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CLEAN SURPLUS MODEL AND ACCOUNTING INFORMATION OF INSURANCE COMPANIES LISTED ON NIGERIAN EXCHANGE GROUP

Gina, Oghogho Olufemi, PhD
Department of Accountancy, Igbinedon University, Okada, Edo State, Nigeria
atugina18@gmail.com

Oduche, Ikechukwu J.
Department of Entrepreneurship Studies, Nnamdi Azikiwe University, Awka
iykeoduche@gmail.com

ABSTRACT:

The study examines the effect of clean surplus model on accounting information in listed Nigerian insurance companies. Ex-Post Facto research design was adopted for the purpose of this research. The study covered nine years annual reports and accounts of these insurance companies from 2012 to 2020. The data collected for the study were analyzed using financial ratios and the formulated hypotheses were tested with regression analysis with the aid of statistical package for social sciences (SPSS) 20.0. The study revealed that market price has effect on book value of equity of quoted insurance companies in Nigeria. The study recommended among others that due to the importance of earnings and book value in investment decisions, all insurance companies on the Nigerian Stock Exchange should prepare Simplified Investor's Summary Accounts (SISA) with emphasis on the most widely used accounting information.

Key words: *Book value per share, Clean surplus, Market price,*
Paper Type*: Original Research Paper;* ***Correspondence****: atugina18@gmail.com*

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1. INTRODUCTION

The clean-surplus valuation model serves as the foundation for a substantial body of empirical research that aims to estimate the cost of capital using data on observed prices and the right-hand side of the clean-surplus valuation formula's variables, which include earnings, book value, dividends, cash flows, accruals, and the relevance of financial statements. Studies indicating varying degrees of risk premia embodied in the derived cost of capital in excess of the risk-free interest rate are scattered throughout the literature, which is primarily based on data from the United States from 1979 to 1998 (O' Hanlon & Steele, 2000). Feltham and Ohlson (1999), building on their initial clean-surplus valuation model, emphasized the role of risk in the Clean Surplus Valuation Model, stating that equity values should price fundamental risk, which is the non-diversifiable (systematic) variability of anticipated future abnormal earnings. By reducing expected future abnormal earnings to certainty equivalents based on investors' risk aversion across all possible events and dates, they analytically demonstrate that risk can be incorporated into the clean-surplus valuation model. Based on the book value of equity and the term structure of risk-free interest rates at the time of valuation, Feltham and Ohlson (1999) calculate abnormal earnings as earnings less a charge for the cost of

equity capital. Therefore, the appropriate set of event-date-contingent prices for future abnormal earnings, measured as certainty equivalents, is necessary for risk pricing.

As per an overview of overall papers delivered starting around 1970 that inspect the reason and content of bookkeeping data, the accentuation is on the requirements of outside clients and the choice utility of bookkeeping data. According to Adaramola and Oyerinde (2014), the assessment of accounting information's value and relevance has become a growing focus in the accounting literature over the past ten years. Over time, various methods of wealth generation have emerged in each emerging setting due to the dynamic nature of the accounting context. Value relevance is the most important indicator of accounting reporting quality because it delivers accounting information that is directly useful to its end users in the capital market. A wide range of researchers are interested in the connection between stock prices and accounting information's value relevance. Additionally, the results described in the literature are mixed, and the empirical data occasionally contradict one another. A few examples include (Adaramola & Oyerinde, 2014; Jinadu, 2016; and Mayadunne, 2017) discovered an increasing trend in the value relevance of accounting data, while Abdou, Elshandidy, Elbakry and Nwachukwu, (2016); and Muhammed, (2017) discovered evidence of accounting information's decreasing value relevance to equity shares. The clean-surplus valuation model's practical applications and empirical tests both lack a clear method for incorporating risk. As a result, Beisland, Hamberg, and Navak (2010) have examined the impact of risk in empirical applications of the clean surplus valuation model in various ways. There is not a widely accepted method for determining the intrinsic value of stocks using the clean-surplus valuation model within a risky model to determine the significance of risk in equity price valuation. Researchers appreciate;2010 by Beisland, Hamberg, and Navak;Ohlson, 1999) have used a variety of approaches to examine the impact of risk in clean surplus valuation model applications.

Few studies examined the reliability of the clean-surplus valuation model in determining the direct stock price using financial statement information like the book value of equity. In fact, the majority of these studies were conducted in developed nations like Lev and Zarowin (2007), Ben Naceur and Nachi's Beisland, Hamberg and Navak (2010) which were carried out in Tunisia, Colombo, and the United States. There are very few studies that have looked into the clean-surplus valuation model of accounting information in the context of Nigeria.

1.1 Objective of the Study

This study focused on examining the effect of clean surplus model on Accounting Information of Insurance Companies listed in Nigerian Exchange Group.

1.2 HypothesIs

Ho_1: Clean surplus model has no significant effect on Accounting Information of Insurance Companies listed in Nigerian Exchange Group.

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Clean Surplus

Changes in shareholder equity that are not the result of transactions with shareholders like dividends or share repurchases as shown in the income statement are referred to as clean surplus accounting. A forecasting model with price as a function of change in book value, earnings, and expected returns is provided by the clean surplus accounting method. A substantial body of empirical research uses the clean-surplus valuation model as its foundation to estimate the cost of capital using data on observed prices and the variables in the right-hand side of the clean-surplus valuation formula. Studies indicating varying degrees of risk premia embodied in the derived cost of capital in excess of the risk-free interest rate are among the mixed empirical findings of this literature (mostly based on U.S. data for the period of 1979–1998). Thomas and Claus (2001); Swaminathan and Gebhardt Lee

(2001); Shroff, Easton, Taylor and Sougiannis Plumlee and Botosan (2002).We anticipate that the coefficients of both explanatory variables—book value per share and abnormal earnings per share—will be positive and statistically significant (for instance, 1, 2 > 0) using the standard clean-surplus valuation model. The hypotheses regarding the estimation of the risk adjusted valuation model are also subject to the same formal description and coefficients restrictions as the explanatory variables—book value per share and risk-adjusted abnormal earnings per share.

2.1.2 Relevance of Accounting Information

According to Beisland (2009), relevance of accounting information is defined as the capacity of accounting numbers in financial statements to explain stock market measures. To put it another way, value relevance is being defined as the capacity of financial statement information to capture and sum up a company's value. The statistical relationships between information presented in financial statements and stock market values (returns) can be used to measure value relevance. A company, in particular, is a conscious, deliberate, and purposeful creation meant to fulfill the aspirations of the entire society. According to Tharmila and Nimalathasan (2013), it is a distinct legal entity that exists on its own. According to Vishnani and Shah (2008), "value relevance" refers to the financial information in the financial statements' capacity to explain stock market metrics. The data or amount in the financial statement that helps investors price shares is a value relevant variable. Therefore, the relationship between stock returns or share price and accounting-related information like earnings, cash flows, book value of equity, and company size is the primary consideration in investment decisions.

The ability of information to influence users' decision-making processes is referred to as value relevance. With the available data, users ought to be able to make predictions about the future. Information that is appropriate and timely should be made available to the user before it loses its ability to influence decisions in order to be relevant. Additionally, information ought to be trustworthy and error-free (Swati, 2015). According to Beaver (2002), the value relevance study demonstrates whether accounting numbers are predictively related to corporate value.The value relevance literature provides insights into questions of interest to standard-makers and explains how well accounting amounts reflect information used by equity investors.

2.1.3 Market Price Per Share

The arithmetic mean of the monthly average closing equity prices is the price. Share prices as of the day immediately following the cross-section year may be used by some authors. However, it could be argued that share prices fluctuate at random or for short periods of time (Marris and Singh, 1966). On the other hand, a monthly price average may be relatively unaffected by short-term fluctuations. According to Menaje (2012), the public-traded company's share price is highly influenced by the expectations of buyers and sellers and is determined by market supply and demand forces. According to Chin and Hong (2008), dividend yield is a good predictor of stock return, and O' Hara, Lazdowski, Moldovean, and Samuelson (2000) discovered that earnings in addition to dividends declared by a company are linked to share market prices. Regardless of these accounting figures that can be used to predict the market price, if those figures contain new information, the market will always react to the share price; this response demonstrates in share price is found to continually drift in the same direction as that of the initial information**.**

2.1.4 Book Value per Share

The owners' equity divided by the number of shares in circulation is called BV. We anticipate a positive relationship between share prices and book value, according to the theory (Ohlson, 1995).The researcher divides the value of common equity by the number of outstanding shares for each period to calculate book value per share. From an investor's perspective, the market value and book value of a company are compared using the market value to book value ratio (MBV).When it comes to interpreting decisions regarding the capital structure, the costly external financing theory

draws heavily from the market-to-book ratio (Olanrewaju & Tabitha, 2017). This variable was selected appropriately because the primary objective of this study is to evaluate the impact of financial performance on the choice of capital structure made by NSE-listed companies. When determining a company's value, one important consideration is its book value. Book values have a significant impact on a company's value (Ohlson, 2001).Using cross-sectional data from 1997 to 2003, Aras and Yilmaz (2008) discovered that the market to book multiple had a significant impact on stock returns forecasting for 12 nations. A method for estimating the effect of price on book value when predicting stock prices is presented in the study. Based on Ohlson's (1995) residual income valuation model, the clean surplus valuation framework suggests that the book value of equity represents the net stock of resources on which firms' future earnings are dependent and provides information on the liquidation or adaptation values of net assets in poor financial performance. Subramanyam and Wild (2000) postulate that the book value of equity is related to market value because it represents current past earnings that are independently value relevant. This is based on the idea that the book value of resources represents stocks that can be used to generate future earnings.

2.3 Empirical Review

A substantial body of empirical research uses the clean-surplus valuation model as its foundation to estimate the cost of capital using data on observed prices and the variables in the right-hand side of the clean-surplus valuation formula. From 1999 to 2006, Ali, Mahmoud, Manouchehre, and Taha (2011) conducted an empirical investigation into the value relevance of accounting information to domestic investors on the Tehran stock exchange. The study looked at how the size of the company and whether earnings were positive or negative had an effect on share prices. In order to test the research hypothesis, regression-based models of return and price are used. The outcomes demonstrated that domestic investors in the Tehran Stock Exchange can benefit from value-relevant accounting data.

Apete, Udeh, and Ezekwesili (2022) investigated the connection between the share price of listed manufacturing companies in Nigeria and value relevance accounting information. This study employs an Ex-Post Facto research design for its research. The study's population consisted of 21 consumer goods manufacturing companies listed on the Nigerian Stock Exchange. The researcher used the entire population size for the study because the population is small. The publications, annual reports, and accounts of the listed companies served as sources for the data. In order to arrive at a final conclusion, this study used Ordinary Least Square (OLS) estimates with panel data covering a nine-year period from 2012 to 2020.According to the findings, manufacturing companies that are listed on the NSE have a significant negative relationship between their share prices and their Book Value of Equity per Share. While the NSE-listed manufacturing companies' share prices are strongly correlated with earnings per share. Keener (2011) investigated the industry-specific variations in the value relevance of earnings and book values. Using a sample of businesses that were listed on the Athens Stock Exchange between the years 1996 and 2008.He provides evidence that, despite the incremental value, joint value relevance of earnings and book values had not diminished.

Glezakos, Mylonakis and Kafuoros (2012) analyzed the effect of profit and book values on share costs, they found that the illustrative force of income and book values in share costs had expanded after some time. They also showed that earnings played a smaller and smaller role in determining share prices in relation to book values over the past year.

Ezejiofor (2018) claimed that the implementation of International Financial Reporting Standards (IFRS) has improved the value relevance of financial information in Nigerian manufacturing businesses. An ex-post facto research design was used in the study. A random sample of 54 manufacturing businesses was selected from those listed on the Nigerian Stock Exchange between

2008 and 2015.The annual reports and accounts of the sampled businesses served as the source of the study's data.For two distinct time periods, the value relevance of accounting data was determined using a modified price model. Regression analysis and the Chow test were used to validate the data with the assistance of SPSS version 20.0.The findings of the study have been enhanced by the implementation of IFRS.

From 1962 until 2014, Samina and Murtaza's (2013) research sought to determine how fundamental factors influence the market price of Dhaka Stock Exchange (DSE) shares.14 of the 20 pharmaceutical companies listed on the Dhaka Stock Exchange (DSE) during the seven-year period from 2005 to 2011 have been taken into consideration for this study, representing 70% of all pharmaceutical companies listed. According to the study, the impact of unauthorized information has a greater impact on determining the price of stocks in the pharmaceutical and chemical industries in DSE, as evidenced by the current market price being significantly overvalued in comparison to the ideal value of stocks.

Oshodin and Mgbame (2014) compared the value relevance of accounting numbers in Nigeria's banking and petroleum industries by conducting a comparative study on the value relevance of accounting information. From each of these industries, ten businesses were chosen at random. From the annual financial reports of the companies chosen, secondary data were gathered on the dependent variable, market price per share, and the independent variables, earning per share, book value of equity, and leverage, which were used in the study. The study spans five years, from 2007 to 2011.The Ordinary Least Square and multiple regression analysis were utilized for the data analysis. According to the study's findings, oil and gas companies' financial disclosures are more relevant to the value of their products than banking companies'. By examining the connection between earnings and share prices,

Olubukola, Uwalomwa, Jimoh, Ebeguki, and Olufemi (2016) investigated the value relevance of financial statements on the share prices of Nigerian businesses. Secondary data from the fact books of the Nigerian Stock Exchange and published audited financial statements of listed banks from 2010 to 2014 were used in the study to accomplish the goal of the research. By determining whether accounting information of banks listed on the Nigerian Stock Exchange has the capacity to influence the demand and prices of their prices in the Nigeria Sock Market,

Philip and John (2016) assessed the value-relevance of accounting information on share prices. For the purpose of the study, twelve (12) banks that are banks that are listed on the Nigeria Stock Exchange were chosen. Secondary data from the Nigeria Stock Exchange's financial statements and other publications were used in the study. The random effect model and correlation and panel data regression analysis statistics were utilized to test the study's hypothesis. The study's independent variables were; Earnings per share, Dividend per Share, and Book Value per Share, with Market Value per Share (Price per Share) serving as the dependent variable. The study found that earnings per share, dividend per share, and book value per share had a significant impact on market prices. It was discovered that earnings (EPS) and dividend per share (DPS) had a significant positive relationship with bank share prices on the Nigeria Stock Exchange. Rahmana and Liua (2021) investigated the connection between stock price fluctuations and the release of financial accounting data. The information came from 1,272 companies that were listed on the Shenzhen Stock Exchange and the Shanghai A-share market. From 2008 to 2018, selected companies' annual reports and closing share prices were used to compile the data. A stepwise regression model was used to select variables with significant influence to investigate the connection between the new variables and stock price. Accounting number value relevance, profitability, liquidity, and operational efficiency were all found to be positively correlated with stock price reaction by the researchers. Earnings per share, the current ratio, the quick ratio, and the debt to equity ratio are other accounting variables that have a greater impact on market share.

Mayadunne (2017) looked at how accounting data affect investors' decisions about a company's value. The goals of the study were to determine the connection between the market price and the value relevance of accounting information, as well as the effect that accounting information has on the decisions made by investors. A sample of 21 banking, financial, and insurance companies from the Colombo Stock Exchange in Sri Lanka were used for this study over a five-year period from 2009 to 2013.Return on equity, earning yield, net assets value per share, and earning per share were the independent variables, with market prices serving as the dependent variable. The conclusion was that the relationship between market price and return on equity, earning per share, and net assets value per share is significant and positive. Furthermore, there is no significant connection between market price and earning yield. In addition, the findings demonstrated that the market price is significantly influenced by the return on equity, earning per share, and net assets value per share.

3. MATERIAL AND METHOD

Ex-Post Facto research design which is the aspect of statistic that involves the various techniques of describing data collections was adopted for the purpose of this research. This is appropriate because the study aims at measuring the relationship between one variable and another, using annual reports and accounts of the sampled companies. This study's sample consists of twenty-nine (29) insurance companies that are listed on the Nigerian Exchange Group. The study examined these companies' annual reports and accounts for nine years, from 2012 to 2020, following Nigeria's financial crisis. The companies that consistently made their financial statements available from 2012 to 2020 and provided adequate data were chosen for the study's sample size. Twenty-two (21) insurance companies were selected at random in light of the preceding considerations.

Data were only collected from secondary sources in order to obtain trustworthy information that will assist the researcher in ensuring the effectiveness of the aforementioned study. These data came from insurance companies in Nigeria's annual reports and accounts from 2012 to 2020.The extracted data include: net income, total number of common shares, shareholder's equity, and earnings per share Among the variables are: Book Value per Share and Market Value per Share, respectively.
The data collected for the study were analyzed to obtain financial ratios and the formulated hypotheses were tested with simple regression analysis with the aid of statistical package for social sciences (SPSS) 20.

3.1 Model Specification

By the Ohlson (1995) Model:
$MKTPjt = \beta 0 + \beta 1\ BVSHjt + \beta 2\ EPSjt + ejt$

Where:
MKTPjt = the market price per share (SP) of firm j at time t
BVSHjt = Book value per share of firm j at time t
EPSjt = Earnings before extraordinary items per share of firm j at time t
$\beta 0$ = Constant or intercept.
B_1 = Coefficients of explanatory variables.
εjt = Error term.

The study modified the Ohlson (1995), concerning the standard clean-surplus valuation model. The estimated model takes the following form:
$MP_{it} = a_0 + \mu_i + \beta_1 BVPS_{it+} \sum_{it}$ ……..i

Where:
The independent variable: market price (*MP*) and
The dependent variables:
BVPS = Book value of equity

a_0 = slope of the model
β_I, = coefficient of parameters.
i for the financial year ending at year *t*.
μ = Mean of population

3.2 Decision Rule

The decision for the hypotheses is to accept the alternative hypotheses if the f-value of the test statistic is greater than the sig-value and to reject the alternative hypotheses if the f-value of the test statistic is less than the sig-value. The hypotheses were tested at 5% significance level.

4. RESULT AND DISCUSSIONS

4.1Data Analysis

4.1 Test of Hypothesis

H_{o1}: Market price does not affect book value of equity of quoted insurance companies in Nigeria.

Table 1: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	517.439	1	517.439	10.847	.013[b]
	Residual	333.917	7	47.702		
	Total	851.356	8			

a. Dependent Variable: BVPS
b. Predictors: (Constant), MP
Source: SPSS ver 20 output

Table 2: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	22.409	11.670		1.920	.096
	MP	.602	.183	.780	3.294	.013

a. Dependent Variable: BVPS
Source: SPSS ver 20 output

4.1.1 Decision

If the F-value is greater than Sig-value, reject the null hypothesis otherwise; accept the null hypothesis and reject the alternative hypothesis. Since F calculated value is greater than sig. value at 95% confidence interval (1.920 >.096), We therefore reject the null hypothesis and accept the alternative hypothesis which says that *market price has effect on book value of equity of quoted insurance companies in Nigeria.*

CONCLUSION AND RECOMMENDATIONS

The results of a number of studies have attempted to link accounting variables and the share price, but there are no conclusive findings. In addition, it is unclear which accounting variables should be used to test the value relevance. While research on developed nations yields mixed results, research on developing economies like Nigeria demonstrates that accounting variables and financial information are relevant to value. The bookkeeping significance varies from one area to another due to the distinction in macroeconomic climate, charge structure, bookkeeping body, bookkeeping guidelines and so forth. The quality of the financial information reported largely determines the information's value and relevance. As a result, market prices have a significant impact on the Nigerian Stock Exchange's book value per share. The study recommends that all insurance

companies on the Nigerian Stock Exchange prepare Simplified Investor's Summary Accounts (SISA) with an emphasis on the most widely used accounting information due to the importance of earnings and book value in investment decisions.

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