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# FINANCIAL PERFORMANCE AND SHARE PRICE OF LISTED MANUFACTURING FIRMS IN NIGERIA: THE MODERATING ROLE OF FAIR VALUE ACCOUNTING

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**Abstract**

The study examines the moderating role of fair value accounting on the nexus between financial performance and share price of listed Nigerian manufacturing companies. The study explores 18 manufacturing companies listed on the Nigerian Exchange Group (NGX) spanning from 2017 to 2023. Secondary data was obtained from the annual audited report and accounts of the listed firms, which were available on their websites. Panel-Corrected Standard Error (PCSE) estimation technique was used due to its capability to correct for heteroskedasticity and autocorrelation among firms and across time. Findings show that Earnings per Share (EPS), Book value per share (BVS), and Fair value accounting (FVI) have a positive and statistically significant effect on the share price of Nigerian manufacturing firms. This portrays share price to be a good reflection of change in EPS of manufacturing firms in Nigeria. Furthermore, results show that fair value accounting has a statistically significant and negative effect on the relationship between EPS and share price. Nevertheless, this shows that fair value accounting reduces the nexus between financial performance and market valuation. This study stands out by exploring fair value accounting as a moderating factor within the value relevance framework, an approach that is rarely applied in studies of emerging markets like Nigeria.

*Keywords:* earnings quality, fair value accounting, value relevance, financial performance, share price

## 1. Introduction

Reporting assets, liabilities, and equity at Fair Value (FV) gives a current and more precise valuation that reflects the current market condition of the firm. It is timely and therefore more relevant compared to historical cost information, which does not reflect the current market condition of the firm (Georgiou et al., 2021). Historical cost accounting is reliable but does not reflect market activities, and that is why it is not relevant in unstable market periods.

The adoption of International Financial Reporting Standards (IFRS) in Nigeria and in different countries of the world has necessitated the use of fair value measurement for financial transparency and reporting rather than historical cost accounting measures (Uyanna et al., 2017). However, this change is still controversial because, while fair value makes accounting information more useful, it also makes it more unstable and subjective, especially when it comes to Level 3 inputs that depend a lot on management's judgment (Ye et al., 2018; Thesing & Velte, 2021; Sandy & Mulya, 2024; Ololade & Ojo, 2026).

In the Nigerian context, where manufacturing is a key driver of economic development and growth, investigating the moderating effect of FV accounting on the nexus between financial performance and share price is germane. This is because FV accounting allows for a more transparent and timely view of financial performance which aids existing and potential investors in making economic decisions. Conversely, the discretion with which managers are enabled to determine unobservable inputs in fair value measurement at level 3 creates room for earnings manipulation (Etim et al., 2023).

In spite of the attention that has been paid to the value relevance studies to determine the effect of financial performance on share price (Chukwu & Barisua, 2019; Peter & Siyanbola, 2023; Ikechukwu et al., 2024; Moseri et al., 2024; Rawashdeh et al., 2024), little research effort are geared towards considering the moderating role of FV accounting on the relationship between financial performance and share price of listed manufacturing firms.

Investors use financial performance of listed manufacturing firms to make investment decisions. Hence, firms judged by investors for having high financial performance enjoy favourable patronage from investors, and such firms' share prices increase as more investors invest in them. There is empirical evidence of positive relationship between share price and financial performance in the developed markets while there are mixed results in the developing economies and most especially Nigeria.

Since the adoption of international financial reporting in Nigeria, studies on the moderating effect of fair value accounting on the relationship between share price and financial performance of manufacturing companies are scarce. Therefore, this study is intended to examine whether fair value accounting has a significant moderating effect on the relationship between financial performance and the share price among manufacturing firms listed on the Nigeria Exchange Group (NGX).

## 2. Literature Review

Understanding how fair value accounting influences EPS-Share Price relationship requires exploration of theoretical foundations that link accounting information to market valuation and investor behaviour. Value relevance is deeply connected to how efficiently financial information is transmitted and interpreted in the capital market. The predictive and interpretive capacity of accounting figures such as earnings and book value depends not only on the measurement framework (such as fair value) but also on the underlying informational dynamics between preparers and users of financial reports.

In this context, the connection between Signalling Theory and the Efficient Market Hypothesis (EMH) offers a clear basis for explaining how fair value information affects investors' decisions and firms' valuations in the capital market. Spence introduced the Signalling Theory in 1973 to show that corporate managers and outside parties do not have access to the same information. While corporate managers may be aware of their firm's true economic value, outside parties typically have access to the financial reports that the firm's managers issue. Management signals to investors and analysts through credible means such as financial statements or fair value measures (FVMs).

FVMs focus on the fact that "the fair value estimate for financial instruments and assets contained in financial statements is based on future cash flows and the earning power of the asset," (Uyanna et al., 2017). When used in a transparent and consistent way, fair value measurements can enhance the credibility of signals sent by management and can lead to greater confidence on the part of investors in the accuracy of the information. Scholars have argued that fair value disclosures in a timely manner could make financial statements more informative and help to narrow the information asymmetry between managers and market participants (Barth & Landsman, 2018).

Moreover, Efficient Market Hypothesis (EMH) propounded by Fama (1970) states that market prices substantially reflect all the information available in the market. In an efficient market, relevant and reliable accounting information must be quickly reflected in share prices. Therefore, the speed of accounting information incorporation is essential, and its value relevance is dependent. In weak, semi-strong and strong forms of market efficiency, financial statements affect the prices of the company's stock differently. This is because of the availability and comprehension of the information in the market.

Supporting empirical evidence (Rahman & Liu, 2021; Nguyen & Dang, 2023) show that if accounting data is value relevant, changes in reported earnings and book values move in the same way as changes in share prices. This evidences that accounting information has a predictive value. However, critics of EMH (Spulbar et al., 2022) argue that behavioural biases, market frictions, and unequal access to information prevent markets from being perfectly efficient. Despite these limitations, the EMH strongly helps explain how fair value accounting in turn affects investors' estimation of the value of a company. The timelier and more transparent the fair value disclosures are, the faster they get reflected in market prices.

Signaling theory posits that management transmits private information through fair value measurements. Efficient market hypotheses describe how these signals entered stock prices. Put together, these theories elaborate on how high-quality information translates to efficient markets. Moreover, these theories will help in judging the usefulness of accounting data for valuation purposes. Hence, both theories demonstrate the relevance of FV accounting in showing how investors make their choices based on accounting information, and how this further translates into market results in different institutional settings.

The central focus of this study is whether fair value accounting provides value relevance to financial information for explaining market price of firms and by how much it moderates the relationship between financial performance and share price of Nigerian manufacturing firms. In this context, value relevance refers to the extent to which accounting figures such as book value and earnings and reflect true market values (Aliyu et al., 2024).

Studies in emerging markets have now started paying more attention to value relevance, albeit with focus on comparing manufacturing firms and service firms, corporate governance mechanisms, and audit quality (Usman et al., 2024; Ololade & Ojo, 2025). Studies in developed markets generally show that fair value strengthens the link between accounting measures and market indicators. This suggests that it enhances the informational value of financial reports (Adwan et al., 2020). On the other hand, critics warn that fair value can introduce volatility and subjectivity. This is especially true in markets where valuation inputs are hardly observable, or where there is little oversight (Al Anssari, 2023).

The mixed findings across different countries emphasize the role of institutional context and reporting incentives in determining the value relevance of FV information. Prior research by DeFond et al. (2020) has already shown that fair value reporting can improve the value relevance of accounting information under certain conditions. However, their study also suggests that the magnitude of this effect depends on the strength of financial regulation, audit quality, and investor sophistication. In weak enforcement environments and when valuation expertise is lacking, the discretion in fair value measurement may be used for earnings management and information asymmetry (Liao, 2020; Usman et al., 2024). Therefore, the potential benefit of FV accounting in improving market perception of firm performance may not be fully realized.

According to previous studies, fair value strengthens the association that exists between accounting metrics and market variables in the developed markets. The informational value of financial statements is increased (Adwan et al., 2020; Al Anssari, 2023). However, in emerging markets, such as Nigeria, where market mechanisms are still under development, fair value accounting may not produce the benefit of increased reporting quality. The benefit might even be reduced if reporting quality is diminished by volatility.

More recent studies have focused on the influence of performance metrics (namely: EPS and BVS) on share prices of firms but largely neglect the moderating effect of fair value accounting on EPS and share price relationship. Nguyen and Dang (2023) investigated the effect of accounting reforms in the Vietnam Stock Market and attributed the decline in the ability of EPS to explain the share price to the recent reforms.

Rahman & Liu (2021) explored whether fair value disclosures enhance the usefulness of accounting information for investors. Their findings showed that when fair value is applied clearly and consistently, it improves the explanation of earnings and equity figures for market prices. However, when fair value estimates depend too much on management judgment or hard-to-get inputs, they can weaken investor confidence and distort price signals. Therefore, we hypothesize as follows:

**$H_{01}$:** Fair value accounting does not have a significant effect on the share price of Nigerian manufacturing firms.

**$H_{02}$:** Fair value accounting does not have a significant moderating effect on the relationship between financial performance and share price of Nigerian manufacturing firms.

## 3. Methodology

The quantitative research design was adopted for this study. Study population consists of 33 listed manufacturing firms as of August 2025. They were selected because they are all bound by Nigerian Exchange Group (NGX) regulations and compliance to IFRS which has a set of accounting standards relating to fair value measurement. A purposive sampling technique was used to ensure inclusion of firms with complete and reliable financial information.

Out of the total population, 18 companies were selected; 14 are manufacturers of consumer goods, while the remaining 4 are manufacturers of industrial goods. The inclusion criteria were that the firms must be NGX-listed companies as at before 2017, and they must have available and audited financial statements from 2017 to 2023. The period was considered to ensure financial data consistency and disclosure on fair value accounting. The non-probability sampling approach was adopted because the firms selected can potentially provide quality data relevant to the study.

The study relied on secondary data obtained from the annual reports and audited financial statements of the sampled firms covering the period 2017–2023. These documents provided standardised financial information that was essential for extracting such financial performance metrics as EPS and BVS. Additional data on share prices were obtained from such reliable public sources as the official NGX website.

**Model specification**

In accordance with relevant literature, the present study utilised a value relevance framework to evaluate how fair value accounting intervenes between financial performance and share price in the Nigerian manufacturing industry. Value relevance is basically an earnings quality measure that is market-based, that is, it addresses how accounting information relates to equity market values (Omokhudu & Ibadin, 2015). This idea is, however, grounded on the Ohlson (1995) model, where the market value of equity is argued to be a function of certain accounting variables like earnings and book value given the assumption that the clean surplus relation holds.

Accordingly, that accounting information is more value relevant if it explains better the variations in share prices and, therefore, considers more of that quality. Based on this, the present study evaluates the explanatory power of earnings per share (EPS) and book value per share (BVS) on share price (SP), incorporating fair value accounting (FVI) as a moderating variable.

The model adapts the standard price model of value relevance and is formally specified as:

$SP_{i,t} = \beta_0, + \beta_1 BVS_{i,t-1} + \beta_2 EPS_{i,t-1} + \beta_3 FVI_{i,t-1} + \beta_4(EPS_{i,t-1} * FVI_{i,t-1}) + \varepsilon_{i,t}$; where $SP_{i,t}$ represents the Share Price for firm i at time t (dependent variable); $BVS_{i,t-1}$ is the Book Value per Share (firm's net assets per share from the previous year); $EPS_{i,t-1}$ is Earnings per Share (previous year's net income per share); $FVI_{,t-1}$ is the Fair Value accounting (FVI) (extent of fair value accounting in financial statements); $EPS_{i,t-1} \times FVI_{i,t-1}$ is an interaction term that tests whether FVI moderates the relationship between EPS and Share price; $\beta_0$ is the Intercept; and $\beta_1$, $\beta_2$, $\beta_3$, $\beta_4$ are the regression coefficients; while $\varepsilon_{i,t}$is the Error Term.

**Description and Measurement of Variables**

SP = Closing share prices on the last trading day of each year as reported on NGX website; $FVI_{i,t-1}$ = Fair value accounting impact, was measured as [fair value gains and losses through net income ÷ (net income without value of fair value gains and losses through net income + fair value gains and losses through net income]; BVS = Total shareholders' equity ÷ Number of shares outstanding; EPS = basic EPS as reported in the published financial statement.

## 4. Results and Discussion

**Descriptive Statistics**

The presentation of descriptive statistics is given in Table 1. The mean statistics are 109.53 naira for share price, 19.09 naira for book value per share, 469.60 naira for EPS, and -0.05 for fair value accounting respectively. The interaction effect that fair value accounting would have on earnings per share boiled down to a mean value of -8.31. Skewness results indicate that share price, book value per share, earnings per share, and fair value accounting all possess positive skewness, meaning that these variables have distributions with long tails toward the right.

On the other hand, the interaction term (FVI x EPS) was negatively skewed with a longer left tail. Kurtosis shows that all variables were leptokurtic, having very high kurtosis values which are more than 3, thus implying the presence of any extreme observations or outliers. The Jarque-Bera test statistics rejected the null hypothesis of normal distribution at the 1% significance level, confirming that all variables were non-normally distributed.

**Table 1**

*Descriptive Statistics*

| Statistic | $SP_{it}$ | $BVS_{i,t-1}$ | $EPS_{i,t-1}$ | $FVI_{i,t-1}$ | $FVI_{i,t-1}$* $EPS_{i,t-1}$ |
|---|---|---|---|---|---|
| Mean | 109.5296 | 19.09480 | 469.5961 | -0.046516 | -8.309947 |
| Median | 17.80000 | 10.75141 | 115.0000 | 0.000000 | 0.000000 |
| Maximum | 1556.500 | 88.36108 | 6177.000 | 5.871403 | 419.0680 |
| Minimum | 0.460000 | 0.372305 | -574.0000 | -4.042171 | -554.0937 |
| Std. Dev. | 321.1910 | 19.65591 | 1195.526 | 0.765725 | 80.39456 |
| Skewness | 3.822231 | 1.648826 | 3.385340 | 1.510220 | -1.447872 |
| Kurtosis | 16.28634 | 5.294382 | 14.09495 | 39.84559 | 27.94596 |
| Jarque-Bera | 1233.564 | 84.72818 | 886.9353 | 7175.282 | 3311.102 |
| Probability | 0.000000 | 0.000000 | 0.000000 | 0.000000 | 0.000000 |
| Sum | 13800.73 | 2405.944 | 59169.11 | -5.861017 | -1047.053 |
| Sum Sq. Dev. | 12895458 | 48294.37 | 1.79E+08 | 73.29185 | 807910.7 |
| Observations | 126 | 126 | 126 | 126 | 126 |

*Note:* ***, **, and * stand for the statistical significance at p values equal to 0.001, 0.01, and 0.05, respectively

**Source(s): Authors' compilation (2026)**

Table 2 also presents the correlation matrix. The results showed that both BVS (r = 0.457) and EPS (r = 0.873) were positive and strongly correlated with share price. Fair value accounting displayed a very weak positive correlation with respect to share prices (r = 0.009), while the interactive term ($FVI_{i,t-1}$* $EPS_{i,t-1}$) was weakly negatively correlated with share price (r = -0.162). However, the correlation coefficients were generally below the threshold value of 0.80, indicating no serious multicollinearity problems among the explanatory variables.

**Table 2**

*Correlation Matrix*

| Variable | $BVS_{i,t-1}$ | $EPS_{i,t-1}$ | $FVI_{i,t-1}$ | $FVI_{i,t-1}$* $EPS_{i,t-1}$ |
|---|---|---|---|---|
| $BVS_{i,t-1}$ | 1 | | | |
| $EPS_{i,t-1}$ | 0.5910 | 1 | | |
| $FVI_{i,t-1}$ | -0.0215 | 0.0149 | 1 | |
| $FVI_{i,t-1}$* $EPS_{i,t-1}$ | -0.0329 | -0.2034 | 0.1516 | 1 |

**Source: Authors' computations (2026)**

**Panel Unit Root Test**

In addition to the above, stationarity of the selected variables is also an important determinant in heterogeneous panel data and, therefore, we applied the unit root test. As reported in Table 3, the results show that book value per share, earnings per share and fair value accounting are stationary at the level and first difference, because the obtained test statistics are statistically significant at the 1% level of significance. Results of Phillips–Perron (PP) confirm the results of the LLC test.

**Table 3**

*Panel Unit Root Test Results*

| Variable | LLC (Levels) | LLC (First Difference) | PP (Levels) | PP (First Difference) |
|---|---|---|---|---|
| $SP_{it}$ | -179.654*** | -175.949*** | 79.9667*** | 90.5743*** |
| $BVS_{it-1}$ | -7.45146*** | -9.75732*** | 30.3626 | 75.6775*** |
| $EPS_{it-1}$ | -3.84432*** | -7.65046*** | 59.9425*** | 148.581*** |
| $FVI_{it-1}$ | -32.5467*** | -20.1019*** | 80.1000*** | 201.515*** |

**Source: Author's Computation (2026)**

*p < .10. **p < .05. ***p < .01.

**Panel-Corrected Standard Error (PCSE) Results**

This study investigates the moderating effect of fair value measurements on the relationship between EPS and share prices of Nigerian manufacturing firms employing the Panel-Corrected Standard Error (PCSE) estimation technique. The PCSE adjusts for heteroskedasticity across panels, meaning that it accounts for differences in the variability of the error term across individual units (e.g. firms). It provides more reliable standard errors and statistical inferences when the variance differs across panels. The PCSE can adjust for autocorrelation within panels (i.e. correlation of errors over time for the same unit).

While the coefficient estimates are the same as in OLS, the PCSE improves the accuracy of the standard errors, leading to more reliable t-tests and confidence intervals. When the number of cross-sections (N) is large relative to the time periods (T), the PCSE performs better than feasible generalized least squares (FGLS), which can otherwise underestimate the standard errors. The PCSE is frequently used in applied research, especially when standard errors, not coefficients, are the main concern for inference validity.

Table 4 presents the results of the PCSE analysis, with share price as the dependent variable. Column 1 illustrates the outcomes without the combined effect, while column 2 displays the results of the interactive effects. The findings indicate that BVS has a positive and statistically significant effect on share price, suggesting that a 1% increase in book value enhances the share price by 0.033% and 0.051% under 1 and 2 respectively.

Based on the results presented, Fair value accounting (FVI) from the previous period also shows a positive and significant effect on share price (coefficient = 0.0545, $p < 0.05$), implying that FVI directly contributes to share price valuation. The null hypothesis ($H_{01}$), that fair value accounting does not have a significant effect on the share price of Nigerian manufacturing firms is therefore rejected.

The interaction term (FVI*EPS) has a negative and significant coefficient (-0.00188, $p < 0.05$), indicating that fair value measures weaken the strength with which EPS impacts share price. Thus, the null hypothesis ($H_{02}$), that fair value accounting does not have significant moderating effect on the relationship between financial performance and share price of Nigerian manufacturing firm is rejected. A significant but negative moderating effect of fair value measurements on EPS-share price relationship therefore exists.

**Table 4**

*Panel-Corrected Standard Error (PCSE) Results of Model 2 Variables*

| Predictor | (1) | (2) |
|---|---|---|
| $BVS_{it-1}$ | 0.0331*** (0.00781) | 0.0518*** (0.00609) |
| $EPS_{it-1}$ | 0.000696*** (0.000217) | |
| $FVI_{it-1}$ | 0.0545** (0.0226) | |
| $FVI_{it-1}*EPS_{it-1}$ | | -0.00188** (0.000765) |

**Source: Author's Computation (2026)**

Standard errors are reported in parentheses: ***p < .01, **p < .05, *p < .10

These finding highlights that an increase in BVS, as an indicator of a company's net asset value, signals financial stability and business growth to potential investors (Jadi *et al.,* 2022), thereby increasing the share price value of the selected firms in Nigeria. Again, this finding suggests that increasing book value brings greater demand for the shares of the company, as it boosts the prospects of growth, which, in the end, brings up share prices of firms under consideration in Nigeria.

In like manner, the findings indicate significant positive relationship between EPS and share price within Nigeria. The finding goes against the findings of Soje and Tanko (2024) where it was concluded that inflation, rather than BVS has influence on share prices. An increase in EPS according to the findings of this study, boosts attractions on share acquisition and, therefore, elevates share prices. The study further showed that a high EPS indicates to investors that firms are performing well, and consequently increasing investor confidence and demand for shares, which eventually drives the price higher. These were consistent with the findings of Arsal (2021) and Riska et al. (2023).

Moreover, the findings showed that fair value accounting has induced a positive and statistically significant effects on share price in Nigerian markets. This indicates that the more the selected companies adopt and use fair value accounting practices, the more it contributes towards improvement of their business growth trajectory, investor confidence and financial status, thereby raising prices of shares in Nigeria.

This also means that the adoption of fair value accounting brings in and improves transparency which provides a better view of these companies' financial status to potential investors who want to invest into the company stock and consequently increases share price in Nigeria. This result is consistent with findings reported by Palea (2023) where investigations revealed that EPS, fair value hierarchy and fair value through other comprehensive income affect share prices.

The combined effect of fair value accounting and earnings per share, however, turns out negative and statistically significant. In simple terms, a 1% increase in these interactive variables (FVI*EPS) reduces share prices in Nigeria. It shows that use of weak accounting framework reduces the informativeness of earning per shares of selected firms thus pulling down the share price. This result also suggests that a weak fair value accounting framework contributes to noisy earnings signals to potential investors and, as a result, weak demand for company stocks (low share prices).

This evidence also suggests that a weak fair value accounting framework dampens potential investor confidence, increases the volatility of financial statements, and raises perceived financial risk to investors. This finding is in line with the prior studies' concerns about fair value accounting, especially when it involves significant estimation or discretion that can distort earnings quality and reduce its value relevance

(Badia et al., 2017; Chukwu et al., 2020). It implies that Nigerian investors may perceive earnings as less informative when they are accompanied by large or volatile fair value adjustments due to fears of earnings manipulation or reduced comparability. Excessive or poorly explained fair value adjustments may therefore erode investor confidence in reported earnings. This highlights the importance of detailed, transparent disclosures of fair value methodologies and assumptions, particularly for non-observable inputs.

From a theoretical standpoint, these results affirm the need to integrate moderating variables such as fair value accounting into value relevance models. The finding that fair value moderates the EPS–share price relationship resonates with signaling theory, where earnings signal financial health of a company. This underscores the value of hybrid valuation approaches that consider both traditional performance metrics and evolving measurement bases such as fair value.

## 5. Conclusion and Recommendations

The study concludes that while financial performance measures like EPS and BVS have a positive effect on share prices, the interaction of fair value with EPS has a dampening effect on the relationship. Our result suggests that poorly designed fair value adjustments to earnings information can wash out value relevance of earnings and result in their price information content being muted. This would mean that market participants do not give a higher level of earnings as much credit as it may be deserved in situations where fair value income is excessive or not transparent.

Increases in BVS, earnings per share, and fair value accounting constitute individual contributors in the enhancement of share prices, and therefore regulators in Nigeria, such as the Nigerian Exchange Group (NGX), and Securities and Exchange Commission (SEC) should support full, consistent, and clear disclosure of these measurements by firms, as they remain useful indicators to the investor.

It is also evident that the found interaction of fair value accounting with earnings per share negatively affects share prices, which indicates that further regulation in fair value adjustments in financial statements is warranted. It is, therefore, essential that the firms provide explanations on the impact of fair value accounting on reported earnings through disclosures of assumptions, models and sensitivities.

Such measures will in effect help to avert potential impairment of earnings information for investor use through unexplained or weak fair value accounting. This will in a large way, help to protect the value relevance of financial reporting, enhance investors' confidence in Nigeria's capital market and ensure that reported earnings portray sustainable financial performance instead of accounting noise.

In addition, institutional investors, retail investors and market analysts need to be educated about fair value disclosures. Regulators and/or professional bodies could run investor workshops on understanding the risk/rewards associated with fair value accounting and the financial information produced by it.

Investors who are better educated about the benefits and risks of fair value accounting are less likely to overreact to fair value-induced volatility and more likely to understand the difference between legitimate earnings and earnings management. This understanding could result in more stable market valuations.

The generalisability of the results is limited by the characteristics of the sampled firms as well as the defined observation period. Since this study is limited to a specific sector in a defined period, the findings may not be generalisable to other sectors or time periods, especially those with completely different financial reporting practices and regulations.

A country with little exposure to fair value accounting would offer an interesting cross-comparison. In other emerging or developing countries, scholars could compare to see if results are specific to Nigeria, or the norm in emerging markets in general. Cross-country studies would also increase the generality of results for fair value accounting and earnings quality.

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