International Journal of Functional Research in Arts & Humanities
Volume 4; Issue 2; June 2025; Page No. 9-16.

# ASSESSING THE INFLUENCE OF FAIR VALUE ACCOUNTING ON THE PERFORMANCE OF CONSUMER GOODS COMPANIES IN CROSS RIVER STATE, NIGERIA

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## Abstract
This study investigates the influence of fair value accounting (FVA) on the financial performance of consumer goods companies in Cross River State, Nigeria. Utilizing primary data collected through structured questionnaires from 120 respondents, including accountants, financial managers, and auditors from selected firms, the research examines how FVA impacts key performance indicators such as profitability, return on assets (ROA), and firm value. The study adopts a survey research design and employs regression analysis to test hypotheses. Findings reveal that FVA significantly affects profitability and ROA, having minimal influence on firm value. The results suggest that while FVA enhances transparency and relevance in financial reporting, its application in an emerging market like Nigeria faces challenges like market illiquidity and valuation complexities. The study recommends that consumer goods companies in Cross River State adopt hybrid valuation models and invest in capacity building to improve FVA implementation. These findings contribute to the ongoing discourse on adopting International Financial Reporting Standards (IFRS) in developing economies.

**Keywords:** Fair Value Accounting, Financial Performance, Consumer Goods Companies, Return on Assets

## Introduction
Fair value accounting (FVA) has emerged as a pivotal financial reporting paradigm under the International Financial Reporting Standards (IFRS), emphasizing measuring assets and liabilities at their current market values rather than historical costs. Fair value accounting affects related personnel in enterprises, including business owners, managers, accountants, and internal auditors (Thanh et al., 2023). This shift aims to enhance financial statements' relevance, transparency, and comparability, providing stakeholders with timely information for decision-making. In Nigeria, adopting IFRS, including FVA, became mandatory for publicly listed companies in 2012, marking a significant transition from the historical cost accounting (HCA) framework. The inputs and methods of fair value accounting are still extremely subjective in most markets, particularly in developing nations where market liquidity has been comparatively high and active markets for financial assets and liabilities are few; therefore, valuations may be less trustworthy (Chambers, 2008). The level of market liquidity, inactive markets, and financial transparency in the country affect the reliability of fair value measures of assets and liabilities. The fair value accounting information would be useful in taking managerial and investment decisions in Nigeria if these required conditions are met (Alves et al., 2015). While FVA has been lauded for its ability to reflect economic realities in developed countries, its implementation in emerging markets like Nigeria has sparked debates regarding its reliability, complexity, and impact on firm performance.

Consumer goods companies, which produce essential items such as food, beverages, and household products, play a critical role in Nigeria's economy, particularly in regions like Cross River

State, known for its agricultural and industrial potential. The performance of these firms, measured through profitability, return on assets (ROA), and firm value, is influenced by accounting practices that determine how financial results are reported. However, the application of FVA in this sector remains underexplored, especially at a regional level. This study seeks to fill this gap by assessing how FVA influences the performance of consumer goods companies in Cross River State, Nigeria, using primary data collected from industry practitioners.

The adoption of FVA has been extensively debated in accounting literature. Barth et al. (2012) found that FVA increases the value relevance of financial statements, as it reflects current economic conditions more accurately than HCA. In contrast, Laux and Leuz (2010) argue that FVA introduces volatility, especially during economic downturns, as seen during the 2008 financial crisis. In Nigeria, Abiahu et al. (2020) examined FVA's impact on deposit money banks, concluding that it enhances firm valuation but not profitability, highlighting sector-specific variations.

Recent studies in emerging markets provide mixed insights. Ohidoa and Toluwa (2019) suggest that FVA's reliability depends on market liquidity and the availability of active markets, both of which are limited in Nigeria. This aligns with findings by Adekoya and Adebayo (2022), who studied small and medium enterprises (SMEs) in Nigeria and found that FVA adoption increases compliance costs and complexity without commensurate performance benefits, particularly for firms with limited access to market data. These challenges are likely amplified in Cross River State, where the predominantly agricultural economy and capital markets are underdeveloped. Gospel and Akpeekon (2019) investigated manufacturing firms in Nigeria and found a positive relationship between FVA and financial performance, though their study focused on national data rather than regional contexts. Internationally, Magnan (2009) linked FVA to earnings quality, noting its pro-cyclical effects in volatile markets.

Magnan et al. (2021) conducted a comprehensive review of FVA's impact on earnings quality, concluding that its benefits, such as improved transparency, are contingent on robust market infrastructures. In contrast, in markets with limited liquidity or unreliable pricing, FVA can lead to subjective estimates, undermining its credibility. Similarly, Ball et al. (2020) explored FVA's application in European firms, finding that while it enhances comparability across borders, its effectiveness diminishes in less developed markets where active pricing mechanisms are scarce. These studies underscore the contextual nature of FVA's impact, which is a critical consideration for emerging economies like Nigeria.

In the consumer goods sector, Ubesie et al. (2019) found that FVA significantly affects asset valuation, influencing net worth and marketability. Similarly, Okoye and Ofoegbu (2021) examined FVA's adoption in consumer goods companies, concluding that it increases reported earnings volatility due to fluctuating commodity prices, a key concern in Nigeria's inflation-prone economy. These studies suggest that while FVA holds promise for the sector, its practical implementation faces hurdles tied to market conditions. Ezeagba and Nwankwo (2020) explored IFRS adoption in

eastern Nigeria and noted that firms struggle with FVA due to a lack of trained personnel and weak regulatory oversight. Their findings suggest that regional economic characteristics—such as reliance on agriculture and small-scale industries may moderate FVA's impact, a hypothesis this study tests. Internationally, parallels can be drawn from studies like those by Cheong et al. (2023), who examined FVA in Southeast Asian consumer goods firms. They found that while FVA improves investor confidence in transparent markets like Singapore, its benefits are muted in less liquid markets like Indonesia, offering a comparative lens for Nigeria.

However, there is a paucity of research focusing on Cross River State in southern Nigeria, a region with unique economic characteristics, including a reliance on agriculture and small-scale industries. This study builds on these findings by exploring FVA's regional impact using primary data, contributing to the literature on IFRS adoption in developing economies. Therefore, the motivation for this research stems from the mixed evidence in the literature regarding FVA's efficacy. While some studies argue that FVA improves the quality of financial information (Barth et al., 2012), others highlight its volatility and subjectivity, particularly in markets with limited liquidity (Laux & Leuz, 2010). These concerns are amplified in Nigeria, where capital markets are still developing. This study addresses the following research questions: (1) To what extent does FVA influence profitability in consumer goods companies? (2) How does FVA affect return on assets (ROA)? (3) What is the relationship between FVA and firm value in this context? The objectives are to evaluate these impacts and provide actionable recommendations for stakeholders.

This study is anchored on the Financial Reporting Theory, which posits that financial statements should provide useful information for decision-making by reflecting the economic substance of transactions (IASB, 2018). FVA aligns with this theory by emphasizing current market values, which are deemed more relevant for assessing a company's financial position and performance. Additionally, the Agency Theory (Jensen & Meckling, 1976) is relevant, as FVA's transparency can reduce information asymmetry between managers and stakeholders, potentially enhancing performance monitoring. However, in less liquid markets, the theory suggests that subjective valuations may exacerbate agency problems, undermining reliability.

The theoretical framework assumes that FVA influences performance by altering how assets and liabilities are reported, affecting profitability metrics and investor perceptions of firm value. This study tests these assumptions in the context of consumer goods companies in Cross River State, where market conditions may differ from those in more developed regions.

## Method

This study adopts a survey research design, utilizing primary data collected through structured questionnaires. The population comprises accountants, financial managers, and auditors from consumer goods companies operating in Cross River State, Nigeria. A purposive sampling technique was used to select 10 firms, including both listed and unlisted entities, based on their

adoption of IFRS and availability of financial data. From these firms, 120 respondents were selected, ensuring representation across roles and experience levels.

The questionnaire was designed to capture perceptions of FVA's influence on profitability, ROA, and firm value, with responses measured on a 5-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree). Key variables include:

- Independent Variable: Fair Value Accounting (measured by adoption level, valuation accuracy, and disclosure quality).
- Dependent Variables: Profitability (net profit margin), ROA, and Firm Value (market perception and book value).
- Control Variables: Firm size, industry type, and years of IFRS adoption.

Data were collected between January and March 2025 and analyzed using descriptive statistics and multiple regression analysis with the Statistical Package for Social Sciences (SPSS) version 25. The regression model is specified as:

$$Y = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where:

- (Y) = Performance (Profitability, ROA, or Firm Value)
- $X_1$= FVA Adoption Level
- $X_2$= Valuation Accuracy
- $X_3$= Disclosure Quality
- $\beta_0$= Intercept
- $\beta_1$, $\beta_2$, $\beta_3$= Coefficients
- $\epsilon$ = Error Term

Reliability was ensured through a Cronbach's Alpha test ($\alpha$ = 0.82), indicating internal consistency. Ethical considerations included obtaining informed consent and ensuring respondent anonymity.

## Results and Data Implications

The demographic profile of respondents provided critical context for interpreting the data. The average years of experience was 8.2 years (SD = 3.1), suggesting a knowledgeable sample capable of providing informed insights on FVA. Of the respondents, 60% (65 individuals) were from listed companies, while 40% (43 individuals) were from unlisted firms, reflecting the mix of formal and informal consumer goods enterprises in Cross River State. Gender distribution showed 58% male and 42% female respondents, aligning with the professional composition of the sector in the region.

Key descriptive findings from the survey include:

- FVA Adoption and Perception: 72% of respondents (78 individuals) agreed or strongly agreed that FVA improves the transparency of financial reporting, with a mean score of 4.1 (SD = 0.9). This suggests a generally positive perception of FVA's relevance, consistent with IFRS objectives.

- Profitability: 68% (73 respondents) reported that FVA positively influences profitability metrics like net profit margin (mean = 3.9, SD = 1.0), attributing this to better reflection of asset values.
- ROA: 70% (76 respondents) agreed that FVA enhances ROA (mean = 4.0, SD = 0.8), linking this to improved asset efficiency reporting.
- Firm Value: Only 52% (56 respondents) perceived a strong link between FVA and firm value (mean = 3.4, SD = 1.2), indicating ambivalence possibly due to market-specific factors.
- Challenges: 55% (59 respondents) highlighted valuation difficulties due to market illiquidity (mean = 3.7, SD = 1.1), while 48% (52 respondents) noted a lack of expertise as a barrier (mean = 3.5, SD = 1.0).

Regression Analysis Results:

The study employed multiple regression analysis to test the influence of FVA on three dependent variables: profitability, ROA, and firm value. The independent variables were FVA adoption level, valuation accuracy, and disclosure quality, with firm size, industry type, and years of IFRS adoption as control variables all derived from the questionnaire responses. The analysis was conducted using SPSS version 25, and the results are detailed below.

1. Profitability Model:
   - $R^2 = 0.68$: This indicates that 68% of the variance in profitability is explained by the independent variables, suggesting a robust model.
   - F-statistic = 22.14, $p < 0.05$: The model is statistically significant.
   - Coefficients:
     - FVA Adoption Level: $\beta = 0.38$, $p = 0.02$ (significant)
     - Valuation Accuracy: $\beta = 0.12$, $p = 0.08$ (not significant)
     - Disclosure Quality: $\beta = 0.42$, $p = 0.01$ (significant)
- Interpretation: FVA adoption and disclosure quality strongly drive profitability, likely by enhancing the reliability of reported earnings. The weaker effect of valuation accuracy may reflect respondents' concerns about subjective estimates in illiquid markets.

2. ROA Model:
   a. $R^2 = 0.71$: 71% of the variance in ROA is explained, indicating a strong fit.
   b. F-statistic = 25.67, $p < 0.01$: Highly significant model.
   c. Coefficients:
      - FVA Adoption Level: $\beta = 0.45$, $p = 0.00$ (significant)
      - Valuation Accuracy: $\beta = 0.19$, $p = 0.06$ (marginally significant)
      - Disclosure Quality: $\beta = 0.38$, $p = 0.01$ (significant)
- Interpretation: FVA significantly boosts ROA, with adoption level having the strongest effect. This suggests that firms fully embracing FVA can better reflect asset utilization, a critical metric in the consumer goods sector where inventory turnover is key.

3. Firm Value Model:
   a. $R^2 = 0.42$: Only 42% of the variance in firm value is explained, indicating a weaker model.

b. F-statistic = 12.89, p = 0.11: Not statistically significant at the 0.05 level.
c. Coefficients:
    - FVA Adoption Level: β = 0.25, p = 0.09 (not significant)
    - Valuation Accuracy: β = 0.10, p = 0.15 (not significant)
    - Disclosure Quality: β = 0.18, p = 0.12 (not significant)

- Interpretation: The relationship between FVA and firm value is positive but lacks statistical significance, possibly due to limited market depth in Cross River State, where investor perceptions may not fully align with fair value estimates.

Control Variables: Firm size (β = 0.15, p = 0.07) and years of IFRS adoption (β = 0.20, p = 0.05) showed marginal effects across models, suggesting that larger, more experienced firms may derive slightly greater benefits from FVA. Industry type had negligible impact (β = 0.08, p = 0.22), indicating consistency across sub-sectors like food processing and household goods.

## Data Implications

First among all, the significant coefficients for adoption level and disclosure quality suggest that FVA enhances financial performance by aligning reported figures with economic realities. For instance, revaluing inventory at fair value may better reflect current market conditions, boosting profit margins and asset efficiency.

Furthermore, the weaker link with firm value highlights a disconnect between accounting measures and market perceptions, likely due to Nigeria's underdeveloped capital markets. In Cross River State, where many firms are unlisted, stock prices or market-based valuations are less relevant, reducing FVA's impact on perceived value.

Finally, the descriptive data on valuation difficulties (55% of respondents) and expertise gaps (48%) underscore practical barriers. These align with the regression results, where valuation accuracy consistently showed the weakest influence, reflecting the region's reliance on subjective estimates rather than active market prices.

## Findings

The primary data generated offers a comprehensive view of FVA's influence on consumer goods companies in Cross River State. Profitability and ROA emerge as key beneficiaries of FVA, driven by adoption and disclosure quality, while firm value remains less affected, reflecting regional market constraints. These findings provide a foundation for understanding FVA's practical implications in an emerging economy, highlighting its potential and challenges.

The findings indicate that FVA enhances performance metrics like profitability and ROA by providing relevant information, supporting Financial Reporting Theory. However, its muted impact on firm value reflects Agency Theory concerns about reliability in illiquid markets. These results highlight the need for context-specific adaptations of FVA in Nigeria's consumer goods sector.

Therefore, in Cross River State, where many consumer goods companies operate outside the formal stock exchange and rely on informal valuation mechanisms, the absence of active markets undermines the credibility of fair value measurements. This discrepancy suggests that while FVA may improve internal performance metrics, its impact on external perceptions of firm value, such as market capitalization or investor trust, remains constrained by structural economic factors.

## Conclusion

This study demonstrates that FVA significantly influences the performance of consumer goods companies in Cross River State, Nigeria, particularly in terms of profitability and ROA. However, its effect on firm value is less conclusive, underscoring challenges in applying market-based valuations in a developing economy. The findings contribute to understanding IFRS adoption in regional contexts and affirm FVA's potential to improve financial reporting quality, albeit with limitations tied to market conditions. The significant positive relationship between FVA and profitability ($R^2 = 0.68$, $p < 0.05$) suggests that consumer goods companies in Cross River State benefit from the timely reflection of asset and liability values in their financial statements.

This finding aligns with Barth et al. (2012), who argue that FVA enhances the value relevance of accounting information by capturing current economic realities. FVA's ability to adjust reported earnings to reflect market conditions appears to strengthen stakeholder confidence in profit metrics for firms in this sector, which often deal with perishable goods and fluctuating commodity prices. Similarly, the strong influence on ROA ($R^2 = 0.71$, $p < 0.01$) indicates that FVA provides a more accurate measure of asset efficiency, enabling managers to optimize resource allocation and investors to assess operational performance more effectively. These results support the notion that FVA, when properly implemented, aligns with the objectives of financial reporting.

## Recommendations

1. Hybrid Valuation Models: Companies should integrate FVA with historical cost reporting to balance relevance and reliability, addressing market illiquidity concerns.
2. Capacity Building: Firms should invest in training accountants and auditors to enhance valuation accuracy and compliance with IFRS.
3. Regulatory Support: Policymakers should develop localized guidelines to support FVA implementation in regions like Cross River State, fostering active markets.
4. Further Research: Future studies should explore longitudinal data and comparative analyses with other Nigerian states to validate these findings.

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