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Assessment of Fair Value Accounting and Socio-Economic Environment in Nigeria: An Empirical Review

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ABSTRACT

Due to investor dependence on subjective estimations that worsen information asymmetry and result in economic inequities, fair value accounting significantly increases the volatility of financial statements. Therefore, the study tends to examine the relationship between fair value accounting and the socio-economic environment in Nigeria. Used descriptive and exploratory research designs and utilized primary data through a structured questionnaire. The population consists of 300 accountants, auditors, and financial analysts employed in the banking and manufacturing of Ondo State. A minimum of 250 respondents with professional qualifications are sampled for the study. Regression analysis was performed to find relationships between fair value accounting and the socio-economic environment in Nigeria. The finding of this study revealed that accounting standards and regulatory frameworks significantly influence fair value accounting and the socio-economic environment in Nigeria. At the same time, economic policies have in significant influence on fair value accounting and the socio-economic environment in Nigeria. The study concludes that the stability of the economy as well as investment behaviour are impacted by volatility. Although fair value accounting makes financial reporting more timely and relevant, its effects on the socioeconomic context must be carefully considered. Regulators, standard-setters, and stakeholders must continuously evaluate and improve the framework to strike a balance between the potential for market distortion and inequity and the need for transparency. The study makes the following recommendations: entities should disclose how fair value estimates are sensitive to changes in market conditions and underlying assumptions to provide insight into the potential impact of market volatility on financial statements; regulators and policymakers should provide additional support and resources for smaller entities to manage the costs and complexities associated with fair value accounting.

INTRODUCTION

African nations have been synonymous with a succession of financial crises in recent years, but the analysis of their domestic socioeconomic conditions as a condition of the crises did not gain adequate attention. Bolton et al. (2023) as cited in Sangchan et al. (2020) posit that accounting interpretation requires a revaluation of the domestic African factors that have affected the efforts of Africa to find the best ways to become part of the world's financial system. It has been stated that the ongoing pattern of thinking that potholed to some extent was resolved through a combination of antiquated and futuristic approaches rooted in crisis feedback and anticipation (Alharasis et al., 2024). The inability of the nations to reach sustainable economic growth is often ascribed to the lack of the public sector's financial management skills. African nations have been associated with repeated financial crises in recent days, but the analysis of their home socio-economic landscapes in these crises is often sidestepped (Sangchan et al., 2020).

This insight necessitates a review of the internal African elements that have influenced efforts to determine the most effective strategies for their integration into the world financial system. In addition to this, the reporting/completion of financial information and history of fair value accounting which was also operated as a general accounting principle in the United States. 20th century was the starting point of the application of this concept in the United States (U.S.) for thrift savings institutions (Thrifts) and as a bank supervisory tool in the United States by the early 1980s (Eshonqulov, 2024; Qudratovich, 2023; Nguyen, 2019).

In the meantime, just as the global financial crisis dawns, the mark-to-market fair value accounting mirror was temporarily shelved. From that time onwards, there has been a debate over the historical cost accounting seen against fair value accounting which has also remained a point of constant argument in accounting regulation in connection with the accountancy of financial institutions (Qudratovich, 2023). Strangely, it is very different from every other possibility to which banks are steering the path of their FVA within the asset and liability framework; brief looks are the only thing given (Zhang et al., 2019). These encounters parallel dealing with inefficient governance in this environment due to less openness, the less accountability of fairness accounting, and the socio-economy in Nigeria. Bakare et al. (2024) assert that the appraisal of the complex correlation between fair value accounting and Nigeria's socio-economic is the target process with the main points presented in the report. One of the aspects to which this paper refers is the examination of the use of fair value accounting in Nigeria as a criterion for understanding how financial accounting standards made the country's financial system infrastructure and within it, the economic indicators. This is as a results of studies that provide the whole society with knowledge of how affairs concerning the financial system in Nigeria are taken care of (Daniyan et al., 2024).

The main elements of the paper are treated to the awareness of the vast role that fair value accounting plays in reshaping the country's financial system to be more open clear and stable. By identifying the detailed features of fair value accounting and relating informational materials to the influence of Nigeria's socio-economic environment of this study; the idea is to help stakeholders, alongside law and finance hack persons make reliable and rational decisions for the welfare of the country, in general. Meanwhile, the idea of this assessment was to give answers to the ongoing debate on fair value accounting and its consequences, at the same time venerating its nature as a living thing in Nigeria's socio-economic life.

LITERATURE REVIEW

Conceptual Review

Socio-Economic Environment

The need for harmonization of accounting standards among various countries has been addressed by international bodies, requiring validation of specific standards. The fair value method does provide some advantages, allowing the users of the financial statements to decide by themselves whether to invest and allocate capital in the reporting entity (Qudratovich, 2022). However, the use of the fair value standard is not costless and its introduction has consequences that may generate those informational benefits, because the stewards of the reporting entities may be sensitive to the socio-economic environment in which they operate (Hong et al., 2018). This sensitivity causes lower-income society groups to get less information than more magnates when corporate managers apply the fair value standard (Eshonqulov, 2024).

Fair Value Accounting

Fair value accounting (FVA) was introduced in the banking sector through the International Accounting Standards Board (IASB) in 1999, and IAS 39 requires the use of FVA for financial instruments. During the last decades, an increasing number of accounting standards have imposed FVA, also named mark-to-market accounting, for all kinds of assets and liabilities (Alharasis & Alkhwaldi, 2024). Fair value accounting reflects the most up-to-date market expectations and reveals the fair value of assets. The goals of FVA are to provide more relevant information about the bank's solvency, to show the actual value of the assets and liabilities on the balance sheet, and to give better information to management and regulators (Uzougbo, et al., 2024). However, several authors discuss the achievement of these goals. Due to the short-term focus of FVA, the implementation might have negative effects on the credit supply of banks, especially during the financial crisis in 2008 (Alharasis & Alkhwaldi, 2024; Uzougbo et al., 2024; Bar-Hod et al., 2020; Trivellas & Trivellas, 2018). The fundamental nature of this question regards more than just the value relevance of fair value accounting. It concerns the very essence of what FIRS and how the concept and measurement of fair value can change when factors such as market failure, illiquidity, and economic distress exhibit the capacity not to deleteriously influence the balance sheets of entities but have the capacity of playing a vital role in the allocation of capital in inefficient markets (Ebirim et al., 2024).

Accounting Standards

Accounting standards provide uniformity, openness, and comparability in financial reporting across various entities and periods, accounting standards are a collection of principles, guidelines, and rules that are crucial for governing the creation and presentation of financial statements (Eneh, et al., 2024). To help organizations accurately record their financial performance and position which is important to creditors, investors, regulators, and management they give a framework. Ebirim et al. (2024) opined that accounting standards establish a standardized set of guidelines for financial reporting, providing consistency and improving the dependability and comparability of financial accounts. Organizations give stakeholders an accurate and transparent picture of their cash flows, performance, and financial health by following these guidelines making wise investment decisions, determining creditworthiness, and gauging managerial effectiveness all depend on this openness (Familoni et al., 2024; Eneh et al., 2024).

Economic policies

Economic policies are strategies designed and implemented by governments and other institutions to influence and regulate a country's economic performance (Igbinenikaro & Adewusi, 2024). Various macroeconomic goals like stable economic growth, full employment, high inflation, and noninflationary growth development are central to this policy to direct the entire country's economy in such a manner that it supports resources equally distributed, social integration, and sustainable development (Bolton et al., 2023; Nguyen, 2019). According to economic policies, new investments, better productivity, and innovation are the main ways of raising the aggregate supply of goods and services produced in the economy, hence, they are so essential to the economic balance, addressing the downsides of these markets and inciting more growth (Eshonqulov, 2024; Qudratovich, 2023). It puts restrictions on economic fluctuation to evade excessive upswings and downturns to keep the economy from slipping into recessions and financial meltdowns.

Regulatory Framework

The legal system is the structure that creates, explains, and upholds laws, thereby providing orderly and fair human interactions within a social order which composed of various parts and functions and must regularly change to meet new challenges and attain fairness and effectiveness (Uzougbo et al., 2024). It is the supreme legal basis for all other laws and ensures that all subsequent laws and actions are not in disagreement with its principles. Court decisions, alternatively called case law or precedent, come from court pronouncements and the interpretation of the laws (Akpuokwe et al., 2024a). The legal system is the sum of a successful society, laying down the essential points and rules mandatory for holding order, protecting rights, and promoting interactions. It includes a variety of law components and functions, each of them, thus, resulting in a system that governs behavior and governmental affairs and ensures justice (Bakare et al., 2024). A legal structure means the aggregation of a series of laws, rules, and institutions that co-operatively delineate and control the legal ambient in a given domain. It is the central nerve of order, justice, and societal and economic operations (Akpuokwe et al., 2024b).

THEORETICAL REVIEW

Value Relevance Theory

Value Relevance Theory (VRT) Asserts that financial information should reflect the value of assets and liabilities as accurately as possible, which fair value accounting aims to achieve. Value relevance theory is a significant theory in the field of accounting and financial reporting, focusing on the relationship between financial information and its impact on stock prices (De George, 2015). This theory examines how well accounting information reflects the underlying economic value of a company, providing insights into the usefulness of financial statements for investors and other stakeholders (Kimmel et al., 2021). Gaber (2020) theorized that the central premise of value relevance theory is that financial statements should provide information that is relevant and useful for decision-making, particularly in terms of assessing a company's value and making investment decisions. The criticism of this theory is that fair value accounting has faced criticism, particularly regarding its implementation during periods of market volatility (Dima & Dima, 2017).

Empirical Review

The study on fair value reporting regulations and capital requirements for financial organizations holding illiquid assets is examined by Bolton et al. (2023). The goal was to investigate how financial institutions' motivations to utilize level are impacted by prudential regulation intended to address agency issues. Their research showed that although prudential policies based only on level fair values may be effective in resolving agency issues inside financial institutions, they may also have the unintended effect of undermining financial stability. On the other hand, prudential regulations that provide financial institutions the latitude to declare illiquid assets at par while reducing capital requirements could improve the stability of the financial system. Research on fair value and investment property in accounting literature is determined by Khelil and Khlif (2024). Their research sought to provide an up-to-date analysis of the factors that influence fair value reporting in the real estate sector as well as its financial implications. To find pertinent studies, their study consulted a variety of editorial sources, including Elsevier, Emerald, Meridian Allenpress, Springer, Sage, Taylor & Francis, and Wiley-Blackwell. These sources included fair value "IAS 40" or investment property, and fair value of real estate. Their findings showed that there is still a dearth of empirical data about creditors, managers, and financial analysts; fair value reporting is typically linked to a higher degree of investor value relevance; and using fair value estimates for investment properties is linked to a high degree of estimation uncertainty for external auditors, which raises audit risk and costs.

Eshonqulov (2024) evaluates how these rules affect a sample of businesses' cash flows, net income, and total working capital on their financial statements. According to the research, the implementation of international cash accounting standards raises net income, total working capital, and operational cash flows, among other aspects of the quality of financial reporting. Alharasis et al. (2024) identified, selected, and critically assessed pertinent publications using systematic and explicit approaches. They also utilised prisMA principles to frame questions and conducted a thorough evaluation of pertinent academic literature. They examine around 155 of the best accounting journal articles published between 2000 and 2023. The first theme, institutional factors on FvA application decisions in the region, has three main topics: theoretical underpinning, local factors, and accounting system heritage. The second theme, FvA's effects on auditing, was identified through a qualitative content analysis of FvA literature. The first theme result indicated that Jordanian FvA practices are driven by institutional isomorphism, while the second theme revealed that Jordanian FvA application is complicated by sophisticated asset and liability calculations.

The goal of Volodymyr and Чизиков (2024) is to provide a comprehensive analysis of the frameworks that Ukraine is constructing for virtual asset accounting, taxes, and regulation. To guarantee a solid integration of virtual assets into Ukraine's financial system, it evaluates the efficacy of the country's present plans and points out areas that need improvement. They use a comparative analysis approach, comparing the frameworks in Ukraine with international norms. This methodology provides a thorough understanding of the adaptation processes and procedures used in the integration of virtual assets, and it is bolstered by a study of contemporary academic research and regulatory reports. Their research showed that while Ukraine has come a long way, especially with the passing of the "Law on Virtual Assets," there are still issues with completely establishing a transparent and robust virtual asset market. To handle the complexity and volatility of virtual assets, the research emphasizes the need to adopt worldwide accounting standards and regularly update regulations.

The usefulness of accounting rules for financial reporting is established by Tişcenco and Bădicu (2024). Examining effective ways to manage economic entities' operations becomes essential to attaining success and becoming competitive in the market. Because they directly affect how financial information is presented, evaluated, and utilized inside organizations, accounting policies are an essential component of this management. Adopting adequate accounting procedures that accurately represent their financial status and performance is necessary for economic entities to enable effective administration of the activity. Given the dynamic nature of the economy and the ever-stricter demands placed on those who use financial data, these accounting regulations must be improved. The very display of commercial transactions may be done in a variety of ways, as has previously been shown, with varying financial outcomes.

Despite a variety of research that has been fairly done both within and outside of Nigeria. Fair value accounting (FVA) research is mostly conducted in European settings, which leaves out important aspects of Nigeria's socioeconomic and regulatory landscape. The influence of economic crises on fair value accounting practices including those brought on by political unrest, shifting regulations, and global economic volatility is not well covered in the literature. By filling up these gaps, this research helps to improve accounting standards and regulatory frameworks by offering a more thorough knowledge of the interactions between fair value accounting and the socio-economic environment in Nigeria.

METHODOLOGY

Descriptive and exploratory research designs are used in the study since the respondents provided the information directly. Utilized primary data by distributing a structured questionnaire. 300 accountants, auditors, and financial analysts employed in the banking and manufacturing of Ondo State make up the study's population (Source: Ondo State Accountant General Office as of August 2024). To guarantee representation across various industries (banking and manufacturing firms) the research used stratified sampling techniques. A minimum of 250 respondents with professional qualifications are sampled for the study, with a fair representation of each industry. Regression analysis was performed to find correlations between fair value accounting and the socio-economic environment in Nigeria using both descriptive and inferential statistics. The measurement of variables was classified into independent and dependent variables. Fair value accounting is measured as an independent variable proxy by accounting standards, economic policies, and regulatory framework, while the dependent variable socio-economic environment is measured by harmonization of accounting.

The study develops an econometric model thus;

$HARACC = f(\beta_0 + \beta_1 ACCSTit_1 + \beta_2 ECPOLit_2 + \beta_3 RFWit_3 + \varepsilon_{it})$ …………………….. *equ., i*

Where:

HARACC = Harmonization of Accounting

ACCST = Accounting Standards

ECPOL = Economic Policies

RFW = Regulatory Framework

ε_{it} = *Error Term*

The openness, $\beta 0$ is the constant $\beta 1$, $\beta 2$, $\beta 3$ is the value of coefficient variables, ε_{it} the value of the error term. A priori expectancy is a fair value accounting that has a significant influence on the socio-economic environment. Econometrically stated thus: $\beta_1 > 0$, $\beta_2 > 0$, $\beta_3 > 0$.

Table 1: Measurement of Variables

Variables	Description	Source
Dependent Variables		
Socio-Economic Environment	An increase in market and economic volatility might be part of the socioeconomic environment.	Bolton et al. (2023)
Independent Variables		
Fair Value Accounting	Fair value accounting is sensitive to shifting market circumstances, its effects on the socioeconomic environment might include a rise in market volatility and economic instability.	Sangchan et al. (2020); Zhang et al. (2019)
Accounting Standards	Formal norms and regulations known as accounting standards were created to control how financial statements are prepared and presented.	(Igbinenikaro & Adewusi, 2024)
Economic Policies	Governments and other institutions implement economic policies as a means of influencing and controlling the economic activity of a nation.	Kimmel, et al. (2021)
Regulatory Framework	An organized set of laws, rules, and regulations that are put in place by regulatory organizations or government agencies to control and monitor different kinds of activities that take place inside a certain business or sector.	(Bakare et al., 2024;Volodymyr & Чизиков, 2024)

Source: Researchers' Compilation, 2024

FINDINGS

Descriptive and inferential statistics were applied in data analysis. Descriptive statistical techniques used were skewness, kurtosis, minimum and maximum values, Mean (M), and standard deviation (SD). Inferential statistics applied was the regression analysis. The mean of harmonization of accounting standards 3.209755 indicates that prudential policies are based only on level fair values and may be effective in resolving agency issues inside financial institutions. Maximum 4.000000 and Minimum 1.860000 denote that financial statements provide information that is relevant and useful for decision-making, particularly in terms of assessing a company's value and making investment decisions. In accounting standards, Skewness -0.387953 which implies the unintended effect of undermining financial stability, considering Kurtosis 3.389051 provides insights into the usefulness of financial statements for investors and other stakeholders. Economic policies with a 3.287959 mean state that accounting and financial reporting, focus on the relationship between financial information and its impact on stock prices. Meanwhile, Jarque-Bera 5.412618 indicates fair value reporting regulations and capital requirements for financial organizations holding illiquid assets. And regulatory framework means 3.098898 explains how well accounting information reflects the underlying economic value of a company in providing insights into the usefulness of financial statements for investors and other stakeholders. Maximum and Minimum values 3.860000 and 1.860000 respectively denote that the legal system as the sum of a successful society, laying down the essential points and rules mandatory for holding order, protecting rights, and promoting interactions.

Table 2: Descriptive

	HARM_ACCT	C	ACC_STD	ECO_POL	REG_FWK
Mean	3.209755	1.000000	3.168204	3.287959	3.098898
Median	3.290000	1.000000	3.140000	3.290000	3.140000
Maximum	4.000000	1.000000	4.000000	4.000000	3.860000
Minimum	1.860000	1.000000	2.000000	2.430000	1.860000
Std. Dev.	0.420296	0.000000	0.407174	0.410056	0.411591
Skewness	-0.966994	0.000000	-0.387953	-0.285779	-0.733942
Kurtosis	4.463062	0.000000	3.389051	2.548850	3.738905
Jarque-Bera	60.03375	0.000000	7.690852	5.412618	27.56926
Probability	0.000000	0.000000	0.021377	0.066783	0.000001
Sum	786.3900	245.0000	776.2100	805.5500	759.2300
Sum Sq. Dev.	43.10239	0.000000	40.45301	41.02758	41.33540
Observations	245	245	245	245	245

Source: Researcher Computation E-view (2024)

Regression Analysis Showing the Relationship between Fair Value Accounting and Socio-Economic Environment

The impact of fair value accounting on the socio-economic environment was the subject of a regression analysis, which was statistically significant at a P-value of 0.000. This means that an increase in fair value accounting will raise the socio-economic environment and the degree to which the financial system assesses the effectiveness of the nation's current plans and identifies areas in need of improvement. The variance between fair value accounting and the socioeconomic environment is jointly explained by the coefficient of 0.721057. Accounting standards with a coefficient of 0.362398 highlight the need to adopt global accounting standards and update legislation regularly to manage the complexity and volatility of a company's assets. Economic policies, with a coefficient of 0.088000, describe tactics created and put into action by governments and other institutions to affect and control a nation's economic performance. Similar to this, regulatory framework coefficient 0.503951 promotes just and orderly interactions between people in a social structure made up of many components and roles that need to adapt regularly to satisfy evolving needs and achieve effectiveness and justice.

To prevent the economy from plunging into recession and financial catastrophes, the R-squared of 0.590991 suggests placing limits on economic volatility to avoid extreme upswings and downturns. While the Adjusted R-squared of 0.585900 indicates that financial reporting across different entities and periods is uniform, transparent, and comparable, accounting standards are a set of essential principles, guidelines, and regulations that control the preparation and presentation of financial statements. The regression's S.E. of 0.270463 indicates that accounting standards provide a uniform set of rules for financial reporting, enhancing the financial statements' dependability and comparability. The concept and measurement of fair value are subject to change when factors like market failure, illiquidity, and economic distress show promise in not negatively impacting entity balance sheets but rather in being important in capital allocation in inefficient markets, rendering to Akaike info criterion 0.238832 which state that FVA, has been mandated for a variety of assets and liabilities during the last few decades by a growing number of accounting standards, conferring to the Schwarz criterion's 0.295996. International organisations have addressed the requirement for harmonisation of accounting standards across different nations, necessitating confirmation of certain standards, as shown by the Hannan-Quinn criterion of 0.261852 and the Durbin-Watson stat of 1.783399.

However, it was discovered that accounting standards and regulatory frameworks have a significant influence on fair value accounting. Therefore, findings from this study support the study done by Bolton et al. (2023) which investigates how financial institutions' motivations to utilize level are impacted by prudential regulation intended to address agency issues, their finding showed that prudential policies based only on level fair values may be effective in resolving agency issues inside financial institutions, they may also have the unintended effect of undermining financial stability. Also, this study agreed with the findings of Khelil and Khlif (2024), their findings showed that there is still a dearth of empirical data about creditors, managers, and financial analysts; fair value reporting is typically linked to a higher degree of investor value relevance, and fair value estimates for investment properties are linked to a high degree of estimation uncertainty for external auditors, which raises audit risk and costs. Finally, aligned with the study of Alharasis et al. (2024) identified, selected, and critically assessed pertinent publications using systematic and explicit approaches, their finding revealed that the first theme result indicated that Jordanian FvA practices are driven by institutional isomorphism, while the second theme revealed that Jordanian FvA application is complicated by sophisticated asset and liability calculations. While economic policies maintain an insignificant relationship with the socio-economic environment.

Table 3: Regression Analysis Showing the Relationship between Fair Value Accounting and Socio-Economic Environment

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.721057	0.175094	1.202620	0.2303
ACC_STD	0.362398	0.047342	7.654890	0.0000
ECO_POL	0.088000	0.051640	1.704113	0.0896
REG_FWK	0.503951	0.055280	9.116304	0.0000
R-squared	0.590991	Mean dependent var		3.209755
Adjusted R-squared	0.585900	S.D. dependent var		0.420296
S.E. of regression	0.270463	Akaike info criterion		0.238832
Sum squared resid	17.62926	Schwarz criterion		0.295996
Log likelihood	-25.25694	Hannan-Quinn criter.		0.261852
F-statistic	116.0764	Durbin-Watson stat		1.783399
Prob(F-statistic)	0.000000			

Source: Researcher Computation E-view (2024)

CONCLUSION AND RECOMMENDATIONS

There are important socioeconomic implications when integrating fair value accounting into financial reporting. Financial statements may become volatile if market-based metrics are used, especially during unstable market times. A dynamic and timely portrayal of an entity's financial situation is provided by fair value accounting, which places a strong focus on reflecting current market circumstances. By improving openness and giving stakeholders access to current information, this strategy may help them make better decisions. The overall stability of the economy as well as investment behaviour would impacted by this volatility. Although fair value accounting makes financial reporting more timely and relevant, its effects on the socioeconomic context must be carefully considered. Regulators, standard-setters, and stakeholders must continuously evaluate and improve the framework to strike a balance between the potential for market distortion and inequity and the need for transparency. The study makes the following recommendations: entities should disclose how fair value estimates are sensitive to changes in market conditions and underlying assumptions to provide insight into the potential impact of market volatility on financial statements; regulators and policymakers should provide additional support and resources for smaller entities to manage the costs and complexities associated with fair value accounting; and strengthening and clarifying the guidelines for determining fair value, particularly in markets with limited liquidity or significant subjectivity, as this will help reduce variability and improve consistency in valuation practices. This might include less complicated reporting guidelines or free access to valuation professionals.

IMPLICATIONS

By putting these suggestions into practice, fair value accounting becomes more closely matched with the socioeconomic context by maximizing its advantages while reducing any possible disadvantages. This strategy would assist general economic stability and prosperity by promoting more openness, dependable, and egalitarian financial reporting.

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