

Fair Value Assets Hierarchy and Share Performance of Companies in Nigeria

Hierarquia de Ativos a Valor Justo e Desempenho das Ações das Empresas na Nigéria

Jerarquía de activos de valor razonable y rendimiento de las acciones de las empresas en Nigeria

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Abstract: Fair value accounting is a relatively new concept in accounting literature, with limited research on its impact on share performance in the Nigerian banking sector. Existing studies primarily focus on risk assessment and earnings management, neglecting its direct influence on share performance. This study adopts a quantitative approach using secondary data from population twenty-two (22) commercial banks listed on the Nigerian Exchange Group (NGX) as of 2023. A purposive sampling technique was applied to select ten (10) banks, covering financial data from 2014 to 2023, resulting in a panel dataset of hundred (100) observations. The study considers only banks with complete and uninterrupted data from their financial disclosures for the study period were included. Banks with missing annual reports or inconsistent disclosures were excluded to avoid estimation bias. Key financial indicators analyzed include market price per share, earnings per share, firm size, and fair value assets categorized by valuation basis. Panel least squares regression was used for model estimation. Results indicate that fair value assets and firm size significantly influence

market price per share, earnings per share, and the price-earnings ratio. Fair value accounting plays a crucial role in enhancing share performance in Nigerian quoted commercial banks. To improve share performance, Nigerian commercial banks should expand their asset base, adopt fair value measurement techniques, and strengthen compliance with international financial reporting standards. This study contributes to the ongoing discourse on fair value accounting in emerging markets.

Keywords: Fair Value Asset 1, Fair Value Asset 2, Market Price Per Share, Earnings Per Share and Price-Earnings Ratio

Resumo: A contabilidade a justo valor é um conceito relativamente novo na literatura contabilística, com uma investigação limitada sobre o seu impacto no desempenho das ações no setor bancário nigeriano. Os estudos existentes centram-se sobretudo na avaliação de riscos e na gestão de resultados, negligenciando a sua influência direta no desempenho das ações. Este estudo adota uma abordagem quantitativa utilizando dados secundários de vinte e dois (22) bancos comerciais cotados no Nigerian Exchange Group (NGX) em 2023. Foi aplicada uma técnica de amostragem intencional para selecionar dez (10) bancos, abrangendo dados financeiros de 2014 a 2023, resultando num conjunto de dados em painel com cem (100) observações. O estudo considera apenas os bancos com dados completos e ininterruptos nas suas divulgações financeiras para o período do estudo. Os bancos com relatórios anuais em falta ou divulgações inconsistentes foram excluídos para evitar o viés de estimação. Os principais indicadores financeiros analisados incluem o preço de mercado por ação, o lucro por ação, a dimensão da empresa e os ativos a valor justo categorizados por base de avaliação. A regressão de mínimos quadrados em painel foi utilizada para a estimação do modelo. Os resultados indicam que o justo valor dos ativos e a dimensão da empresa influenciam significativamente o preço de mercado por ação, o lucro por ação e o rácio preço/lucro. A contabilidade a justo valor desempenha um papel crucial na melhoria do desempenho das ações dos bancos comerciais nigerianos cotados em bolsa. Para melhorar o desempenho das ações, os bancos comerciais nigerianos devem expandir a sua base de ativos, adotar técnicas de mensuração ao justo valor e reforçar a conformidade com as normas internacionais de relato financeiro. Este estudo contribui para o debate em curso sobre a contabilidade a justo valor nos mercados emergentes.

Palavras-chave: Valor Justo do Ativo 1, Valor Justo do Ativo 2, Preço de Mercado por Ação, Lucro por Ação e Rácio Preço/Lucro

Resumen: La contabilidad del valor razonable es un concepto relativamente nuevo en la literatura contable, con escasa investigación sobre su impacto en el rendimiento de las acciones en el sector bancario nigeriano. Los estudios existentes se centran principalmente en la evaluación de riesgos y la gestión de ganancias, descuidando su influencia directa en el rendimiento de las acciones. Este estudio adopta un enfoque cuantitativo utilizando datos secundarios de una población de veintidós (22) bancos comerciales que cotizan en el Grupo de la Bolsa de Nigeria (NGX) a partir de 2023. Se aplicó una técnica de muestreo intencional para seleccionar diez (10) bancos, cubriendo datos financieros de 2014 a 2023, lo que resultó en un conjunto de datos de panel de cien (100) observaciones. El estudio considera únicamente los bancos con datos completos e ininterrumpidos de sus divulgaciones financieras para el período de estudio. Se excluyeron los bancos con informes anuales faltantes o divulgaciones inconsistentes para evitar sesgos de estimación. Los indicadores financieros clave analizados incluyen el precio de mercado por acción, las ganancias por acción, el tamaño de la empresa y los activos del valor razonable categorizados por base de valoración. Se utilizó la regresión de mínimos cuadrados de panel para la estimación del modelo. Los resultados indican que el valor razonable de los activos y el tamaño de la empresa influyen significativamente

en el precio de mercado por acción, las ganancias por acción y la relación precio-beneficio. La contabilidad del valor razonable desempeña un papel crucial en la mejora del rendimiento de las acciones de los bancos comerciales nigerianos que cotizan en bolsa. Para mejorar dicho rendimiento, los bancos comerciales nigerianos deberían ampliar su base de activos, adoptar técnicas de medición del valor razonable y fortalecer el cumplimiento de las normas internacionales de información financiera. Este estudio contribuye al debate actual sobre la contabilidad del valor razonable en los mercados emergentes.

Palabras clave: *Activo de valor razonable 1, Activo de valor razonable 2, Precio de mercado por acción, Ganancias por acción y Relación precio-beneficio*

1. Introduction

The push for a unified set of high-quality accounting standards emerged in the 1970s to enhance efficiency, reduce costs, and improve financial transparency for global investors. In response, sixteen (16) professional organizations from various countries established the International Accounting Standards Committee (IASC) in 1973. This body, later restructured as the International Accounting Standards Board (IASB) in 2001, now develops International Financial Reporting Standards (IFRS) (Ezeani & Oladele, 2012; Bello, Abubakar & Adeyemi, 2016). A significant shift in IFRS was the introduction of fair value measurement to provide more relevant and timely financial information.

Historically, financial reporting relied on Historical Cost Accounting (HCA), a core principle of Generally Accepted Accounting Principles (GAAP). However, HCA assumes monetary stability, making it inadequate in inflationary economies like Nigeria. Rising price levels under HCA lead to the overstatement of fixed asset values, inadequate depreciation provisions, and exaggerated profits, ultimately distorting financial statements. These limitations highlight the necessity of fair value accounting, which enhances the accuracy and relevance of financial reporting, particularly in the Nigerian banking sector.

Moreover, fair value accounting can more accurately reflect a company's true financial condition, corporations are encouraged and compelled by this historical cost accounting weakness to begin implementing and measuring their assets and liabilities using this method in accordance with global financial reporting standards. When the fair value measurement is applied, the financial statement becomes more relevant and may be used to illustrate market shifts and how they affect company performance in addition to decision-making and cash flow forecasting (Budirionyte & Gaizauskas, 2018). Furthermore, the fair value measurement may enhance financial statements' comparability, accountability, and transparency (Ainiyah, Hoston & Jail, 2021). Users of financial statements may find that market conditions help them assess a company's success in the market and operational capacity.

According to Anssari (2023) and Lee (2023), fair value accounting is a contemporary financial reporting approach that seeks to ascertain the fair value of financial assets. Fair value, which is established by market pricing in an active market, is the price at which assets are sold or liabilities are transferred. According to IFRS 13, financial reporting should be based on current market prices established between parties voluntarily participating in the transaction or exchange of goods and services, taking into account the dynamic conditions and volatile environment in which the entity operates (Alharasis et al., 2022a; Alharasis, et., 2022b). Therefore, the fair and equitable value at which assets are sold or liabilities are settled amongst willing parties involved in the transaction is represented by fair value. By using the fair value measurement, the financial statement becomes more relevant and may be used to illustrate market exchanges and their impact on business performance in

addition to decision-making and cash flow forecasting (Budirionyte & Gaizauskas, 2018). As FVA relies on market-based measurement, it guarantees a more up-to-date accounting report.

Nonetheless, fair value is thoughtfully unrealistic as well as subject to corporate discretion (Menuccucci, 2020). One of the primary criticisms leveled against fair value measurement is its subjectivity. Unlike the historical cost, which relies on objective, verifiable data, fair value often requires judgement and estimation, leading to potential discrepancies in valuation outcomes (Budirionyte & Gaizauskas, 2018). Additionally, the inherent volatile nature of fair value measurements can introduce fluctuations in reported earnings and assets values, impacting the stability and predictability of financial statements. Critics argue that this volatility may obscure the true financial performance of companies, leading to potential misinterpretations by investors and other stakeholders.

Despite the widespread adoption of International Financial Reporting Standards (IFRS) and the increasing use of fair value accounting, there remains a significant gap in understanding its impact on share performance, particularly in the Nigerian banking sector. Existing studies have produced contradictory findings regarding the role of fair value accounting in financial reporting. While some research highlights its relevance in assessing risk and value (Elfaki & Hammand, 2015; Maroun & Zijl, 2021; Thesing & Velte, 2021; Matsane et al., 2022; Perera et al., 2022; Chen, Kim & Lee, 2022; Feghali, et al., 2023), others emphasize concerns over earnings management and subjectivity in valuation (Matsuoka, 2022; Ngo & Le, 2021; Habib, 2024; Wagener, 2024; Bansal, 2024; Tutino & Pompili, 2018). Additionally, previous studies on fair value accounting have predominantly focused on earnings management (De George & Reis, 2021; Elrazaz & Hussainey, 2021; Chen, Kim & Lee, 2022; D'Souza, Jacob & Jorgensen, 2022), overlooking its potential influence on share performance. Furthermore, many studies addressing valuation techniques (Daifei et al., 2015; Sodan, 2015; Uyanna, Adeyemi & Yusuf, 2017; Tutino & Pompili, 2018) have continued to rely on historical cost accounting rather than fair value measurement. Given Nigeria's transition to IFRS in 2011, there is a need for empirical research examining the direct impact of fair value accounting on the share performance of quoted banks. This study seeks to address this gap by investigating the relationship between fair value accounting and share performance within Nigeria's commercial banking sector. The main hypotheses are formulated thus:

H_1 : fair value asset 1, fair value asset 2, leverage and firm size have influence on market price per share

H_2 : fair value asset 1, fair value asset 2, leverage and firm size have influence on earnings per share.

H_3 : fair value asset 1, fair value asset 2, leverage and firm size have influence on price-earnings ratio.

2. Literature Review

Fair value accounting, as formalized by the International Accounting Standards Board, is based on a hierarchical framework that prioritizes inputs according to their observability and reliability. This study distinguishes between fair value accounting, fair value measurement, and valuation techniques. Fair value accounting refers to the broader reporting framework under IFRS 13 Fair Value Measurement, while fair value measurement refers to the process of estimating asset values using observable and unobservable inputs. Valuation techniques, on the other hand, denote the specific methods (e.g., market or income approach) used in deriving fair values. This study focuses specifically on fair value measurement, as captured by Level 1 and Level 2 inputs.

Foundational standards such as IFRS 13 classify fair value measurements into three levels. Level 1 inputs represent quoted prices in active markets and are considered the most reliable

indicators of fair value because they are based on observable market transactions (Zyla, 2020). An active market is a place where there is a large volume of trading of securities with money or foreign currency. Such markets are interesting to potential investors and they are interested in investing their money there according to their risk appetite. However, in case that there is no active market with quoted prices for certain assets or liabilities, it goes to levels two or three (KPMG, 2017). Level 2 inputs rely on observable but indirect market data, such as prices of similar assets, interest rates, and yield curves, while Level 3 inputs are based on unobservable assumptions and managerial estimates (KPMG, 2017; McDonough, Panaretou, & Shakespeare, 2020). Fair value 2 inputs are quoted prices for a similar asset or liability in an active market or an inactive market (a market where companies operate are inactive on the market, because they do not attract attention of investors, so they are not attractive for investments) (McDonough, Panaretou, & Shakespeare, 2020). Conceptually, fair value 1 and fair value 2 inputs are observable inputs developed on the basis of market data, with which participants determine the price of assets and liabilities. This suggests that fair value is determined based on observable market information (McDonough, Panaretou, & Shakespeare, 2020).

In a seminal accounting research, Barth et al., (1995) establishes that fair value measurements enhance the value relevance of financial information by aligning reported figures with current market conditions. However, the reliability of fair value estimates declines as one moves from Level 1 to Level 3, creating a trade-off between relevance and reliability. This trade-off has important implications for both earnings quality and market pricing. Consequently, Ansari (2023) examined the relationship between fair value accounting and firm value using market-based indicators. The study found that fair value measures, particularly Level 2 inputs, significantly improved market price per share, suggesting that investors incorporate fair value information into pricing decisions. Similarly, Lee (2023) investigated the impact of fair value accounting on firm performance using Level 3 inputs and reported that fair value estimates significantly influence market-based performance, with firm size playing a moderating role.

A major strand of empirical literature focuses on the relationship between fair value accounting and earnings management. The study by Chen, Kim, and Lee (2022) examines the relationship between earnings management and the fair value hierarchy after the implementation of International Financial Reporting Standards (IFRS). The researchers focus on how the use of IFRS affects the fair value evaluation of businesses and how it is related to the use of profits manipulation strategies. The study found a significant relationship between the fair value structure and earnings management, since it is standard practice for corporations to use discretion when classifying financial instruments into different levels of the fair value hierarchy as a way to manage earnings. Similarly, De George and Reis (2021) found that financial firms that use fair value accounting are more likely to manipulate profits than those that use historical cost accounting. The way fair value accounting and earnings management interact depends on the unique characteristics of banks. Additionally, financial institutions with larger asset sizes and riskier profiles are more likely to engage in earnings management, especially when it comes to fair value accounting. These studies, Chen, Kim, and Lee (2022) and De George and Reis (2021) find that firms using fair value accounting, particularly those relying on lower-level inputs are more likely to engage in earnings manipulation due to the discretion involved in valuation.

Contextually, the relationship is further reinforced by factors in environments. When comparing organisations that use fair value measurements to those that use historical cost accounting, it has been found that the accuracy and consistency of analysts' projections tend to decline. D'Souza, Jacob, and Jorgensen (2022) found that the adoption of fair value accounting significantly affects financial experts' earnings projections. Similarly, financial institutions with larger asset bases and

higher risk profiles are more likely to exploit fair value discretion (D'Souza, Jacob, & Jorgensen, 2022). Centered on managing earnings during periods of economic uncertainty, the relationship between fair value accounting and earnings management during the COVID-19 epidemic is examined by Jiang, Li, and Lin (2022). The analysis focuses on the January–December 2020 period when the COVID-19 crisis had a significant impact on financial markets and economic activity, and it uses a part of companies quoted on major U.S. stock exchanges. According to the study's findings, fair value accounting is in fact linked to better earnings management during the coronavirus. Businesses that report more assets at fair value are more likely to alter their financial results through stronger profits management. This correlation is especially noticeable for businesses with lower-quality financial reporting, indicating that the possible hazards of fair value accounting are greater in cases where financial reporting is less trustworthy. Empirically supported, in the COVID-19 pandemic, firms with greater exposure to fair value measurements exhibit stronger tendencies toward earnings manipulation (Jiang, Li, & Lin, 2022). These findings suggest that fair value accounting may introduce opportunistic behavior, particularly in weak regulatory or high-uncertainty.

Interestingly, Elrazaz and Hussainey (2021) particularly gathered empirical data on the relationship between fair value accounting and profitability management from a cohort of 190 European financial institutions between 2009 and 2018. According to a notion, financial institutions that employ fair value accounting methods are more likely to engage in earnings manipulation. The study provides evidence from European financial institutions that fair value accounting increases managerial flexibility, thereby facilitating earnings management practices. The results support the idea that fair value accounting gives banks more flexibility and freedom to disclose their financial situation using earnings management (Enyi, 2016). However, the literature is not unidirectional. Some studies indicate that fair value accounting improves transparency and enhances the informativeness of financial statements, thereby supporting investor decision-making. For example, fair value disclosures have been linked to improved market-based valuation when reliable inputs are used. Conversely, other studies report mixed or inconclusive findings, particularly where Level 3 inputs dominate, due to concerns over subjectivity and measurement error (Penman, 2013; Scott, 2015). Also, despite extensive research on earnings management, relatively fewer studies directly examine the effect of fair value accounting on share price performance. Existing evidence suggests that fair value information can influence stock prices.

Given the prior research (Tutino & Pompili, 2018; Ngo & Le, 2021; Matsuoka, 2022; Habib, 2024; Wagener, 2024; Bansal, 2024;), there is lack of studies in the Nigerian context in the area of the impact of fair value accounting on share performance. In emerging markets such as Nigeria, the evidence remains limited. While studies like Adegbite et al., (2019) document the presence of earnings management among listed firms, there is insufficient empirical work linking fair value accounting specifically to share price performance. This gap is significant given the increasing adoption of IFRS and fair value measurement in Nigeria. Moreover, prior studies often rely on cross-sectional designs, short time periods, or single-country samples, limiting the generalizability of their findings.

2.1. Asset Theory

The American Accounting Association (1966) defines assets as collections of service potentials that are useful or accessible for planned operations. These assets represent economic resources controlled by an entity and are expected to generate future benefits. Asset theory

emphasizes the measurement and reporting of these resources in a way that reflects their economic substance, particularly their current market value rather than historical acquisition cost.

Historically, accounting systems relied heavily on historical cost, which records assets at their purchase price. However, this approach has been criticized for failing to capture changes in economic value over time (Tkachuk, 2019). In response, asset theory evolved to support fair value measurement, whereby assets are periodically revalued to reflect prevailing market conditions (Suryanto & Komalasari, 2019). This enhances the relevance of financial information and improves its usefulness for decision-making. The International Accounting Standards Board (2018) further reinforces this perspective by advocating for measurement bases that provide relevant and faithfully represented information. Fair value accounting, therefore, aligns closely with asset theory by ensuring that financial statements reflect the current economic reality of an entity's resources and obligations.

While asset theory provides a valuation foundation, its empirical relevance depends on how fair value information influences capital market outcomes. This relationship can be explained through complementary theoretical lenses such as Information Asymmetry Theory and Signaling Theory. According to Akerlof (1970), information asymmetry exists when managers possess more information than external investors. Fair value accounting reduces this asymmetry by providing timely and market-relevant information about asset values. As uncertainty declines, investors require lower risk premiums, which can lead to improved share price performance (Healy & Palepu, 2001).

From the perspective of signaling theory of Michael Spence (1973) who posits that firms use disclosures to signal private information to the market. In connection to fair value assets, asset revaluation, particularly upward adjustments, may signal strong asset quality and positive future prospects. However, the credibility of such signals depends on governance structures, audit quality, and regulatory oversight. Correspondingly, Fama (1970) Efficient Market Hypothesis asserts that stock prices reflect all publicly available information. Fair value adjustments are a means to provide new information that is rapidly incorporated into market prices. Therefore, asset revaluation is expected to have a direct impact on share price performance.

2.2. The Prospect Theory

Prospect theory, developed by Kahneman and Tversky (1979), explains how individuals make decisions under uncertainty by evaluating outcomes relative to a reference point rather than in absolute terms. The theory posits that individuals are loss averse, such that losses are weighted more heavily than equivalent gains, and that the value function is concave for gains and convex for losses. This implies that investors react asymmetrically to financial information depending on whether it represents a gain or a loss relative to a benchmark such as prior earnings or expected performance (Kahneman & Tversky, 1979).

The relevance of prospect theory to financial reporting becomes more evident within the context of fair value accounting. Fair value measurement, as promoted by the International Accounting Standards Board (2018), requires assets and liabilities to be reported at their current market values, thereby introducing periodic unrealized gains and losses into financial statements. Unlike historical cost accounting, which provides relatively stable figures, fair value accounting generates more frequent fluctuations in reported earnings (Barth, Landsman and Wahlen, 1995). These fluctuations create natural reference points against which investors evaluate firm performance, thereby activating the behavioral mechanisms described by prospect theory.

Fair value gains and losses influence share price performance through both informational and behavioral channels. From an informational perspective, fair value accounting enhances the relevance

and timeliness of financial information, enabling investors to update their expectations about future cash flows (Barth et al., 1995; Penman, 2013). Under the Fama (1970) Efficient Market Hypothesis, such information is rapidly incorporated into share prices. From a behavioral perspective, however, prospect theory suggests that investors do not respond symmetrically to this information. Negative fair value adjustments (losses) are likely to trigger stronger adverse price reactions than the positive effects generated by comparable gains, due to loss aversion (Kahneman & Tversky, 1979).

In addition, managers may anticipate these asymmetric investor reactions and adjust their reporting behavior accordingly. Drawing on signaling theory (Spence, 1973), firms may use fair value disclosures to signal underlying asset quality and financial strength. At the same time, prospect theory implies that managers are particularly motivated to avoid reporting losses or falling below key earnings benchmarks, as these outcomes attract disproportionately negative market responses. This may lead to earnings management practices that cluster reported earnings around critical reference points, such as zero earnings, thereby influencing investor perceptions and share price movements (Burgstahler and Dichev, 1997). Despite these insights, alternative explanations must be considered. Traditional accounting theory argues that historical cost provides more reliable and verifiable information (Scott, 2015), while agency theory suggests that managerial discretion in fair value measurement may introduce bias (Jensen & Meckling, 1976).

Overall, the integration of prospect theory with fair value accounting provides a more comprehensive explanation of share price behavior by combining informational efficiency with behavioral responses. While fair value accounting supplies timely and relevant valuation signals, prospect theory explains how investors interpret these signals asymmetrically, potentially amplified effects on share price performance.

3. Methodology

Twenty-two (22) commercial banks that were listed on the Nigerian Exchange Group (NGX) as of 2023 made up the target population for this study. A sample size of 10 quoted commercial banks were purposively selected for this study, only banks with complete and uninterrupted data from their financial disclosures for the study period were included. Banks with missing annual reports or inconsistent disclosures were excluded to avoid estimation bias. These banks serve as an ideal sample frame for the study because they are industry leaders, which are more likely to set standards for governance and sustainability practices.

Therefore, purposive sampling technique allows for including them specifically for examining fair value accounting practices influence on investor confidence, financial stability and market valuation, making them a strong case for empirical analysis. Quantitative secondary data was used in this investigation. The data on market price per share, earnings per share, size, leverage, fair value asset 1, fair value asset 2, and price-earnings ratio were collected and calculated from the 2014–2023 annual reports and accounts of ten (10) quoted banks on the Nigerian Exchange Group (NGX) website, providing a panel data of 100 observations. Table 1 shows the description and measurement of variables in this study and their sources.

Table 1- Description and Measurement of Variables

Proxy	Type of Variables	Measurement	Source	A-Priori Expectation
Market Price Per Share (MPS)	Dependent	$\frac{\text{Total Market Value}}{\text{Total Shares}}$	Chen <i>et al.</i> (2016)	+
Earnings Per Share (EPS)	Dependent	$\frac{\text{Total Earnings}}{\text{Total Shares}}$	Dalwadi (2023)	+
Price-Earnings Ratio (P/E)	Dependent	$\frac{\text{Market price per share}}{\text{Earnings per Share}}$	Chen <i>et al.</i> (2016)	+
Fair Value Asset 1 (FVA 1)	Independent	$\frac{\text{Fair value Asset 1}}{\text{Total Asset}}$	Hsu and Lin, (2016), Uyanna <i>et al.</i> (2017)	+
Fair Value Asset 2 (FVA 2)	Independent	$\frac{\text{Fair value Asset 2}}{\text{Total Asset}}$	Hsu and Lin (2016), Uyanna <i>et al.</i> (2017)	+
Leverage (LEV)	Control	$\frac{\text{Debt}}{\text{Equity}}$	Hsu and Lin (2016)	-
Firm Size (SIZE)	Control	Log of Total Asset	Hsu and Lin (2016)	+

Source: This research.

3.1 Model Specification

The models employed in this study were taken from Hsu and Lin's (2016) fair value accounting-based works and were tailored to the requirements of prospect and asset theory. The models were defined in accordance with the goals and presumptions that guided this investigation.

Model I: Examine the influence of fair value asset 1, fair value asset 2, leverage and firm size on market price per share

$$MPS_{it} = \beta_0 + \beta_1 FVA1_{it} + \beta_2 FVA2_{it} + \beta_3 LEV_{it} + \beta_4 SIZE_{it} + \varepsilon_{it} \quad (1)$$

Model II: Examines the influence of fair value asset 1, fair value asset 2, leverage and firm size on earnings per share (EPS)

$$EPS_{it} = \beta_0 + \beta_1 FVA1_{it} + \beta_2 FVA2_{it} + \beta_3 LEV_{it} + \beta_4 SIZE_{it} + \varepsilon_{it} \quad (2)$$

Model III: Investigates the effect of fair value asset 1, fair value asset 2, leverage and firm size on price-earnings ratio (P/E)

$$PE_{it} = \beta_0 + \beta_1 FVA1_{it} + \beta_2 FVA2_{it} + \beta_3 LEV_{it} + \beta_4 SIZE_{it} + \varepsilon_{it} \quad (3)$$

Where the dependent variable, Market Price per Share (MPS) represents the stock market valuation of the bank's shares, Earnings per Share (EPS) measures the bank's profitability per outstanding share and Price-Earnings Ratio (PE) reflects investor expectations and the valuation of the bank's earnings respectively. The captured independent variables, FVA1, FVA2 are measures of fair value accounting (Level 1 and Level 2 fair value measurements) and lastly, LEV (Leverage) captures the impact of the bank's financial leverage on share price. SIZE (Bank Size) represents the total assets of the bank, as larger banks may have higher market valuation. Fair value 1 and fair value 2 are imperative to the study because of they are observable inputs developed on the basis of market data, measurable and explicit in nature. Fair value assets were extracted from financial statement disclosures such as Financial Assets at Fair Value Through Profit or Loss (FVTPL) and Fair Value Through Other Comprehensive Income (FVOCI), then classified into Level 1 and Level 2 based on

the reported fair value hierarchy in line with IFRS 13 Fair Value Measurement. The data were subsequently scaled by total assets to ensure comparability across banks and improve the reliability of the regression analysis. These models collectively analyse how fair value accounting impacts different measures of bank share performance. Model I focus on stock price, Model II on profitability, and Model III on investor valuation. By comparing results across models, the study assesses whether fair value accounting plays a critical role in shaping the financial performance and market perception of Nigerian banks.

4. Results and Discussion

Table 2 displays the descriptive statistics for the study's variables, which include market price per share (MPS), earnings per share (EPS), price-earnings ratio (P/E), fair value asset 1 (FVA 1), fair value asset 2 (FVA 2), leverage (LEV), and firm size (SIZE).

Table 2- Descriptive Statistics of Variables in the Study

Statistics	MPS	EPS	P. E	FVA1	FVA2	LEV	SIZE
Mean	12.898	3.489	3.228	1.340	0.817	0.306	3.944
Median	12.365	3.395	3.190	1.314	0.844	0.313	3.992
Maximum	28.270	4.670	5.370	1.950	0.937	0.521	5.036
Minimum	4.490	2.180	1.450	1.007	0.590	0.104	2.091
Std. Dev.	5.519	0.748	1.246	0.259	0.100	0.106	0.796
Skewness	0.906	-0.233	0.388	0.897	-0.592	0.075	-0.905
Kurtosis	3.628	1.854	2.045	3.355	2.080	2.462	3.241
Jarque-Bera	15.339	6.381	6.316	13.949	9.370	1.296	13.910
Probability	0.000	0.041	0.042	0.000	0.009	0.523	0.000
Sum	1289.850	348.920	322.801	134.051	81.779	30.6450	394.414
Sum Sq. Dev.	3015.708	55.391	153.887	6.651	1.005	1.120	62.848
Observations	100	100	100	100	100	100	100

Source: This research.

The market price per share for the ten (10) commercial banks that were quoted during the ten-year period covered by this study averaged N 12.89, with a median of N 12.36 and a standard deviation of 5.51, according to the results in Table 2. Similarly, the average of earning per share was N3.48, median earnings per share of N 3.39, with a standard deviation of 0.75. The range of EPS values, as determined by the variable's minimum and maximum values was N2.18 to N 4.67. Also, PE has an average value of #3.22 with a median value of 3.19. the standard deviation is 1.24 while the range values are between 1.45 to 5.37 at maximum. Similarly, FAV 1 had an average value of 1.34, with median of 1.314, having standard deviation of 0.25, and FAV 2 had an average value of 0.81 with median of 0.84, with standard deviation of 0.25. The Jarque–Bera test results indicate that most of the variables deviate from normal distribution, as evidenced by statistically significant p-values ($p < 0.05$). However, one variable was found to be normally distributed ($p > 0.05$). Despite this, the violation of normality is not considered severe in this study due to the panel nature of the data and the relatively large sample size, which ensures the reliability of the estimators based on the central limit theorem. Table 3 shows the variance inflation factor of the variables in the study.

Table 3 - Variance Inflation Factors

	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
FVA2	21.744	75.773	1.122
FVA1	3.375	32.292	1.152
LEV	24.909	13.441	1.433
SIZE	0.448	37.270	1.447
C	22.292	114.440	NA

Source: This research.

The Variance Inflation Factor (VIF) analysis was conducted to examine the presence of multicollinearity among the explanatory variables in the model, the results are presented in table 3. The centered VIF values for all independent variables, FVA2 (1.12), FVA1 (1.15), LEV (1.43), and SIZE (1.45), are well below the conventional threshold of 10 (and even the stricter threshold of 5). This indicates that multicollinearity is not a concern in the estimated model, and the explanatory variables are not highly correlated with one another. The findings suggest that the estimated coefficients are reliable, stable, and efficient, and the model is suitable for meaningful statistical inference without distortion arising from multicollinearity. Table 4 determines the influence of fair value asset 1, fair value asset 2, leverage and firm size on market price per share (MPS).

Table 4 - Correlation Matrix Showing Relationship among the Study Variables

Variables	MPS	EPS	P/E	FAV 1	FAV 2	LEV	SIZE
MPS	1.000						
EPS	0.257	1.000					
P/E	0.241	0.270	1.000				
FAV 1	0.319	-0.262	0.436	1.000			
FAV 2	0.486	0.214	0.068	0.076	1.000		
LEV	-0.361	-0.098	-0.589	-0.224	-0.127	1.000	
SIZE	-0.049	-0.225	-0.325	0.166	0.222	0.410	1.000

Source: This research.

Table 4 revealed that there was significant positive relationship between FAV 1 and MPS ($r = 31.9\%$); FAV 2 and MPS ($r = 48.7\%$). FAV 1 and EPS ($r = 26\%$). Meanwhile, there was positive relationship between FAV 2 and EPS ($r = 21\%$), FAV1 and P/E ($r = 43\%$), FAV2 and P/E ($r = 6\%$). Some level of interactions was noticed among the dependent and independent. For instance, there was a significant positive interaction between MPS and EPS ($r = 25\%$), MPS and P/E ($r = 24\%$) and EPS and P/E ($r = 27\%$).

Table 5 - Correlated Random Effect - Hausman test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	61.360	4	0.000

Source: This research.

In order to have a panel data analysis that is free biasness and error, Hausman test is used to determine the appropriate model fits for analysing the data. The Hausman test result presented in Table 5 shows that fixed effect is the appropriate model specification to draw inference giving the Chi-Sq. Statistic of probability of 61.360 (P-value = 0.000). with this result the null hypothesis of no correlation between the random effect and the explanatory variables was rejected. Therefore, the fixed effect remains the appropriate model for this data set because it is reliable and consistent.

Table 6 shows the random effect, fixed effect and pooled OLS model outputs for the effect of fair value accounting on market price per share.

Table 6 - Effect of Fair Value Asset 1, Fair Value Asset 2, Leverage and Firm Size on MPS

Variable	Random Effect			Fixed Effect			Pooled OLS		
	Coefficient	t-Stat	Prob	Coefficient	t-Stat	Prob	Coefficient	t-Stat	Prob
FVA1	26.469	4.019	0.000	174.847	7.882	0.000	5.505	2.996	0.003
FVA2	67.323	7.690	0.000	-64.825	-2.940	0.004	25.578	5.485	0.000
LEV	1.864	1.241	0.217	2.419	1.595	0.114	-10.187	-2.041	0.044
SIZE	0.217	0.757	0.450	0.989	3.172	0.002	-0.79	-1.192	0.236
C	-79.071	-11.013	0.000	-173.115	-12.008	0.000	-9.126	-1.933	0.056
R-squared			0.587				0.486		
Adjusted R-squared			0.570				0.500		
S.E. of regression			0.807				4.413		
Sum squared resid			61.987				1850.595		
F-statistic			33.864				14.952		
Prob(F-statistic)			0.000				0.000		
Durbin-Watson stat			0.002				0.025		

***, **, * significant at 10%, 5%, 1%.

Source: This research.

Model I captured the study's first objective. The fixed effect in Table 6, showed that market price per share of the ten quoted commercial banks over the ten-year period covered by this study was 91% influenced by the independent variables (fair value asset 1, fair value asset 2, leverage, and firm size). This shows that collectively the independent have explanatory power over the dependent variable. The precision of the estimate was confirmed and buttressed with a standard error of 0.637 which is relatively minimal and indicates that the residual is small. With F-statistics of 573.56 and a statistically significant P-value = 0.000, the whole model is statistically significant.

Fair value asset 1 also has positive and statistically significant effect on market price per share according to parameter estimates ($\beta = 174.84$; $t = 7.882$; $P < 0.05$). This suggested that the market price per share will rise in response to an increase in the fair value of asset 1. Contrarily, the results showed that the market price per share of quoted commercial banks was significantly and negatively impacted by fair value asset 2 ($\beta = -64.82$; $t = 2.940$; $P < 0.05$). This finding showed that a rise in fair value 2 would reduce the market price per share. Since Fair Value Asset 1 has a significant positive impact on market price per share (MPS), investors can consider this asset as key indicators of a bank's market value. The implication of this is that if a bank reports an increase in the fair value of this asset, its share price is likely to go up. Investors should monitor the fair value 1 changes in financial

statements when making investment decisions. This finding falls within the proposition of asset theory and supports the notion that fair value has the ability to improve the asset of companies and then impact the performance of shares. This implies that while Level 1 fair values enhance firm value through transparency, Level 2 introduces uncertainty, leading to negative market reactions.

This result confirmed the findings of Ansari (2023) and Lee (2023). Ansari (2023) investigated the role of fair value accounting and firm value. The result showed that fair value asset 2 improved market price per share while leverage was not a potent determinant of market price per share. Also, Lee (2023) employed fair value asset 3 to measure financial accounting, firm size as control variable and market price per share as measures of firm performance while appraising the relationship between fair value accounting and firm performance. The findings indicated that while business size had a major impact on market price per share, fair value asset 3 was a powerful contributor to market price per share. However, when evaluating the role of firm size and leverage as determinants of the relationship between fair value accounting and firm value, Alharasis et al. (2022b) discovered that firm size had no significant impact on the relationship between fair value accounting and firm value, whereas leverage had a significant impact. The divergence between this study and prior studies (e.g., Ansari, 2023; Lee, 2023; Alharasis et al., 2022b) can be attributed to several differences in study periods may capture varying macroeconomic conditions (e.g., financial instability, currency fluctuations), which influence how investors interpret fair value information.

Table 7 - Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	60.029	4	0.000

Source: This research.

To also select the best model for the data set, Hausman test was conducted to select between random effect and fixed effect. The result as shown in table 7 reveal that Chi-Sq. Statistic 60.02 with probability of (P value = 0.00). Consequently, the fixed effect was also selected as the appropriate model specification for the data because the result indicates that there is no correlation between random effect and the explanatory variables. Table 8 shows the random effect, fixed effect and pooled OLS model outputs for the effect of fair value accounting on earnings per share.

The model shows that independent variables have a strong explanatory power over the dependent variable with an adjusted R squared of 0.90. which implies that the independent variables jointly explain the dependent at 90% level.as presented in Table 8. Additionally, the results of the fixed effect showed that fair value asset 1 has positive and statistically significant effect on earnings per share of the commercial banks as presented in table 7 ($\beta = 10.304$; $t = 11.396$; $P < 0.05$). The outcome demonstrated that a rise in asset fair value asset 1 raised earnings per share. Additionally, it was discovered that fair value asset 2 has no significant effect on earnings per share of commercial banks ($\beta = -0.190$; $t = -0.099$; $P < 0.05$). The finding indicated that improvement in fair value asset 1 suggests an improvement in earnings per share. Since higher EPS usually leads to higher stock prices and better investor confidence, investors should closely monitor how banks value their fair value 1 assets in financial reports.

The parameter estimates agree with the submission of Akinlo (2015); Badenhorst (2018); Adegbite *et al.* (2019). For instance, Adegbite *et al.* (2019) found that fair value asset 1 and fair value asset 2 significantly improved earnings per share. While Adegbite et al. (2019) found both Level 1 and Level 2 to be significant, this study shows that only Level 1 drives earnings performance, highlighting the importance of disaggregating fair value components. Additionally, Akinlo (2015) investigated how leverage affected the connection between share performance and fair value

accounting. The outcome demonstrated that the relationship between fair value accounting and share performance was not substantially influenced by leverage. In a similar vein, Badenhorst (2018) investigated the relationship between fair value accounting and share price performance and discovered that fair value asset 2 was a major factor in influencing firm share prices whereas this study finds it insignificant for EPS, suggesting that Level 2 may affect market perception differently than accounting earnings. The findings, however, ran counter to Arsenijevic's (2020) argument that fair value accounting had no discernible impact on the performance of companies' share values. Also, the findings contradict Arsenijevic (2020), which reported no significant relationship, possibly due to differences in institutional environment, sample structure, and model specification.

Table 8 - Effect of Fair Value 1, Fair Value 2, Leverage and Firm Size on EPS

Variable	Random Effect			Fixed Effect			Pooled OLS		
	Coefficient	t-Stat	Prob	Coefficient	t-Stat	Prob	Coefficient	t-Stat	Prob
FVA1	6.226	8.833	0.000	10.304	11.396	0.000	-0.717	-2.495	0.014
FVA2	3.793	5.263	0.000	-0.190	-0.099	0.920	2.112	2.895	0.004
LEV	-0.060	-0.966	0.336	-0.238	-0.624	0.734	-0.136	-0.175	0.861
SIZE	0.009	0.794	0.428	0.032	2.510	0.003	-0.225	-2.149	0.034
C	-7.980	-14.034	0.000	-10.499	-17.695	0.000	3.653	4.946	0.000
R-squared			0.885			0.898			0.482
Adjusted R-squared			0.880			0.90			0.517
S.E. of regression			0.033			0.026			0.690
Sum squared resid			0.104			0.059			45.288
F-statistic			183.55			6175.5			5.298
Prob(F-statistic)			0.000			0.000			0.000
Durbin-Watson stat			0.446			0.783			0.009

**, * significant at 5%, 1%.

Source: This research.

The Hausman test yielded a p-value of 0.094 as shown in Table 9, which is marginally insignificant at the 5% level but significant at the 10% level. Given the known limitations of the Hausman test, including its sensitivity to sample size and potential low power, and the fact that the fixed effects estimator remains consistent even when the random effects estimator is not, this study adopts the fixed effects model as a more robust specification.

Table 9 - Correlated Random Effects - Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.935	4	0.094

Source: This research.

Table 10 shows the random effect, fixed effect and pooled OLS model outputs for the effect of fair value accounting on price earning per share.

Table 10 - Effect of Fair Value Asset 1, Fair Value Asset 2, Leverage and Firm Size on P/E

Variable	Random Effect			Fixed Effect			Pooled OLS		
	Coefficient	t-Stat	Prob	Coefficient	t-Stat	Prob	Coefficient	t-Stat	Prob
FVA1	1.259	1.210	0.228	-50.937	-2.202	0.030	1.830	4.802	0.000
FVA2	-1.193	-0.465	0.642	39.703	1.727	0.087	0.477	0.493	0.622
LEV	-7.476	-5.380	0.000	-8.065	-5.101	0.000	-4.737	-4.574	0.000
SIZE	-0.091	-0.387	0.699	-0.240	-0.739	0.461	-0.361	-2.602	0.010
C	5.167	2.129	0.035	42.461	2.824	0.005	3.261	3.328	0.001
R-squared			0.562			0.752			0.482
Adjusted R-squared			0.591			0.715			0.46
S.E. of regression			0.678			0.665			0.915
Sum squared resid			43.760			38.039			79.671
F-statistic			8.452			20.147			22.123
Prob(F-statistic)			0.000			0.000			0.000
Durbin-Watson stat			0.766			0.892			0.400

**, * significant at 5%, 1%

Source: This research.

The research objective three was captured in model III specified for this study and based on the Hausman test fixed effect as presented in table 11 is explained. The degree of variation in the dependent variable is explained with an adjusted R squared of 0.75. This suggests that the independent variables are able to explain the variation in dependent at 75% and a good indication that the model has a strong explanatory power. Additionally, the results showed that fair value asset 1 has negatively and significantly influenced price-earnings per share ($\beta = -50.937$; $t = -2.202$; $P < 0.05$). The outcome demonstrated that a rise in fair value asset 1 reduced the price-earnings ratio. Additionally, it was discovered that the price-earnings ratio of commercial banks that were quoted was significantly and positively impacted by fair value asset 2 ($\beta = 39.703$; $t = 1.727$; $P < 0.1$). The results showed that an increase in the price-earnings ratio was suggested by an improvement in fair value asset 2. This implies that when banks report a higher fair value for their assets, their P/E ratio also increases. This is supported by prospect theory that the potential strength of earnings of a company can be improved by the fair value of its assets.

The outcome corroborated the findings of Dalwadi (2023) and Pantelic (2020). Using the price-earnings ratio as a measure of share performance and fair value asset 1 as a measure of fair value accounting, Pantelic (2020) assessed the impact of fair value accounting on share performance. The outcome demonstrated that fair value asset 1 made a substantial contribution to the firms' price-earnings ratio. Unlike Pantelic (2020), who found a positive contribution of Level 1, this study finds a negative effect, likely due to differences in how earnings respond to fair value changes. Similarly, Dalwadi (2023) evaluated the effect of fair value accounting on the price-earnings ratio using fair value asset 2. The outcome demonstrated that asset 2's fair value significantly influenced the price-to-earnings ratio. The positive effect of Level 2 aligns with Dalwadi (2023), reinforcing the idea that

less observable valuations may drive market expectations rather than realized earnings. However, this outcome contradicted Sodan's (2015) conclusion that fair value accounting had no effect on businesses' financial performance. The contradiction with Sodan (2015) may stem from differences in institutional environment, sample composition, and measurement approaches.

Table 11 displays the diagnostics on the regression model using Breusch-Pagan LM, Pesaran scales LM and Pesaran CD tests.

Table 11- Post Estimation tests - Lagrange Multiplier Tests

	Statistics	d.f.	Prob.
Breusch-Pagan LM	186.3493	45	0.8930
Pesaran scaled LM	13.84543		0.7830
Pesaran CD	11.17749		0.2230

Source: This research.

The diagnostic tests conducted aimed to validate the presence of autocorrelation and heteroskedasticity in the regression model. The result is presented in table 11. The Pesaran scaled LM test returned a p-value greater than 0.05, indicating no evidence of autocorrelation. Similarly, the Breusch-Pagan LM test also produced a p-value above 0.05, suggesting the absence of heteroskedasticity in the model.

4. Conclusion

Using fair value asset 1 and fair value asset 2 as measures of fair value accounting, market price share, earnings per share, and price earnings per share as measures of share price performance, and leverage and firm size as control variables, the study aimed to ascertain the effect of fair value accounting on the performance of company's shares among quoted commercial banks in Nigeria. As a result, three goals were established to direct this investigation, and three models were developed to accomplish the specified research goals. Over a ten-year period from 2014 to 2023, secondary data were computed from the annual reports and accounts of ten commercial banks that were quoted. Pooled OLS, fixed effects, random effects were used to analyse these data.

The study's findings led to the conclusion that fair value assets 1 and 2 significantly increased the market price per share, earnings per share and price-earnings per share. The findings align with asset theory, which suggests that asset valuation plays a critical role in financial decision-making. The study demonstrates that increases in fair value assets enhance perceived financial performance, influencing investor confidence and market pricing. This supports the notion that fair value measurement provides useful information for assessing a firm's financial health and market value. The results also relate to Prospect Theory, which emphasizes that investors react differently to gains and losses. The study suggests that investors respond positively to fair value gains, as reflected in higher market price per share and price-earnings ratios. However, the theory also warns of potential market overreactions, meaning that investors may overvalue fair value gains without considering the risks of volatility and revaluation losses.

Based on the study's findings, the following suggestions were made: Investors should closely monitor changes in the fair values of financial assets reported by commercial banks to acknowledge consistent growth in the assets values in order to maximise return on their share their value. While fair value increases positively affect share prices, investors should also assess the volatility of these assets. Understanding how fluctuations in fair value impact long-term stability can help investors mitigate potential risks associated with market corrections. To make informed investment decisions,

investors should conduct a detailed review of financial statements, focusing on fair value changes in asset categories. They should assess trends in asset revaluation and evaluate whether a bank's increasing fair value aligns with overall market performance and economic conditions.

Bank executives should focus on strategies that enhance asset valuation, such as optimizing investment portfolios and improving risk-adjusted returns. Strengthening asset management practices will not only increase fair value but also positively influence market valuation, investor sentiment, and financial performance. Since the P/E ratio is a key indicator of market expectations and stock attractiveness, banks should adopt proactive measures to sustain and enhance profitability. Regulatory bodies such as the Central Bank of Nigeria and the Financial Reporting Council of Nigeria should enforce more detailed disclosure requirements for Level 2 to avoid estimation uncertainty and information asymmetry. Regulators should strengthen compliance monitoring and enforcement mechanisms to ensure faithful application of fair value measurement standards. Periodic regulatory reviews and audits of valuation practices should be conducted, particularly for Level 2 inputs.

Future research should explore the long-term effects of fair value fluctuations on market performance, considering external economic factors. Additionally, studies examining the impact of fair value changes on investor behavior in different economic cycles can provide deeper insights. Time effects and structural breaks were not modeled due to data limitations and the relatively stable regulatory environment under the Central Bank of Nigeria. These limitations are acknowledged, and future research is encouraged to explore non-linear relationships and temporal dynamics.

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