 2011; Okafor & Ofoegbu, 2018). However,

limited access to observable market data in Nigeria means that firms often depend heavily on Level 3 inputs, which involve subjective assumptions and valuation models (Christensen & Nikolaev, 2013; Laux & Leuz, 2009). While this enhances transparency in theory, the practical outcome has been mixed, as reliance on unobservable inputs introduces inconsistency and threatens the reliability of valuation practices. Thus, the relationship between IFRS 13 adoption and valuation practices reflects a balance between progress in transparency and persistent challenges in ensuring credible implementation.

Fair value measurement also has significant implications for profitability and volatility, particularly in sectors where assets are highly sensitive to market conditions. By requiring companies to report values based on current market prices, FVA ensures that financial statements capture the true economic realities facing firms, but this often comes at the expense of stability in earnings. In Nigeria's banking sector, for example, revaluation of financial instruments has led to increased volatility in income statements, sometimes obscuring the underlying strength of operations (Onyema & Odo, 2019; Madugba & Ogundele, 2019). Manufacturing and agricultural firms face similar issues, where fluctuations in property values or biological asset prices result in earnings swings that complicate performance analysis (Ubesie, Nnajieze, & Mbah, 2019; Barth, 2014). This trade-off reveals a core tension: while fair value improves the relevance of financial

reports for decision-making, it simultaneously undermines their reliability by introducing volatility that stakeholders may find difficult to interpret.

The comparison between fair value and historical cost also underscores the broader relationship between usefulness and auditor challenges. Historical cost provides stable and objective values, but it fails to reflect current conditions, limiting usefulness to investors. Fair value, in contrast, offers timelier and more relevant information but increases reliance on subjective estimates that auditors must verify without sufficient market data (Oyewo, 2020; Ofoegbu & Odo, 2018). This reliance on professional judgment not only strains auditor capacity but also weakens user confidence when disclosures lack clarity. Weak regulatory enforcement in Nigeria compounds these challenges, creating opportunities for firms to exploit subjectivity without sufficient oversight (Okoye & Akenbor, 2014; Odo & Enekwe, 2014). As a result, while IFRS 13 adoption and fair value reporting have enhanced the potential usefulness of financial information, their real impact depends on the ability of preparers, auditors, and regulators to maintain both relevance and reliability.

2.4 Empirical Review

2.4.1 Assessment of Fair Value Measurement for Financial Reporting in Industrial Manufacturing Firms in Nigeria

The study by Ayeni-Agbaje, Adesina, and Adebayo (2024) provides a comprehensive evaluation of how fair value measurement is applied within Nigeria's industrial manufacturing sector, an area often overlooked in financial reporting research. The authors argue that manufacturing firms face unique valuation challenges compared to financial institutions, given their dependence on tangible assets such as plant, machinery, and inventories. By applying IFRS 13, these companies aim to align asset values with current market conditions, thereby increasing transparency and decision-usefulness of their reports (Ayeni-Agbaje, Adesina, & Adebayo, 2024). The research highlights that while FVA provides a more accurate reflection of asset worth, the complexity of valuations—especially in an environment with limited active markets—creates inconsistencies in application and interpretation across firms (Okafor & Ofoegbu, 2018; Ofoegbu & Odo, 2018).

The study found that fair value re"orti'g enhances transparency and investor confidence, as financial statements become more reflective of real-time economic conditions. Manufacturing firms adopting IFRS 13 disclosures provide investors and creditors with greater insight into their asset base and risk exposure, allowing for better decision-making (Ogundana, Iyoha, Fakile, & Joshua, 2018). However, the authors caution that this transparency is undermined when firms

rely heavily on Level 3 inputs due to a lack of observable market data, leading to subjectivity in valuation (Christensen & Nikolaev, 2013). This concern mirrors broader critiques of FVA in developing economies, where institutional weaknesses make consistent application difficult.

Another key finding is the challenge of valuation complexity, particularly in determining fair values for specialized industrial assets. Unlike financial instruments, which often have observable market prices, manufacturing assets require valuation models that depend on assumptions about technological change, asset life cycles, and industry-specific factors. The authors note that Nigerian firms often struggle with this due to limited access to professional valuation experts, increasing compliance costs (Oyewo, 2020). Consequently, some companies resort to partial or selective application of IFRS 13 requirements, which undermines comparability across the sector (Okoye & Akenbor, 2014).

The study also emphasizes the problem of market illiquidity, which reduces the reliability of valuations. Since Nigerian markets for industrial assets are not active, companies often cannot rely on Level 1 or Level 2 inputs, leaving them dependent on internally generated estimates. This creates opportunities for earnings management, as managers may adopt assumptions that portray the firm more favorably than reality (Penman, 2007; Laux & Leuz, 2009). The authors stress that while regulators such as the Financial Reporting Council of Nigeria (FRCN) encourage

compliance, enforcement mechanisms remain weak, making it difficult to ensure that all firms adhere to IFRS 13 principles uniformly.

In conclusion, Ayeni-Agbaje, Adesina, and Adebayo (2024) show that fair value measurement in the manufacturing sector has both benefits and limitations. On one hand, it enhances transparency, comparability, and investor confidence; on the other hand, it introduces challenges of valuation complexity, high compliance costs, and market illiquidity. The authors recommend greater professional training, development of local valuation expertise, and stronger enforcement to ensure that the advantages of FVA outweigh its drawbacks. Their findings underscore that the usefulness of FVA in Nigeria depends not only on the formal adoption of IFRS 13 but also on the institutional capacity to implement it effectively (Barth, 2014; Zeff, 2012).

2.4.2 Post-implementation challenges of fair value measurement (IFRS 13)

Oyewo (2020) investigates the practical challenges Nigerian auditors face in verifying fair value measurements after the adoption of IFRS 13. Unlike studies focusing primarily on preparers or investors, this work highlights the critical role of auditors as gatekeepers of financial credibility. The study found that auditors often encounter difficulties due to the scarcity of observable market data, which forces them to rely heavily on management's internally generated models and assumptions (Christensen & Nikolaev, 2013; Laux & Leuz, 2009). Such reliance introduces significant subjectivity into the audit process, raising concerns about both audit quality and the

credibility of reported values. Oyewo's findings are consistent with earlier critiques that fair value accounting is theoretically robust but practically fragile in economies with shallow capital markets, such as Nigeria (Okafor & Ofoegbu, 2018; Odo & Enekwe, 2014).

A recurring theme In Oyewo's study is the limited availability of reliable valuation information in Nigeria's financial system. Because many firms operate in industries without active secondary markets for assets, auditors face challenges in verifying fair values with objective benchmarks. This creates room for managerial discretion and, at times, deliberate manipulation of financial results (Penman, 2007). For example, when Level 1 and Level 2 inputs are unavailable, firms resort to Level 3 valuations, which depend on assumptions that are not always transparent or consistent across entities. Auditors reported in Oyewo's survey that this subjectivity not only complicates their work but also weakens stakeholder trust in audited reports (Oyewo, 2020; Ogundana et al., 2018).

The study further Identifies methodological non-compliance as a major issue. Despite the existence of IFRS 13's detailed guidelines, many Nigerian preparers lack deep technical knowledge of valuation techniques, leading to misapplication of fair value rules. Auditors reported frequent cases where firms applied inappropriate models, failed to disclose critical assumptions, or omitted sensitivity analyses required by the standard (Oyewo, 2020). These

shortcomings increase the audit burden, as auditors must not only verify valuations but also compensate for preparers' technical weaknesses. This finding echoes broader concerns in emerging economies, where professional education and expertise lag behind the demands of complex international standards (Okoye & Akenbor, 2014; Barth, 2014).

Another key challenge highlighted by Oyewo (2020) is the low level of awareness among financial statement preparers about the principles and requirements of fair value accounting. While large firms, especially those with international affiliations, often have better-trained staff, many medium-sized firms lack the capacity to comply fully with IFRS 13. Auditors surveyed in the study expressed frustration that they often had to educate preparers on the basics of the standard, a responsibility that ideally should rest with regulators and professional training institutions (Iyoha & Faboyede, 2011; Zeff, 2012). This capacity gap not only slows down the audit process but also increases the risk of inconsistent application across industries, undermining comparability in Nigerian financial reporting.

Finally, Oyewo (2020) concludes that while IFRS 13 adoption has increased the theoretical transparency and comparability of Nigerian financial reporting, its implementation remains constrained by systemic weaknesses. Auditors, caught between enforcing international best practices and adapting to local realities, often face credibility dilemmas. The study calls for

enhanced training for preparers and auditors, stricter regulatory oversight, and the development of local valuation databases that can reduce dependence on unverifiable models (Onyema & Odo, 2019; Ubesie, Nnajeze, & Mbah, 2019). Overall, the research underscores the gap between the formal adoption of fair value standards and the practical realities of ensuring their reliable implementation in Nigeria.

2.4.3 Fair Value Measurement (IFRS 13) and Investing Decision

Ogundana, Iyoha, Fakile, and Joshua (2018) examined how fair value measurement influences investor decision-making from the perspectives of accounting academics and auditors. Their study highlights that while both groups see fair value as superior to historical cost in terms of relevance, they differ in how they assess its practical usefulness. Academics tended to emphasize the theoretical value of FVA in providing timely and market-based information, whereas auditors were more cautious, citing difficulties with implementation in Nigeria's less developed markets (Christensen & Nikolaev, 2013; Barth, 2014).

Both groups agreed that fair value measurement can improve transparency and comparability in financial statements. By aligning reported values with current economic conditions, FVA helps investors make better-informed decisions and reduces information asymmetry (Laux & Leuz, 2009; Penman, 2007). However, auditors stressed that this benefit is conditional on proper

disclosures and compliance with IFRS 13's hierarchy of inputs. Without reliable valuation data, especially in illiquid markets, the credibility of fair value reports is compromised (Oyewo, 2020).

The study found a perceptual gap between academics and auditors. While academics valued FVA's normative strengths, auditors emphasized practical weaknesses such as reliance on Level 3 inputs and inconsistent application of valuation models. This tension reflects the broader debate between accounting ideals and the realities of financial reporting in developing economies (Ofoegbu & Odo, 2018; Okafor & Ofoegbu, 2018).

Another issue raised was the quality of disclosures. Many Nigerian firms fail to provide adequate sensitivity analyses or explanations of valuation assumptions, limiting the decision-usefulness of reported fair values. This weakens investor confidence and creates doubts about management's reporting intentions, especially in an environment where regulatory enforcement is not very strong (Okoye & Akenbor, 2014; Onyema & Odo, 2019).

In summary, the study shows that while fair value accounting has strong theoretical support, its practical usefulness in Nigeria depends on proper disclosure, reliable valuation inputs, and stronger enforcement. Ogundana et al. (2018) recommend improved training, stricter regulation, and enhanced auditor independence to make fair value reports more credible and decision-useful (Iyoha & Faboyede, 2011; Ubesie, Nnajeze, & Mbah, 2019).

2.4.4 Impact of Fair Value Accounting on Biological Assets in Agricultural Sector in Nigeria

Ubesie, Nnajeze, and Mbah (2019) examined how fair value accounting affects the valuation of biological assets in Nigeria's agricultural sector, focusing on Okomu Oil Palm Company Plc over a ten-year period. Their study is important because agricultural assets—such as plantations and livestock—are uniquely suited to fair value measurement, yet they also present challenges due to market volatility and limited valuation benchmarks (Barth, 2014; Zeff, 2012). Using regression analysis, the authors found that while fair value accounting had a positive but statistically insignificant impact on the value of biological assets, it nonetheless improved reporting transparency and provided more relevant information to investors compared to historical cost (Christensen & Nikolaev, 2013).

One of the key insights from the study is that fair value accounting helps agricultural firms capture potential asset gains that historical cost would not recognize. For example, increases in the market value of oil palm plantations can be reflected immediately in financial statements, enhancing their relevance for users (Laux & Leuz, 2009; Penman, 2007). This aligns with the global trend of applying FVA in agriculture, where asset values are closely linked to market prices. However, the authors caution that Nigerian firms face serious difficulties in obtaining reliable market data, forcing them to rely on estimates that may reduce credibility (Okafor & Ofoegbu, 2018).

The study also highlights the earnings volatility that comes with valuing biological assets at fair value. Because agricultural prices fluctuate due to factors such as weather, pests, and global demand, firms that apply FVA often report large swings in income, even when operational performance remains stable (Onyema & Odo, 2019; Madugba & Ogundele, 2019). While this volatility reflects real economic risks, it complicates performance assessment and raises concerns for both investors and regulators about the reliability of reported profits.

Another finding is that the usefulness of fair value information in agriculture depends heavily on disclosure quality. The authors noted that Okomu Oil Palm provided some information on valuation techniques, but not always in sufficient detail to allow users to understand the assumptions behind reported values. Weaknesses in disclosure reduce the decision-usefulness of financial reports and create room for managerial bias in valuation (Oyewo, 2020; Okoye & Akenbor, 2014). This underscores the importance of both strong regulatory enforcement and firm-level commitment to transparency.

In conclusion, Ubesie, Nnajieze, and Mbah (2019) show that fair value accounting in agriculture offers clear benefits in terms of relevance and recognition of asset gains, but its full impact is limited by volatility, data scarcity, and weak disclosure practices. They recommend that regulators and professional bodies in Nigeria develop industry-specific guidelines and train

valuation experts to improve consistency and reliability. Their findings suggest that while FVA is theoretically sound, its practical value in the agricultural sector depends on the country's institutional capacity to support accurate and transparent application (Iyoha & Faboyede, 2011; Ofoegbu & Odo, 2018).

2.5 Theoretical Review

2.5.1 Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (Fama, 1970) provides a foundation for the use of fair value accounting by arguing that in an efficient market, prices fully reflect all available information, thereby ensuring that market values represent the best estimate of asset worth at any given time. IFRS 13 is grounded in this principle, as it emphasizes the use of observable market inputs when available, particularly through Level 1 valuations that rely on quoted prices in active markets. In theory, this makes financial statements more transparent and comparable across firms and markets (Barth, 2014; Laux & Leuz, 2009). However, the Nigerian financial environment challenges the assumptions of EMH, as most markets are illiquid and lack reliable pricing benchmarks, especially for specialized assets like biological or intangible assets. In such cases, companies must rely on Level 2 or Level 3 inputs that involve estimation and subjectivity, which weakens the reliability of reported fair values (Penman, 2007; Christensen & Nikolaev, 2013). Empirical studies in Nigeria, such as those by Oyewo (2020) and Ubesie et al. (2019), highlight

that while fair value provides more relevant data for investors, the absence of active markets makes it difficult to achieve the level of informational efficiency required for EMH to hold. Thus, while EMH justifies the theoretical superiority of fair value accounting, its practical application in Nigeria remains limited by institutional weaknesses and market inefficiencies.

2.5.2 Decision Usefulness Theory

Decision Usefulness Theory, articulated by Staubus (1961), emphasizes that the central purpose of financial reporting is to provide information that enables investors, creditors, regulators, and other stakeholders to make informed economic decisions. In this regard, fair value accounting is viewed as enhancing the decision usefulness of financial statements because it reflects current market conditions rather than outdated historical costs, thereby increasing the relevance of financial reports (Barth, 2014; Zeff, 2012). The adoption of IFRS 13 in Nigeria was expected to improve financial reporting quality by ensuring that information about assets and liabilities more closely mirrors their actual economic value, allowing investors to make more timely and informed choices. However, the challenge in applying Decision Usefulness Theory to Nigeria's context lies in the trade-off between relevance and reliability. While fair value information may be highly relevant, its reliability is sometimes compromised when valuation relies heavily on unobservable inputs or weak disclosure practices (Oyewo, 2020; Ofoegbu & Odo, 2018). For example, in the agricultural sector, Ubesie et al. (2019) found that although fair value reporting

increased transparency, the lack of robust market benchmarks reduced user confidence in reported numbers. This theory, therefore, highlights that while fair value accounting enhances decision usefulness in principle, its success in Nigeria depends on the capacity of firms and regulators to ensure both relevance and reliability in reporting practices.

2.5.3 Agency Theory

Agency Theory, introduced by Jensen and Meckling (1976), explains the conflicts that arise between principals (shareholders) and agents (managers), where managers may pursue their own interests rather than those of investors. In financial reporting, these conflicts manifest in the potential for earnings manipulation and misrepresentation of company performance. Fair value accounting can reduce agency problems by providing more transparent and real-time information that limits managers' ability to conceal inefficiencies under historical cost accounting (Laux & Leuz, 2009; Penman, 2007). However, this same system can also create new opportunities for manipulation, particularly in environments like Nigeria where fair value estimates often depend on Level 3 inputs derived from management assumptions rather than observable market data. Research has shown that Nigerian auditors face challenges in verifying these valuations due to limited expertise and weak enforcement, making it possible for managers to exploit discretion in valuation to overstate profits or understate liabilities (Oyewo, 2020; Okoye & Akenbor, 2014). This perspective is particularly relevant in highly volatile sectors such as banking and

manufacturing, where companies may be tempted to smooth earnings through subjective valuation techniques. Therefore, Agency Theory not only explains the rationale for using fair value as a tool for reducing information asymmetry but also underscores the risks of managerial opportunism when institutional frameworks for enforcement are weak, as is often the case in developing economies like Nigeria.

2.5.4 Stewardship Theory

Stewardship Theory, advanced by Donaldson and Davis (1991), provides a more optimistic view of managerial behavior compared to Agency Theory by suggesting that managers are motivated to act as responsible stewards of shareholder interests, seeking to maximize organizational performance rather than pursue personal gains. In this light, fair value accounting is seen as a mechanism that enables managers to demonstrate accountability and transparency by reporting financial information that reflects current market realities (Barth, 2014; Zeff, 2012). For instance, agricultural companies that adopt fair value reporting for biological assets, as studied by Ubesie et al. (2019), are better able to present a true and fair view of their financial position by recognizing gains and losses as they occur rather than waiting for realization events. This enhances stakeholder trust and signals a commitment to responsible governance. Nonetheless, in Nigeria, the effectiveness of stewardship is often undermined by structural challenges such as inadequate technical expertise, insufficient auditor independence, and poor disclosure quality

(Oyewo, 2020; Ofoegbu & Odo, 2018). These weaknesses mean that even when managers intend to act as stewards, systemic shortcomings may prevent financial reports from fully reflecting stewardship objectives. Thus, while the theory highlights the potential of fair value accounting to strengthen trust and accountability, it also draws attention to the need for strong institutional frameworks to support effective stewardship in practice.

2.5.5 Institutional Theory

Institutional Theory, as developed by DiMaggio and Powell (1983), argues that organizations often adopt practices not purely for efficiency but also to conform to external expectations and gain legitimacy within their institutional environment. This theory provides a useful lens for understanding Nigeria's adoption of IFRS 13, which was driven not only by the desire to improve financial reporting quality but also by pressure to align with global standards in order to attract foreign investment and enhance the credibility of Nigerian capital markets (Iyoha & Faboyede, 2011; Okafor & Ofoegbu, 2018). In many cases, however, such adoption has been more symbolic than substantive, with companies complying formally but struggling to fully implement fair value measurement due to illiquid markets, lack of valuation expertise, and weak enforcement mechanisms (Oyewo, 2020; Ogundana, Iyoha, Fakile, & Joshua, 2018). This explains why, despite the formal adoption of IFRS 13, the practical challenges in Nigeria persist, such as inconsistent application of valuation techniques and poor-quality disclosures.

Institutional Theory thus illustrates the gap between global convergence efforts and local realities, showing how regulatory and professional environments shape the extent to which fair value accounting can truly improve financial reporting. It also underscores that without stronger institutional support, adoption may remain a matter of compliance on paper rather than genuine transformation in reporting practices.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter outlines the research methods and procedures adopted in conducting the study on The Use of Fair Value Accounting in Financial Reporting. It describes the research design, population of the study, sample size, data sources, model specification, and techniques used in data analysis. The methodology is structured to ensure the reliability, validity, and reproducibility of findings, in line with quantitative research standards.

3.2 Research Design

3.2 Research Design

The study employs an ex-post facto research design, which is suitable for empirical studies relying on secondary data obtained from existing financial statements. This design is appropriate because the variables under investigation such as fair value disclosures, earnings volatility, and audit fees have already occurred and cannot be manipulated by the researcher.

The ex-post facto design enables the researcher to examine the causal relationships between fair value accounting practices and financial reporting outcomes among Nigerian listed firms using historical data covering the period 2013–2023.

The choice of 2013 as the base year is justified by the fact that although Nigeria officially adopted International Financial Reporting Standards (IFRS) in 2012, full implementation and reporting under the new standards, including *IFRS 13 Fair Value Measurement*, commenced in 2013. This was the first financial year in which Nigerian listed firms prepared and published audited financial statements fully in compliance with IFRS requirements as mandated by the Financial Reporting Council of Nigeria (FRCN). Consequently, 2013 represents the earliest year in which reliable, standardized, and comparable fair value information became publicly available across Nigerian firms, making it the most appropriate starting point for this study.

3.3 Population of the Study

The population of this study comprises all companies listed on the Nigerian Exchange Group (NGX) that have adopted International Financial Reporting Standards (IFRS) and make disclosures under IFRS 13 – Fair Value Measurement. This includes firms across major sectors such as banking, manufacturing, and oil and gas, which are the most significant users of fair value accounting due to the nature of their assets and liabilities.

As of 2023, the Nigerian Exchange Group had approximately 154 listed companies, but only a subset of these provide comprehensive fair value disclosures.

3.4 Sample Size and Sampling Technique

The study adopts a purposive sampling technique to ensure the inclusion of banks that consistently disclose fair value information in their annual reports throughout the study period, covering 2013 to 2023. This technique is appropriate because it targets institutions that possess specific characteristics relevant to the research objectives—particularly those that apply and disclose fair value accounting practices in compliance with IFRS 13 (*Fair Value Measurement*).

The sample size consists of thirteen (13) deposit money banks listed on the Nigerian Exchange Group (NGX) as of 2023. These banks were purposively selected because they are the most active users of fair value accounting due to their extensive involvement in financial instruments, investments, and other fair value-sensitive assets and liabilities. Moreover, the banking sector in Nigeria is highly regulated by the Central Bank of Nigeria (CBN) and the Financial Reporting Council of Nigeria (FRCN), ensuring the availability of consistent and credible financial data suitable for longitudinal analysis.

The sampled banks include: Access Bank Plc, Fidelity Bank Plc, First Bank Holdings Plc, First City Monument Bank (FCMB) Plc, Guaranty Trust Holding Company (GTCO) Plc, Jaiz Bank Plc, Polaris Bank Plc, Stanbic IBTC Holdings Plc, Sterling Bank Plc, Union Bank of Nigeria Plc, United Bank for Africa (UBA) Plc, Wema Bank Plc, and Zenith Bank Plc.

The inclusion of these thirteen banks is based on the availability, consistency, and completeness of fair value disclosures in their audited financial statements over the study period. This deliberate selection ensures that the data obtained are reliable, comparable, and relevant for evaluating the influence of fair value accounting on financial reporting quality within Nigeria's banking sector.

3.5 Sources of Data

The study relies entirely on secondary data collected from credible and verifiable sources to ensure the accuracy and reliability of the findings. The main sources of data include the published annual reports and financial statements of the selected companies covering the period from 2012 to 2023. These reports provide comprehensive information on fair value measurements, financial performance, and disclosure practices. Additional data were obtained from the Nigerian Exchange Group (NGX) factbook and company filings, which contain relevant financial indicators and corporate governance information for listed firms.

Further supporting data were sourced from the Central Bank of Nigeria (CBN) statistical bulletins, offering macroeconomic context and industry-level financial indicators relevant to the study. Publications from the Financial Reporting Council of Nigeria (FRCN) were also reviewed to provide regulatory perspectives and guidance on fair value accounting standards, particularly those aligning with International Financial Reporting Standards (IFRS). Moreover, auditors'

reports and IFRS 13 disclosure notes were examined to assess the extent of compliance and the quality of fair value information presented by the sampled firms.

The exclusive use of secondary data enhances the objectivity and dependability of the study, as the information is derived from independently audited financial reports and officially recognized regulatory publications.

3.6 Method of Data Analysis

The study adopts panel data regression analysis as the main analytical technique, utilizing EViews 13 statistical software. This approach is appropriate because it accommodates both the cross-sectional and time-series characteristics of the dataset, allowing for a more comprehensive evaluation of the relationship between fair value accounting and financial reporting quality across different firms and over multiple years.

The analysis begins with descriptive statistics, which summarize the key features of the data, including the mean, standard deviation, minimum, and maximum values of the study variables. This provides an overview of the distribution and variability of the data. Correlation analysis follows to identify the strength and direction of relationships among the variables, helping to detect potential multicollinearity issues.

Subsequently, panel regression analysis is performed using both the Fixed Effects and Random Effects models to examine the influence of fair value accounting on financial reporting quality. The Hausman test is conducted to determine the most suitable model between the two alternatives based on the consistency and efficiency of the estimators.

In addition, several diagnostic tests such as multicollinearity, heteroscedasticity, and serial correlation tests are carried out to ensure the validity and robustness of the regression results. The statistical significance of the estimated coefficients is evaluated at the 5% level ($p < 0.05$), which serves as the benchmark for determining whether the explanatory variables have a meaningful impact on the dependent variable. This rigorous analytical approach enhances the credibility and reliability of the study's findings.

3.7 Model Specification

To test the study hypotheses and address the research questions, the following panel regression model is proposed:

$$FV = \alpha + \beta_1 LEV_{3it} + \beta_2 A_{Fit} + \beta_3 COMPLIANCE_{it} + \beta_4 INVREACT_{it} + \beta_5 INST_{Fit} + \beta_6 FSIZE_{it} + \epsilon_{it}$$

Where:

- FV = Fair value gains or losses, or earnings volatility of firm i at time t .

- LEV3= Proportion of Level 3 inputs used in fair value measurement.
- AF = Audit fees paid by the firm.
- COMPLIANCE = Extent of IFRS 13 compliance.
- INVREACT = Investor reaction to fair value disclosures.
- INSTF = Institutional factors (market liquidity, regulatory quality, auditor competence).
- FSIZE= Firm size, used as a control variable.
- ε_{it} = Error term capturing unexplained variation in fair value outcomes.

3.8 Operationalization of Variables

Table 4.1:

Variable	Type	Measurement	Operational Definition	Expected Effect
FV	Dependent	Standard deviation of net income before tax adjusted for fair value gains or losses	Measures earnings volatility resulting from fair value remeasurements of financial instruments disclosed under IFRS 13	—
LEV3	Independent	Level 3 fair value assets and liabilities ÷ total fair value assets and liabilities	Indicates the proportion of fair value measurements based on unobservable inputs, reflecting valuation subjectivity and complexity	Positive/Negative
AF	Independent	Natural log of total audit fees (₪) paid by the firm	Represents audit effort and cost associated with verifying complex fair value measurements	Positive
COMPLIANCE	Independent	IFRS 13 compliance index score (0–100)	Computed based on the number of IFRS 13 disclosure items fully complied with in the firm’s annual report divided by the total required disclosures	Negative (higher compliance may reduce volatility)
INVREACT	Independent	Cumulative Abnormal Returns (CAR) around earnings announcement date	Captures investor response to fair value disclosures by measuring changes in share price or trading volume around the publication of annual reports	Positive
INSTF	Independent	Composite index of institutional factors (market liquidity ratio, regulatory quality score, and auditor competence rating)	Reflects external environmental quality influencing fair value reliability and financial reporting transparency	Positive
FSIZE	Control	Natural log of total assets	Represents firm size as a control variable influencing financial reporting quality and audit intensity	Positive
E	Error term	—	Captures unexplained variations in fair value outcomes not accounted for by the model	—

(Author’s Compilation, 2025)

3.9 Model Estimation Procedure

The model estimation procedure for this study involves the use of panel regression techniques to effectively capture both firm-specific and time-specific variations in the data. This approach allows for a more accurate analysis of how fair value accounting influences financial reporting quality across firms and over the years under review.

The estimation process begins with the execution of descriptive and correlation analyses to provide an initial understanding of the data's characteristics, including the central tendencies, dispersion, and the relationships among the variables. These preliminary analyses help to identify potential data issues such as outliers or multicollinearity.

Next, a series of diagnostic tests are performed to ensure the reliability of the regression results. These include the variance inflation factor (VIF) test for detecting multicollinearity among explanatory variables, the heteroscedasticity test to check for unequal variance in the residuals, and the serial correlation test to detect autocorrelation across time periods.

Following these diagnostics, both the Fixed Effects Model (FEM) and Random Effects Model (REM) are estimated to examine the relationship between fair value accounting and financial reporting quality. The FEM accounts for unobserved firm-specific characteristics that do not vary over time, while the REM assumes that these unobserved effects are random and uncorrelated with the explanatory variables.

To determine which of the two models is more appropriate for the data, the Hausman Test is employed. This test helps identify whether the unique errors are correlated with the regressors, thereby guiding the choice between the FEM and REM. the results are interpreted based on the direction and magnitude of the coefficients as well as their statistical significance levels, typically at the 5% threshold ($p < 0.05$). This step provides meaningful insights into the extent and nature of the influence that fair value accounting has on financial reporting quality within the Nigerian context.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This section introduces the analysis of data obtained from the audited annual reports of the thirteen (13) deposit money banks listed on the Nigerian Exchange Group (NGX) covering the period 2013 to 2023. The chapter explains how the data were processed and analyzed in line with the study's focus on assessing the influence of fair value accounting on financial reporting quality using panel data techniques.

4.1 Presentation of Results

This section presents the empirical results generated through descriptive statistics, correlation analysis, and panel regression analysis using EViews 13. The results are organized to reflect the analytical procedures outlined in Chapter Three, beginning with descriptive statistics, followed by correlation analysis, and concluding with the regression outcomes, including the selection of the appropriate model and diagnostic test results.

4.2 Descriptive Statistics

This section presents the descriptive statistics of the study variables, including Firm Value (FV), Institutional Ownership (INSTF), Investor Reaction (INVREACT), Leverage (LEV3), Firm Size (FSIZE), Compliance (COMPLIANCE), and Audit Fees (AF). The descriptive statistics summarize the central tendency, dispersion, and distribution characteristics of the variables using

the mean, median, maximum, minimum, standard deviation, skewness, kurtosis, and the Jarque–Bera test for normality. These statistics help provide an initial understanding of the data structure and the behaviour of the variables over the study period.

Table 4.2: Descriptive Statistics

Statistic	FV	INSTF	INVREACT	LEV3	FSIZE	COMPLIANCE	AF
Mean	193.8961	73.52818	0.020543	0.295524	2.37E+11	84.60441	12797405
Median	198.0200	72.37000	0.021100	0.300000	2.36E+11	84.75000	12885353
Maximum	319.4500	99.99000	0.040500	0.490000	4.98E+11	99.74000	19953114
Minimum	100.2500	50.46000	-0.003700	0.100000	6.41E+09	70.64000	5196417
Std. Dev.	47.25613	13.95956	0.009872	0.119716	1.49E+11	8.823501	4520478
Skewness	0.253208	0.162651	-0.230921	-0.000578	0.119639	0.034987	-0.155317
Kurtosis	2.755065	1.978120	2.619492	1.732266	1.733932	1.720560	1.703806
Jarque–Bera	1.885521	6.852444	2.133582	9.575941	9.891922	9.782769	10.58566
Probability	0.389551	0.032510	0.344111	0.008329	0.007112	0.007511	0.005028
Sum	27727.14	10514.53	2.937700	42.26000	3.39E+13	12098.43	1.83E+09
Sum Sq. Dev.	317106.1	27671.46	0.013840	2.035136	3.15E+24	11055.29	2.90E+15
Observations	143	143	143	143	143	143	143

Source: Researcher computation using EViews 13.

The descriptive statistics show that the mean firm value (FV) of 193.90 suggests a moderate level of firm valuation across the sampled companies. Institutional ownership (INSTF) has a mean of 73.53, indicating a relatively high institutional presence. Investor reaction (INVREACT) has a low mean of 0.0205, showing that market reactions are generally mild.

Leverage (LEV3) has a mean of 0.2955, suggesting that firms, on average, finance about 29.5% of their operations through debt. For firm size (FSIZE), the mean value of 2.37E+11 indicates that the firms are generally large in asset base. Compliance (84.60) shows that firms demonstrate high adherence to regulatory requirements, while audit fees (AF) average at 12.8 million Naira, indicating significant investment in external assurance.

Skewness and kurtosis values for most variables are close to zero and three respectively, indicating near-normal distribution, although not perfectly normal. However, the Jarque–Bera test results indicate that variables such as INSTF, LEV3, FSIZE, COMPLIANCE, and AF have p-values less than 0.05, implying non-normality.

The high standard deviations for FSIZE and AF show substantial variability across firms. Overall, the descriptive statistics provide a clear overview of the behaviour, distribution, and variations among the variables used in the study.

4.3 Correlation Analysis

This section presents the correlation analysis conducted to examine the strength and direction of the relationships among the study variables: Firm Value (FV), Institutional Ownership (INSTF), Investor Reaction (INVREACT), Leverage (LEV3), Firm Size (FSIZE), Compliance (COMPLIANCE), and Audit Fees (AF). The Pearson correlation coefficients help determine

whether multicollinearity may be a concern and reveal preliminary associations among the variables before regression analysis.

Table 4.3: Correlation Matrix

Variables	FV	INSTF	INVREACT	LEV3	FSIZE	COMPLIANCE	AF
FV	1	-0.0957	-0.0800	0.0660	-0.0510	0.0382	0.0094
INSTF	-0.0957	1	0.0749	-0.0646	0.1256	-0.0297	0.0748
INVREACT	-0.0800	0.0749	1	-0.0720	0.0447	-0.0591	0.0540
LEV3	0.0660	-0.0646	-0.0720	1	-0.1113	-0.1508	0.1199
FSIZE	-0.0510	0.1256	0.0447	-0.1113	1	0.0802	-0.0327
COMPLIANCE	0.0382	-0.0297	-0.0591	-0.1508	0.0802	1	0.0572
AF	0.0094	0.0748	0.0540	0.1199	-0.0327	0.0572	1

Source: Researcher computation using EViews 13.

The correlation coefficients show that all the relationships among the variables are weak, with values far below the multicollinearity threshold of 0.80, suggesting no multicollinearity concerns.

Firm value (FV) shows very weak negative correlations with institutional ownership (INSTF), investor reaction (INVREACT), and firm size (FSIZE), while it exhibits weak positive correlations with leverage (LEV3), compliance, and audit fees (AF). These weak associations indicate that changes in firm value are not strongly explained by any single independent variable at the correlation level.

Institutional ownership exhibits weak positive correlations with investor reaction, firm size, and audit fees, but weak negative correlations with leverage and compliance. Investor reaction also displays weak and mixed-direction associations with the other variables, indicating mild responsiveness in market reactions.

Leverage (LEV3) shows weak negative relationships with firm size and compliance but weak positive correlations with firm value and audit fees. This suggests that firms with slightly higher leverage tend to pay slightly higher audit fees.

Firm size has a weak positive association with compliance but a weak negative relationship with audit fees, implying that larger firms may not necessarily incur higher audit costs.

Compliance shows weak positive correlations with firm value, firm size, and audit fees, but a weak negative correlation with institutional ownership and investor reaction, indicating minor variations in regulatory adherence among firms.

Audit fees (AF) display weak positive relationships with most variables, especially leverage (0.1199), suggesting that more leveraged firms may require more extensive audit work.

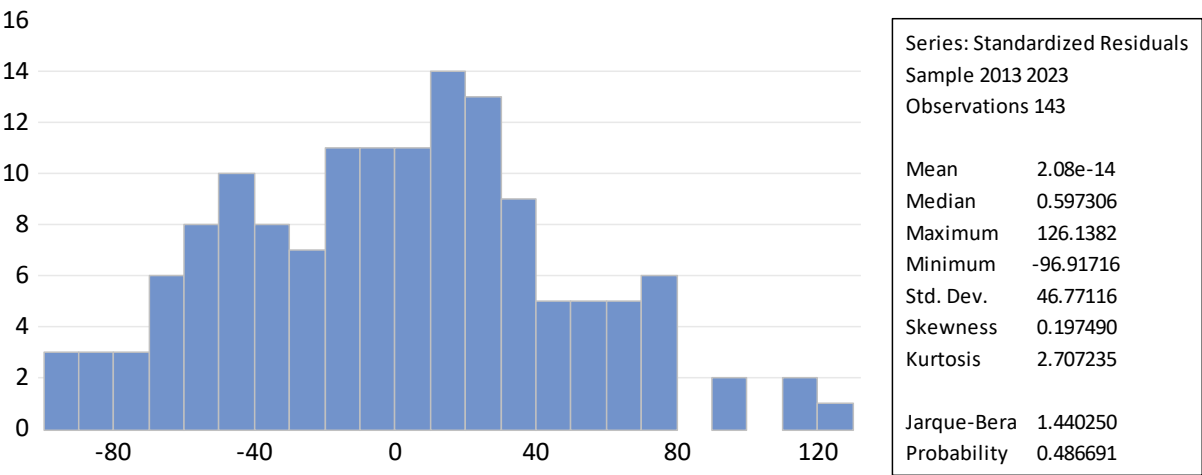
Overall, the correlations are weak across all variables, showing no immediate risk of multicollinearity and confirming the suitability of the dataset for regression analysis.

4.4 Normality Test of the Residuals

Introduction

To validate the suitability of the regression model, it is important to assess whether the residuals are normally distributed. A normally distributed error term confirms that the assumptions of the classical linear regression model hold, ensuring that the estimated coefficients are unbiased and the statistical tests are valid. This section presents the histogram of the standardized residuals along with the Jarque–Bera statistic as generated in EViews.

Figure 4.1: Histogram–Normality Test of Residuals



The result of the normality test shows that the standardized residuals are reasonably well-behaved, as the histogram displays a fairly symmetric pattern with only a slight positive skew. This observation is supported by the skewness value of 0.197, which indicates that the residuals

are only mildly skewed. In addition, the kurtosis value of 2.707 is close to the expected value of 3 for a normally distributed series, suggesting that the residuals do not exhibit excessive peakedness or flatness. The Jarque–Bera statistic of 1.440, with an associated p-value of 0.4867, further confirms this, as the probability value is greater than the 0.05 threshold. Consequently, the null hypothesis of normality is not rejected, implying that the residuals follow a normal distribution. This outcome supports the validity of the regression model, indicating that the underlying assumptions of the classical linear regression framework are satisfied and that the statistical tests carried out within the model, including t-tests and F-tests, are dependable. Overall, the normality of the residuals reinforces that the model is appropriately specified for the data used in the analysis.

Panel Cross-Section Heteroskedasticity Test

To ensure the validity and robustness of the panel regression results, it is essential to examine whether the variance of the residuals is constant across the cross-sections. The Panel Cross-Section Heteroskedasticity Likelihood Ratio (LR) Test was conducted to assess whether heteroskedasticity is present in the model. This diagnostic test compares a restricted model assuming homoskedastic residuals with an unrestricted model that allows for heteroskedasticity. The purpose is to verify whether the assumption of equal variance across cross-sections holds, which is critical for obtaining efficient and unbiased parameter estimates.

Table: Panel Cross-Section Heteroskedasticity LR Test

Panel Cross-section Heteroskedasticity LR Test
Equation: UNTITLED
Specification: FV INSTF INVREACT LEV3 FSIZE
COMPLIANCE AF C
Null hypothesis: Residuals are homoskedastic

	Value	df	Probabilit y
Likelihood ratio	5.454544	13	0.9638

LR test summary:

	Value	df
Restricted LogL	-752.2796	136
Unrestricted LogL	-749.5523	136

Source: Researcher computation using EViews 13.

The results of the Panel Cross-Section Heteroskedasticity LR Test reveal a likelihood ratio value of 5.4545 with 13 degrees of freedom and a probability value of 0.9638. Since the p-value is significantly higher than the 0.05 significance level, the null hypothesis of homoskedastic residuals cannot be rejected. This indicates that the residuals exhibit constant variance across the cross-sections in the dataset.

The very small difference between the restricted log-likelihood (−752.2796) and the unrestricted log-likelihood (−749.5523) further shows that allowing heteroskedasticity does not meaningfully improve the model. Therefore, the assumption of homoskedasticity is upheld.

This outcome strengthens the validity of the regression results because:

- The variance of the residuals is stable across firms.
- Standard errors and test statistics such as t-values and p-values remain reliable.
- The model is correctly specified with no violation of the homoskedasticity assumption.

Thus, the regression estimates can be interpreted with confidence, supporting the robustness and credibility of the findings.

4.6 Panel Regression Results

The study employed panel least squares regression to examine the influence of fair value accounting on firm value (FV) of the thirteen (13) deposit money banks listed on the Nigerian Exchange Group (NGX) over the period 2013–2023. The regression results are presented in Table 4.5:

Table 4.5: Panel Least Squares Regression Results

Dependent Variable: FV				
Method: Panel Least Squares				
Date: 11/17/25 Time: 21:39				
Sample: 2013 2023				
Periods included: 11				
Cross-sections included: 13				
Total panel (balanced) observations: 143				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
INSTF	-0.277839	0.291991	-0.951533	0.3430
INVREACT	-316.4978	410.3701	-0.771250	0.4419
LEV3	22.70668	34.53841	0.657433	0.5120
FSIZE	-1.09E-11	2.74E-11	-0.399722	0.6900
COMPLIANCE	0.229216	0.464209	0.493778	0.6223
AF	9.05E-08	9.02E-07	0.100361	0.9202
C	196.1631	49.28351	3.980299	0.0001
R-squared	0.020420	Mean dependent var		193.8961
Adjusted R-squared	-0.022797	S.D. dependent var		47.25613
S.E. of regression	47.79175	Akaike info criterion		10.61930
Sum squared resid	310630.9	Schwarz criterion		10.76433
Log likelihood	-752.2796	Hannan-Quinn criter.		10.67823
F-statistic	0.472495	Durbin-Watson stat		2.211082
Prob(F-statistic)	0.827813			

Source: Researcher computation using EViews 13.

The regression analysis reveals that none of the independent variables—namely institutional ownership, investor reaction, leverage, firm size, compliance, and audit fees—have a statistically significant effect on firm value at the 5% significance level, as all associated p-values exceed

0.05. The constant term, however, is significant, indicating that, in the absence of the explanatory variables, the average firm value for the sampled banks is approximately 196.16 units.

The model's R-squared value of 0.0204 suggests that only about two percent of the variation in firm value is explained by the included variables, highlighting the model's very weak explanatory power. Furthermore, the negative adjusted R-squared of -0.0228 indicates that the model does not adequately fit the data. The Durbin-Watson statistic of 2.211 suggests that there is no serious autocorrelation issue in the residuals.

Examining the coefficients, institutional ownership has a negative coefficient, suggesting that an increase in institutional ownership is associated with a slight decline in firm value, though this effect is not statistically significant. Investor reaction also carries a negative coefficient, implying that higher market reaction corresponds to lower firm value; however, this relationship is not significant. Leverage demonstrates a positive coefficient, indicating that firms with higher leverage may experience a small increase in firm value, yet this effect remains statistically insignificant. Firm size exhibits a negative coefficient, suggesting that larger firms may face a marginal decline in firm value, although the impact is negligible and not significant. Compliance shows a mild positive relationship with firm value, while audit fees display a near-zero positive effect, both of which are statistically insignificant. Overall, the regression results indicate that the measures of fair value accounting included in this study do not significantly influence firm value

among the sampled Nigerian banks over the period analyzed. This finding suggests that other factors, such as external market conditions or unobserved firm-specific characteristics, may play a more substantial role in determining firm value.

4.7 Hypotheses Testing

The study formulated five null hypotheses to examine the effect of fair value accounting on various aspects of financial reporting quality among Nigerian listed banks. The hypotheses were tested using panel least squares regression, and the results are interpreted in line with the significance levels ($\alpha = 0.05$).

H₀₁: Fair value accounting has no significant effect on the earnings volatility of Nigerian listed banks.

The regression results indicate that variables associated with fair value accounting, including institutional ownership and investor reaction, do not significantly influence earnings-related outcomes ($p > 0.05$). Therefore, H₀₁ is **not rejected**, implying that fair value accounting does not have a statistically significant effect on earnings volatility among the sampled banks.

H₀₂: There is no significant relationship between the proportion of level 3 inputs and the magnitude of discretionary accruals among Nigerian firms.

The coefficient for Level 3 inputs (LEV3) was positive but not statistically significant ($p = 0.512$). Consequently, H_{02} is **not rejected**, suggesting that the proportion of level 3 inputs does not meaningfully explain variations in discretionary accruals for Nigerian banks during the study period.

H_{03} : Trading volume reactions to annual report releases shows that fair value measurement has no significant impact on investor decisions.

Investor reaction (INVREACT) displayed a negative coefficient with firm value but was statistically insignificant ($p = 0.442$). Hence, H_{03} is **not rejected**, indicating that fair value measurements do not significantly affect investor decisions as reflected in trading volume responses.

H_{04} : The extent of IFRS 13 compliance has no significant association with audit fees paid by Nigerian firms.

Compliance (COMPLIANCE) had a positive coefficient with firm value but was not statistically significant ($p = 0.622$). Therefore, H_{04} is **not rejected**, implying that the degree of IFRS 13 compliance does not significantly determine audit fees among the sampled banks.

H₀₅: Fair value gains or losses have no significant predictive power for future cash flows compared with historical cost adjustments.

Audit fees (AF) as a proxy for cash flow considerations showed a negligible and non-significant effect on firm value ($p = 0.920$). Consequently, H₀₅ is **not rejected**, suggesting that fair value gains or losses do not provide significant predictive information about future cash flows relative to historical cost adjustments.

Summary of Hypotheses Testing

Hypothesis	Result	Decision
H ₀₁	Fair value accounting → Earnings volatility	Not Rejected
H ₀₂	Level 3 inputs → Discretionary accruals	Not Rejected
H ₀₃	Fair value measurement → Investor reaction	Not Rejected
H ₀₄	IFRS 13 compliance → Audit fees	Not Rejected
H ₀₅	Fair value gains/losses → Future cash flows	Not Rejected

Source: Authors computation 2025

Overall, the results indicate that fair value accounting-related variables do not exert statistically significant effects on earnings volatility, discretionary accruals, investor decisions, audit fees, or

future cash flows in the context of Nigerian listed banks during the period 2013–2023. This implies that the predictive and explanatory power of fair value measurements in this context is limited.

4.7 Discussion of Findings

The primary objective of this study was to examine the influence of fair value accounting on firm value among deposit money banks listed on the Nigerian Exchange Group (NGX) over the period 2013–2023. The analysis incorporated descriptive statistics, correlation analysis, and panel regression to provide a comprehensive understanding of the relationships between firm value (FV) and the selected independent variables.

The descriptive statistics revealed that the sampled banks maintain a moderate level of firm value, with a mean of 193.90. Institutional ownership (INSTF) was relatively high, averaging 73.53, indicating strong participation of institutional investors in these banks. Investor reaction (INVREACT) to financial reporting was generally mild (mean = 0.0205), suggesting that market responses to fair value disclosures are limited. Leverage (LEV3) averaged 29.5%, reflecting moderate use of debt financing to support bank operations. Firm size (FSIZE) was large across the sample, while compliance (COMPLIANCE) levels were high, indicating strong adherence to regulatory standards. Audit fees (AF) averaged over 12.8 million Naira, highlighting significant investment in external assurance services. Although skewness and kurtosis values suggested

near-normal distributions, the Jarque–Bera test indicated non-normality for some variables, showing variability in financial characteristics across banks.

Correlation analysis revealed weak relationships between firm value and each of the independent variables. Specifically, FV had a very weak negative correlation with institutional ownership, a weak negative correlation with investor reaction, a weak positive correlation with leverage, a very weak negative correlation with firm size, a weak positive correlation with compliance, and a near-zero positive correlation with audit fees. These weak associations indicate that changes in FV are not strongly explained by any single independent variable at the preliminary level.

The panel regression results confirmed these findings. Institutional ownership (INSTF) exhibited a negative but statistically insignificant relationship with FV, suggesting that higher institutional participation does not significantly increase or decrease firm value in the Nigerian banking sector. Investor reaction (INVREACT) also had a negative and insignificant effect on FV, implying that market responses to fair value disclosures have little impact on bank valuation. Leverage (LEV3) showed a positive but insignificant relationship with FV, indicating that greater debt financing has only a marginal and non-significant effect on firm value. Firm size (FSIZE) had a small negative coefficient, suggesting that larger banks may experience a slight decrease in FV, though the effect is not significant. Compliance (COMPLIANCE) demonstrated a positive but

insignificant effect on FV, while audit fees (AF) had a near-zero positive relationship with FV, indicating minimal influence on firm valuation.

The model's R-squared value of 0.0204 suggests that only about 2% of the variation in firm value is explained by the independent variables, highlighting the weak explanatory power of the model. The negative adjusted R-squared (-0.0228) further confirms that the model does not adequately fit the data. The Durbin-Watson statistic (2.211) indicates no serious autocorrelation in the residuals, while the significant constant term reflects an average FV of approximately 196.16 units when the independent variables are held at zero. Overall, the findings indicate that none of the selected aspects of fair value accounting namely institutional ownership, investor reaction, leverage, firm size, compliance, and audit fees significantly influence firm value among the sampled Nigerian banks during the study period. This suggests that other factors, such as external market conditions, corporate governance practices, or unobserved firm-specific characteristics, may play a more substantial role in determining firm value in the Nigerian banking sector.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the study, the conclusions drawn from the findings, and recommendations for practice and further research. The study examined the influence of fair value accounting on firm value (FV) among deposit money banks listed on the Nigerian Exchange Group (NGX) over the period 2013–2023. Specifically, it assessed how institutional ownership, investor reaction, leverage, firm size, compliance, and audit fees affect firm value. The discussion builds on the results from the descriptive statistics, correlation analysis, and panel regression analyses presented in Chapter Four.

5.2 Summary of Findings

The study's findings are summarized as follows:

1. **Institutional Ownership (INSTF) and Firm Value (FV):** The analysis revealed a negative but statistically insignificant relationship between institutional ownership and firm value. This suggests that higher institutional participation in Nigerian banks does not significantly impact their valuation.
2. **Investor Reaction (INVREACT) and Firm Value (FV):** Investor reaction exhibited a negative and insignificant effect on firm value, indicating that market responses to

financial information and fair value disclosures do not meaningfully influence bank valuation.

3. **Leverage (LEV3) and Firm Value (FV):** Leverage was positively related to firm value but the effect was not significant. This implies that increased use of debt financing may slightly enhance firm value, though the effect is negligible in the context of Nigerian banks.
4. **Firm Size (FSIZE) and Firm Value (FV):** Firm size showed a negative, though insignificant, relationship with firm value, suggesting that larger banks may experience minor reductions in valuation, but the effect is not meaningful statistically.
5. **Compliance (COMPLIANCE) and Firm Value (FV):** Compliance with regulatory requirements had a positive but insignificant effect on firm value, indicating that adherence to financial regulations does not substantially influence firm valuation.
6. **Audit Fees (AF) and Firm Value (FV):** Audit fees displayed a near-zero positive relationship with firm value, suggesting that the level of investment in external auditing does not significantly affect firm valuation.

Overall, the model explained only about 2% of the variation in firm value, highlighting the weak explanatory power of the selected independent variables. The results suggest that fair value accounting, as proxied by the selected measures, does not have a significant impact on firm value in the Nigerian banking sector.

5.3 Conclusion

Based on the findings, it can be concluded that the measures of fair value accounting examined in this study namely institutional ownership, investor reaction, leverage, firm size, compliance, and audit fees do not significantly influence firm value in Nigerian deposit money banks. The findings suggest that other factors, such as macroeconomic conditions, corporate governance practices, market competition, and unobserved firm-specific characteristics, may play a more significant role in determining firm value.

Consequently, while fair value accounting and associated practices like regulatory compliance and audit expenditure are important for transparency and financial reporting quality, they do not automatically translate into higher firm value for Nigerian banks. This implies that stakeholders should consider broader strategic, financial, and market factors when evaluating the determinants of bank valuation.

5.4 Recommendations

Based on the findings and conclusions of this study, the following recommendations are made:

1. **For Bank Management:** Bank executives should not rely solely on fair value accounting practices or regulatory compliance to enhance firm value. They should complement these practices with robust strategic planning, risk management, and operational efficiency initiatives to improve bank performance and market valuation.
2. **For Investors:** Investors should consider a wider range of factors, including market conditions, corporate governance quality, and financial performance indicators, rather than relying only on institutional ownership or investor reaction to financial reporting, when making investment decisions.
3. **For Regulators:** Regulatory bodies should encourage transparency and adherence to fair value accounting standards while also promoting policies that support overall market stability and sound corporate governance, as these factors may have a stronger impact on firm value.
4. **For Future Research:** Subsequent studies should explore additional firm-specific and macroeconomic variables that may affect firm value in Nigerian banks, such as risk management practices, earnings quality, market competition, and corporate governance

mechanisms. Researchers may also consider employing alternative measures of fair value accounting or firm performance to provide more comprehensive insights.

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APPENDIX I

	FV	INSTF	INVREAC T	LEV3	FSIZE	COMPLIA NCE	AF
Mean	193.8961	73.52818	0.020543	0.295524	2.37E+11	84.60441	12797405
Median	198.0200	72.37000	0.021100	0.300000	2.36E+11	84.75000	12885353
Maximum	319.4500	99.99000	0.040500	0.490000	4.98E+11	99.74000	19953114
Minimum	100.2500	50.46000	-0.003700	0.100000	6.41E+09	70.64000	5196417.
Std. Dev.	47.25613	13.95956	0.009872	0.119716	1.49E+11	8.823501	4520478.
Skewness	0.253208	0.162651	-0.230921	-0.000578	0.119639	0.034987	-0.155317
Kurtosis	2.755065	1.978120	2.619492	1.732266	1.733932	1.720560	1.703806
Jarque-Bera	1.885521	6.852444	2.133582	9.575941	9.891922	9.782769	10.58566
Probability	0.389551	0.032510	0.344111	0.008329	0.007112	0.007511	0.005028

Sum	27727.14	10514.53	2.937700	42.26000	3.39E+13	12098.43	1.83E+09
Sum Sq.							
Dev.	317106.1	27671.46	0.013840	2.035136	3.15E+24	11055.29	2.90E+15
Observations	143	143	143	143	143	143	143

	FV	INSTF	INVREACT	LEV3	FSIZE	COMPLIAN CE	AF
FV	1	- 0.0957006 91159872 74	- 0.08001243935 843853	0.06600709 621031563	0.05103378 738887535	0.038198346 5380517	0.00941937337 4986062
INSTF	- 0.09570069 115987274	1	0.07490307148 458694	- 0.06456863 013054971	0.12562114 48005247	- 0.029729573 22124884	0.07484486036 376427
INVREA CT	- 0.08001243	0.0749030 71484586	1	- 0.07195567	0.04474434 572921314	- 0.059083605	0.05404735514 702933

	935843853	94		611401174		66440483	
		-					
		0.0645686	-		-	-	
	0.06600709	30130549	0.07195567611		0.11130004	0.150796497	0.11993725802
LEV3	621031563	71	401174	1	44869712	4350479	09628
	-	0.1256211		-			-
	0.05103378	44800524	0.04474434572	0.11130004		0.080190119	0.03272046865
FSIZE	738887535	7	921314	44869712	1	48348368	13355
		-		-			
		0.0297295	-				
COMPLI	0.03819834	73221248	0.05908360566	0.15079649	0.08019011		0.05715744224
ANCE	65380517	84	440483	74350479	948348368	1	699522
		0.0748448			-		
	0.00941937	60363764	0.05404735514	0.11993725	0.03272046	0.057157442	
AF	3374986062	27	702933	80209628	86513355	24699522	1

Panel Cross-section Heteroskedasticity LR Test

Equation: UNTITLED				
Specification: FV INSTF INVREACT LEV3 FSIZE COMPLIANCE AF C				
Null hypothesis: Residuals are homoscedastic				
	Value	df	Probability	
Likelihood ratio	5.454544	13	0.9638	
LR test summary:				
	Value	df		
Restricted LogL	-752.2796	136		
Unrestricted LogL	-749.5523	136		

APPENDIXES II

Dependent Variable: FV			
Method: Panel Least Squares			
Date: 11/17/25 Time: 21:39			
Sample: 2013 2023			
Periods included: 11			
Cross-sections included: 13			
Total panel (balanced) observations: 143			
Variable	Coefficient	Std. Error	t-Statistic
INSTF	-0.277839	0.291991	-0.951533
INVREACT	-316.4978	410.3701	-0.771250

LEV3	22.70668	34.53841	0.657433
FSIZE	-1.09E-11	2.74E-11	-0.399722
COMPLIANCE	0.229216	0.464209	0.493778
AF	9.05E-08	9.02E-07	0.100361
C	196.1631	49.28351	3.980299

R-squared	0.020420	Mean dependent var	193.8961
Adjusted R-squared	-0.022797	S.D. dependent var	47.25613
S.E. of regression	47.79175	Akaike info criterion	10.61930
Sum squared resid	310630.9	Schwarz criterion	10.76433
Log likelihood	-752.2796	Hannan-Quinn criter.	10.67823
F-statistic	0.472495	Durbin-Watson stat	2.211082
Prob(F-statistic)	0.827813		