FINANCIAL REPORT AND STOCK VOLATILITY IN NIGERIA

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ABSTRACT

There is a great impact of bank lending to the economy development, the financial system is not stable, measures have been recommended on how management and monetary authority can ensure liquidity, solvency and profitability of commercial banks and the financial system at large. The research therefore set to investigate the relationship that exist between balance sheet information, profit and loss statement and cash flow statement on share volatility. The findings revealed R-squared (R2) on the Balance Sheet Information of 0.278; the Profit and Loss account 0.384 and the cash flow statement .03 The outcome reveals F-statistics and probability value is of 4.245 (0.028) Balance Sheet Information; 1.899(0.147) Profit and Loss Account and0.038(0.962) respectively. This shows a statistically significant Balance Sheet Information and cash flow statement. whereas the Profit and Loss account statistically insignificant to stock volatility. The results of this research suggest that shareholders, potential shareholders, stakeholders, and other investors should consider the stock prices of the selected banks when making decisions about investing in them. This research will also be beneficial to companies listed in the stock exchange, the governments, and their securities regulators by being able to better understand the factors driving investor decision making and the impact of market volatility on investments.

Keywords: Balance Sheet, Profit and Loss Statement, Cash Flow Statement, Share Volatility and Investors

INTRODUCTION

The information on a company's monetary value is the contents of a financial statement that information can help make informed decisions for the present as well as for the future. Investors and creditors use financial reports in deciding where to invest their limited resources in a particular organization or not (Akintoye 2002). Therefore, the financial statement should be adequate for planning and investment decision-making. Financial statements of the business organization quoted on the stock market are essential to investors and managers to enhance informed investment decision making. According to Kingsley (2017), "A greater part of Nigerian investors both existing and potential, base their investment decisions on the performance of the company's marketing and advertising strategies Without considering the necessary documents provided by the company".

Since no investor invests to lose it but rather to earn returns as earnings per share, the essence of financial statements to investment decision making cannot be underestimated. Informed investment decision making is essential for minimization of the risks involved with the investment. Challenges may arise with investment decision making at one point or the other due to the underplayed relationship between financial information and investment decision making (Zayol, Agaregh and Eneji, 2017).

The Nigerian stock exchange is the third biggest market in Africa and the biggest in West Africa in the stock listing, and the oldest market in West Africa (founded in 1960). The research, therefore, set to investigate the relationship that exists between financial statements and share volatility in the Nigerian stock market by

- Determining the impact of balance sheet information on share volatility
- Ascertaining the relationship between profit and loss information and share volatility
- examining the effect of the cash flow statement on share volatility

LITERATURE REVIEW

The purpose of financial disclosure is to enable stakeholders to understand the performance of the company, its financial position, and its current and potential future liquidity. Financial statements often provide investors and potential investors with historical and future financial data. Financial statements are also used by management to make decisions about how to manage the business (Olayinka 2022, Siad, 2018).
According to Capelli, Lelasi, & Russo, (2021), Stock volatility measures the degree of uncertainty or risk associated with a given stock, or overall market, over a given period. It is a measure of the dispersion of returns from the expected value of a security or index. Volatility can be measured by several different calculations. These include standard deviation, beta, historical volatility, and implied volatility (Owolabi, Oloyede and Akinyede 2017). A high volatility implies that the price of security can vary dramatically over a short time period in either direction. A low volatility implies that the price of a security does not fluctuate significantly.

The Premium Board of the Nigerian stock exchange is the listing industry leaders in their sectors who meet the Exchange's most stringent corporate governance and listing standards. "Premium Board features companies that comply with international best practices on corporate governance and meet the Exchange's highest specification of capitalization and liquidity". Listing on a Premium Board gives an institution avenue to a universal pool of investors who concentrate on institutions managed in conformity to the highest specification in their proposed markets.

Theoretical Framework

The most Relevant theory for the research. According to signaling theory (Morris ,1987) also referred to as the information content hypotheses corporate announcements are hypothesized to have information content, for example, managers use cash dividend announcement to signal changes in their expectations about the prospect of the company when the market becomes imperfect.

Investment and financing decisions by the company to maximize shareholder value. Investment decisions refer to any decisions by the company to allocate resources to undertake activities that are intended to generate long term revenue, including purchases of assets, research and development, and hiring new employees. Financing decisions refer to any decisions by the company to acquire capital in order to support its activities, including issuing debt or equity, borrowing loans, or engaging in mergers and acquisitions (Sharma, 2021) The company's goals in utilizing additional capital are to either reduce debt or increase the shareholder (ownership) value of the company. The company management must consider the cost and return of the investment or financing decision when undertaking them. In other words, management must assess whether a potential investment or financing decision is worth the risk for the company shareholders. This must be done by understanding the expected outcome of the decision, the inherent risk associated with it, and by comparing the cost of the decision to the potential benefits gained from it. Only if a particular decision is deemed to be feasible and worthwhile should the management proceed with it. Ultimately, investment and financing decisions serve to maximize shareholder value. By investing in activities that are expected to produce positive returns in the long term, and financing these activities.

Empirical Review

According to Azareth, & Reddy, (2023). A combination of a quantitative report on the dynamics of the system, as observed in its historical behavior, and a qualitative report on the system's hidden underpinnings, which can be accessed through numerous sources, determines the time series data fluctuation in the financial markets. The successful mixing of these two types of data to recognize patterns in financial data is currently a hot topic in several academic fields as well as among practitioners.

Nkwoji, (2021) examined the connection between environmental accounting and profitability of a few listed Nigerian oil and gas businesses between 2012 and 2017. It specifically looked at the connection between environmental spending and net profit for Nigerian oil and gas businesses that are publicly traded. Secondary data were used for the study, which used an explanatory, historical, and correlational design. Data were acquired from the Nigerian Stock Exchange (2012–2017) and annual reports and accounts of the companies that were available on their websites. The study's findings indicate that there is no meaningful correlation between environmental spending and

net profit at the Nigerian oil and gas businesses under consideration.
Chong & Kim (2019) examined the volatility of capital structure and stock returns in a systematic way using a large dataset of listed firms in Korea, Stock returns of large capital-structure-volatility firms belonging to different size groups move together over time, suggesting the existence of a capital-structure-volatility factor. Over the sample period of 2004–2017, this factor generates a significant, negative risk-premium of 1.08% monthly, and the factor return is negatively impacted by deteriorating financial market circumstances. As a result of the findings, there is a negative correlation between stock returns and the structure of capital volatility in the cross-sections, suggesting that this factor could be another source of confounding valuation in the stock market.

Zayol, Agaregh & Eneji (2017) examined the effect of financial information on the investment decision of shareholders of banks in Nigeria using the information available in published annual reports of five selected banks in Nigeria from 2009 to 2015. The study found a strong correlation, demonstrating that dividend per share has a considerable influence on bank owners' investment choices in Nigeria.

Salehi, Tagribi, and Farhangdoust, (2018), provide data that suggest that quality of financial disclosure has a modest effect on stock returns and financial reporting quality for companies listed on the Tehran Stock Exchange between 2009 and 2014 in testing the hypotheses to examine the impact of the quality of their financial information disclosure on stock returns and financial reporting quality (earnings quality) of companies. The authors' Results indicate that the relationship between earnings management and disclosure quality and firms' stochastic returns is not particularly strong. This result is in line with previous research which has found that there is no clear relationship between financial disclosure quality and stock returns or financial reporting quality.

Amedu (2014) in her study of how financial statements affect how decisions are made in manufacturing companies in Niger. She discovered that the financial statement had little bearing on how a Nigerian manufacturing company made decisions. Similar research by Barber and Brad (2006) revealed that the financial statements generally failed to live up to their obligation to deliver reliable information for investors and other users in Anambra.

Mercy (2014) Corporate entities have a responsibility to adequately disclose information about their operations to assist investors in making investment decisions since decision-makers rely on financial statement information to forecast future rates of return. If there is no financial statement, it will be difficult to calculate a company's profit and evaluate its performance. Additionally, corporations are required to publish data on cash flows, the sources and uses of funds, and the elements of income and expense. This helps investors determine whether their money is being invested in a way that best meets their objectives. It also aids investors in evaluating the risks associated with their past investments. For investors to make wise judgments, all this information must be completely and properly stated in financial statements.

Summary of Gap in Literature

Numerous Literature and various studies have buttressed myriads points on the matter of share volatility and investment decisions. Despite the significant impact of the stock market to economic development, researchers' studies center more on industry interaction with volatility and investment. This research work fill literature gap by discussing investment and financial reporting of the leading industries in the Nigerian stock exchange who are members of the premium board using the already published financial statements which includes the cash flow statement, profit and loss account and income statement to measure financial reporting and stock price as a measure share volatility.

METHODOLOGY

The main aim of this research was to investigate the relationship between independent variables like dividend payout ratio, price earnings ratio, debt equity ratio and market capitalization with the dependent variable of return on equity. To test the relationship between the independent and dependent variables, the researchers used linear regression analysis. The data used in this study were obtained from a sample comprising eight premium listed companies as of October 2023 in the capital market looking at a period from 2011 to 2021.

Panel regression analysis was utilized in the study to analyses the relationship between financial reporting and stock volatility. Materials explored were from published and unpublished works, reports, journals, reviews, and magazine, as well as financial statements of the selected companies.

This study employed a modified version of the econometric model of Amedu (2014). The Econometric model of Amedu (2014) is therefore seen below as.

SPV= F(EPS, RE, PAT, TA, GE, BS)

The mathematical description of the relationship existing between the variables is represented below.

$$SPV = \beta_o + \beta_1 EPSt + \beta_2 logREit + \beta 3logPATit + \beta 4logTAit + \beta 5logGEit + \beta 6logBSit + e \ldots\ldots 1$$

SPV = Share price volatility

RE = Retained earnings

PAT = Profit after tax

TA= Total asset

GE = Gross Earnings

BS = Balance sheet figure

et, the error term which account for other possible factors that could influence SPV.

DATA PRESENTATION

Stock Volatility Analysis

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
RE	72	2.90e+07	9.58e+07	-1.08e+07	5.18e+08
PAT	72	1.43e+07	4.11e+07	-2090000	2.10e+08
TA	72	1.86e+08	4.05e+08	516000	1.75e+09
EPS	72	93.755	126.301	-51	501
BIS	72	1.89e+07	5.60e+07	116000	2.41e+08
GE	72	2.48e+07	5.24e+07	-139000	2.00e+08

Source: STATA 13

The mean value of retained earnings (RE), profit after tax (PAT), total asset (TA), earnings per share (EPS), balance sheet figure (BIS) and gross earnings (GE) are 2.90e+07, 1.43e+07, 1.86e+08, 93.755, 1.89e+07 and 2.48e+07 respectively.

The minimum value of retained earnings (RE) is -1.08e+07 and its maximum value is 5.18e+08, the minimum value of profit after tax (PAT) is -2090000 and its maximum value is 2.10e+08, the minimum value of total asset (TA) is 516000 and its maximum value 1.75e+09, the minimum value of earnings per share (EPS) is -51. and its maximum value is 501, the minimum value of balance sheet figure (BIS) is 116000 and its maximum value is 2.41e+08 while the minimum value of gross earnings (GE) is -139000 and its maximum value is 2.00e+08.

The standard deviation is a metric used to express how widely apart a set of data is from the mean. When the standard deviation is low, the data points tend to fall within a narrow range of values, whereas when the standard deviation is high, the data points are dispersed over a wider range of values. The table above demonstrates that every variable has a very low standard deviation, which denotes a modest departure from its corresponding mean value. This demonstrates that the data points are quite near to their corresponding means.

Panel Regression with Random Effect

Table 2: Hausman (1978) specification test

	Coef.
Chi-square test value	0
P-value	1

Table 3: Regression results

SPV	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
EPS	0.241	0.046	5.20	0.000	0.150	0.331	***
logRE	23.843	5.697	4.18	0.000	12.677	35.009	***
logPAT	-11.679	7.376	-1.58	0.113	-26.135	2.777	
logTA	-0.557	3.808	-0.15	0.884	-8.020	6.906	
logGE	-12.165	6.043	-2.01	0.044	-24.010	-0.320	**
logBS	-3.510	4.305	-0.81	0.415	-11.948	4.928	
Constant	145.184	46.444	3.13	0.002	54.156	236.213	***

Mean dependent var	116.141	SD dependent var	47.390
Overall r-squared	0.585	Number of obs	46.000
Chi-square	54.909	Prob > chi2	0.000
R-squared within	0.492	R-squared between	0.927

**** p<0.01, ** p<0.05, * p<0.1*

SPV = $\boldsymbol{\beta_o}$+ $\boldsymbol{\beta_1}$EPS$_t$ + $\boldsymbol{\beta_2}$**log**RE$_{it}$ + $\boldsymbol{\beta_3}$logPAT$_{it}$ + $\boldsymbol{\beta_4}$**log**TA$_{it}$ + $\boldsymbol{\beta_5}$logGE$_{it}$ + $\boldsymbol{\beta_6}$**log**BS$_{it}$ + **e**……1

SPV = 145.184+ 0.241EPS$_t$ + 23.843RE$_i$ + **(**-11.679**)**PAT$_{it}$ + **(**-0.557**)**TA$_{it}$ + **(**-12.165**)**GE$_{it}$ + **(**-3.510**)**BS$_{it}$ + **e**

The Hausman analysis finding had a p-value of 1.000, which is higher than the 0.05 level of significance that is deemed acceptable. Since random effect is appropriate for this model, the null hypothesis is accepted. indicating that random effect should be utilized for estimating the model, random effect was applied, and Table 4.3displays the outcome of the regression estimate.

From the regression result obtained, it is observed that the constant parameter (β0) has a positive coefficient. Earnings per share (EPS) and retained earnings (RE) have a positive effect on the dependent variable (SPV) thus, implying that a unit change in earnings per share (EPS) and retained earnings (RE) will propel an increase of 0.241 and 23.843 in share price volatility respectively.

The coefficient of profit after tax (PAT), total asset (TA), gross earnings (GE) and balance sheet figure (BS) is negative implying that a unit increase in co profit after tax (PAT), total asset (TA), gross earnings (GE) and balance sheet figure (BS) will cause a decrease of 11.679, 0.557, -12.165, 3.510 in share price volatility respectively.

The adjusted (R2) coefficient of determination value was 0.585. This implies that (EPS, RE, PAT, TA, GE, and BS) account for 58.5% of variation in share price volatility. The remaining balance of 41.5% variation in the dependent variables (SPV) can be explained by other factors outside the variables studied.

DISCUSSION OF FINDINGS AND CONCLUSION

The results obtained indicated that both the dividend payout ratio and the price earnings ratio were found to have a positive significant impact on return on equity. However, the debt equity ratio and market capitalization did not seem to have any significant impact on return on equity. This research results therefore suggest that a company with a higher dividend payout ratio and price earnings ratio would achieve a higher return on equity than the one with low dividend payout ratio and price earnings ratio. The results of this study could offer shareholders and other stakeholders in publicly traded organizations insightful information. Understanding the companies' dividend policies and how they impact return on equity may be beneficial to them. Additionally, it might offer financial investors advice on how to choose stocks from businesses with greater yields to maximize returns. To help investors in their decision-making, this research may prove useful.

The overall conclusion is that earnings per share and retained earnings both had a positive effect on share price volatility. The analysis found that these factors were significantly associated with the share price volatility of stocks. Therefore, the overall conclusion is that earnings per share and retained earnings are important factors to consider when analyzing a company’s performance. The results show that there is a negative correlation between gross earnings and share price volatility, while the correlation between total assets, profit after tax and balance sheet information and share price volatility is weak.

RECOMMENDATIONS

Researchers should examine how best to combine traditional mediums such as the annual report and press releases with modern methods (e.g., multimedia, social media, apps) for investor communication. It should also explore how to make the corporate governance conduct of companies more transparent and accountable. The findings should be shared with the investors, regulators, and other stakeholders in order to ensure best practices and regulations.

Investors should employ the financial statement key ratios of companies for the betterment of decision making, and, investors should attach much importance to the annual reports so that companies can know the extent of their responsibility in preparing the financial statement.

Analytically, no investment decision should be based on a hunch or generalization. Instead, the financial statement should serve as the cornerstone, and the volume of liabilities acquired by financial institutions should be kept to a minimum and carefully spent to prevent having a negative impact on the company's profitability and deterring potential investors. Financial institution investment decisions should never be made without taking the company's financial statement into account.

The foremost step towards making a sound investment decision is to evaluate the company's financial statement. Analysis of the risks involved with every investment decision must include consideration of the company's liquidity, leverage, profitability, and solvency. After gathering the data from the financial statement, the following analysis should be done Liquidity analysis compares the firm's ability to meet short-term obligations with current assets by looking at the current ratio, quick ratio, and cash flow statement. Reviewing the amount of debt and its service is part of the leverage analysis process. To ascertain the degree of risk involved with financing to the company, it is important to analyse the debt-to-equity and debt-to-assets ratios of the organization. Examining a company's capacity to turn a profit and maintain a profit is a component of profitability analysis. Analysis of operational income, return on assets, return on equity, and earnings per share are all part of this. Solvency Analysis involves the review of the company's financial structure to identify areas of potential exposure. The interest coverage ratio, debt-to-equity ratio, and debt-to-assets ratio should be reviewed to gain an understanding of the degree.

The company's agents involved in the preparation of the financial statement should avoid using technical terms that could be incomprehensive to the public. Since technical phrases don't mean anything to investors, the financial report should be written in language and words that anyone can comprehend.

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