



Corporate Information Disclosure and Stock Market Valuation? A Dummy Variable Regression Approach

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ABSTRACT

This work examined the link between corporate information disclosure and the stock valuation in Nigeria using a dummy variable regression approach. It specifically looked into the relationship between quality of information disclosure, timely disclosure of information, mode of accounting and all share index. The secondary data for the variables were sourced from Nigeria Stock Exchange report for the period of 15 years (2005-2019). The dummy regression analysis was used with the aid of the E-view statistical software to test the stated hypotheses for the above variables at 0.5 significant level. The result showed that there is a significant relationship between quality of information, timely disclosure of information, mode of accounting and all share index of the Nigeria stock market. On the aggregate, corporate information disclosure has a significant influence on stock market valuation in the Nigerian stock market. The study therefore recommended that corporate firms in Nigeria should abide by information disclosure policy so as the boost the awareness and confidence of the investors in the stock market.

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Introduction.

Contemporary market trends has made it that corporate information disclosure has become part and parcel of today's business life which is necessary to understand the accurate financial situation of the organization and used as the basis for making investment decisions. Since investment decisions have

long-term effect on the business survival, it is important that the quality of the information provided via corporate information disclosure is properly scrutinized in order to enhance the dividend or returns of the investors using it. One of such purposes that need quality corporate information disclosure is stock market valuation. (Ofoegbu and Okoye, 2006).

This is so because the amount of information disclosed by organisations in corporate reports has considerably impact on the performance of its stocks. In recent times, although reliability on same has proven little to be desired with the recent increase in collapse of world class financial institutions among others which necessitated the increased pressure for optimal disclosures in corporate reports, the major source of pressure for increased disclosures has been the financial and investment communities. The pace and level of national development depend to a large extent on the level of national savings and consequently, investment. This informs the urge for the mobilization of long-term funds for sustainable development. However, such investments are normally undertaken under condition of uncertainty. Hence, one of the incentives required is a mechanism to help reduce the level of uncertainty to which a potential investor could be exposed (Ariyo, 2007). Consequently, the crucial importance of corporate information, whose ultimate goal, is to help a potential investor make an informed judgement on whether to invest or otherwise. Similar information is also needed to help current investors monitor adequately what has happened or is happening to their investments especially in terms of the extent to which their aspirations on the investment has been or are being realized. One of the many strategies often employed to attract investors is the publication of accounting projections of corporate performance over a defined time horizon. However, the extent of realization of these projections depends on the reliability of the underlying corporate information. Specifically, to enable it play credibly its “fiduciary” role corporate information disclosure must accurately capture the current and future economic status of the investment so as to enable current and potential investors make reasonable stock valuation. (Okike, 2000).

Stock valuation is the analytical process of determining the current (or projected) worth of an asset or a company. There are many techniques used for doing a valuation. An analyst placing a value on a company looks at the business's management, the composition of its capital structure, the prospect of future earnings, and the market valuation of its assets, among other metrics. It is therefore not exaggerating to say that corporate information disclosure is one of those factors that will enhance adequate stock market valuation and promote investors confidence. This is so because corporate information disclosure helps investors in understanding their tasks more clearly and reducing uncertainty before making their decisions (Chong, 1996). Corporate information disclosure is sometimes referred to as a means to an end, with the ending being the informed investment decision (Arneld and Hope, 1990). Within contemporary economic conditions, a successful investor needs a lot of reliable information in order to be able to make quality business decisions (Miko, 1998). A wrong investment decision have far-reaching negative effects on the shareholders wealth in the form of earning per share, dividend decision, etc which in turn places a lot of responsibility on the shoulders of the investment decision makers (Sikavica, et al.1994).

Consequently, it is important that this study be carried out so as to determine the impact of corporate information disclosure and stock market valuation.

Statement of the problem

Corporate firms are viewed as some of the entities without public accountability, as they compelled to publish general purpose financial statements following acceptable standards. The fact that financial statements prepared by these entities are used by outsiders particularly participants in the stock market

in valuation of the stock market. Some corporate firms in Nigeria pay less attention to sound accounting practice in their day to day transactions, on the premise that they owe no-one their financial statement as it is their entity and they run it as they like. (Ofoegbu and Okoye, 2006). Some corporate firms in Nigeria normally use external accountants as a source of professional advisory services in order to prepare their financials, but sometimes the owners or managers do not keep proper records neither do they understand the data and figure from the report and also not aware or convinced of the usefulness of accounting and information disclosure requirements for control and decision making purposes. (Ariyo, 2007).

The most worrisome however, is the fact that enough academic work has not been carried out by the academia to truly ascertain the situation of corporate information disclosure and stock valuation. For instance, Igbekoyi, and Agbaje (2018), Onuorah and Imene (2014), Oghoghomeh, (2013), Ofoegbu and Okoye (2006) did similar research in the past, and they all discovered that corporate disclosure practices in Nigeria is deficient. However, none of considered how it affects stock market valuation. This has created a knowledge gap which this current study tends to fill So, the need to evaluate corporate information disclosure and stock market valuation using dormant variables is a point of departure for this study, which in the view of the researcher will fill the perceived knowledge gap in this field of study.

Objective of the study

The aim of this research is to examine the relationship between corporate information disclosure and stock market valuation. The specific objectives is to determine the following:

1. The effect of quality of information disclosure and all share index (ASI)
2. The relationship between timely information disclosure and all share index (ASI).
3. The relationship between mode of accounting information disclosure all share index (ASI).

Hypotheses

The following hypotheses were tested in order to carry out the purpose of this research project. The null hypotheses were used thus:

H₀₁: There is no significant relationship between timely information disclosure and all share index (ASI)

H₀₂: There is no significant relationship between timely information disclosure and all share index (ASI)

H₀₃: There is no significant relationship between mode of accounting information disclosure and all share index (ASI).

LITERATURE REVIEW

Theoretical Frame work

The theoretical framework is the use of a particular or a combination of theories that best fit the study. (Baridam, 2020). In this study, there are several theories on corporate information system disclosure and stock market valuation that are deemed relevant to this study. Some of these theories include the Tobin Q-Theory of Investment and Random walk theory.

Tobin in postulating the Tobin Q-Theory of investment which states that investment is made until the market value of assets is equal to the replacement cost of assets. The Q-Theory of investment was

foretold by Keynes in 1936 by arguing that stock market will provide guidance to investors and that; there is not sense in building up new enterprise at a cost greater than at which an existing one can be purchased. Tobin Q values encourage companies to invest more in capital stock because they are worth more than the price they paid for them. The accelerator and the neoclassical theory of investment hold that the adjustment of the capital stock, to its desired level, is instantaneous and complete each period. This can be resolved by the addition of an adjustment cost function to the optimization problem. It provides an explanation of a link between stock prices and the real economy; higher stock prices encourage firm to invest. (Tobin, 1969).

Random Walk Theory

Random walk theory is a theory closely connected to the efficient market hypothesis and helps describe how and why the market can be effective. According to random walk theory will the prices on the market fluctuate randomly and it is therefore impossible to predict how stocks will perform in the future Fama, (1965). This is compatible with the theory of an efficient market because if the prices fluctuate randomly it is not possible to outperform the market. The theory shows that it is not certain that it is even possible for investors to be able to foresee how prices will move without relevant information. According to Fama (1965), the only way for an investor to outperform the market and gain excess return is by having information advantage towards other investors. Any other arguments about specific patterns that can be identified are waste of time because the prices are impossible to predict without an information advantage Fama, (1965).

CONCEPTUAL FRAMEWORK

This work is conceptualized as follows:

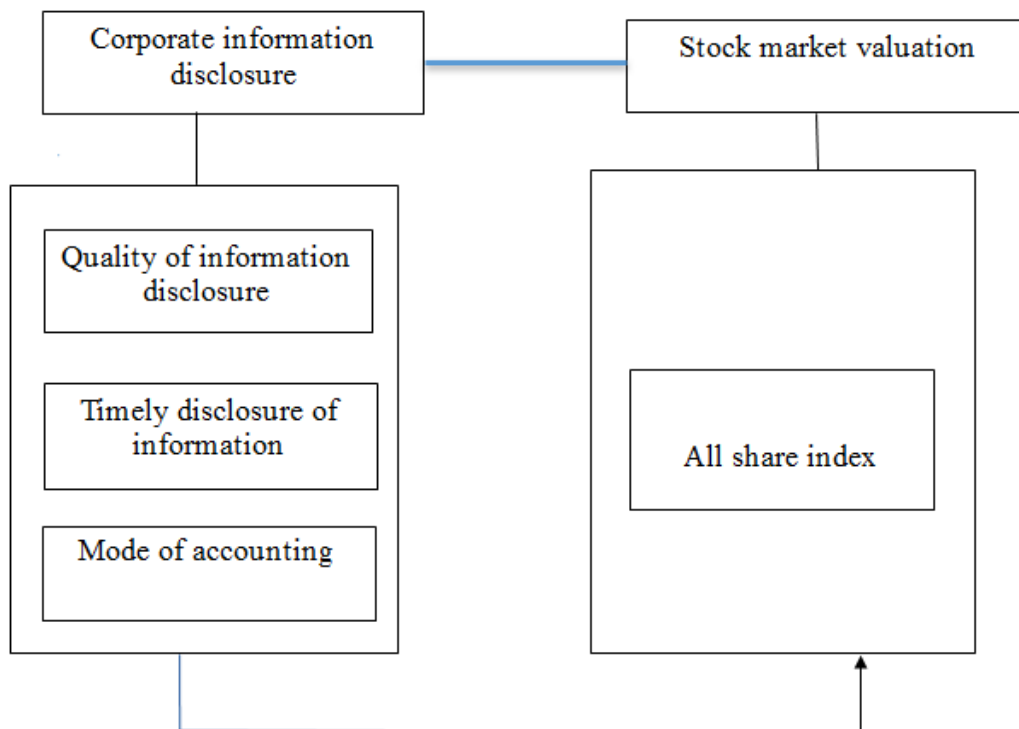


Fig. 1: Conceptualization of the variables

Quality of information disclosure

Quality of information disclosure entails that the corporate managers must use the right hard and software data based management and other relevant information and communication processing facilities in their disclosure. These facilities transform data into information for decision making, thus, for accountants to adequately fit in, they must acquire the necessary information technology knowledge and skill. (Opurum and Ogbonna, 2012).

The attributes of quality of information are:

Timeliness-The speed at which the information is received. Normally, faster the information better is its quality.

Appropriateness-is the suitability matching of the receiver and the information, more the suitability of the information to the receiver, better its quality.

Reliability –the reliability of information is a key attribute of quality. Only if the information is reliable is it of any use. The understanding of reliability comes from past experience, the standing/reliability of the source, the methodology adopted to acquire and process the information and the channel of delivery. (Swanso, 2019).

Accuracy –is the correctness of the information. Normally, the higher the accuracy of the information, the better is its quality.

Completeness –is the measure of comprehensiveness. It is required to ensure that the information provided gives the complete picture of reality and not a part of the picture. These attributes define the quality of information. A high score on each of the attributes indicate that the quality of information is good. (Thakur, 2013).

Mode of accounting disclosure

Another variable of corporate disclosure that affect stock valuation is mode of accounting. An accounting mode refers to the rules a company follows in reporting revenues and expenses. The two primary methods of accounting are accrual accounting (generally used by companies) and cash accounting (generally used by individuals). Cash accounting records revenues and expenses when they are received and paid. Accrual accounting records revenues and expenses when they occur. Generally accepted accounting principles (GAAP) requires accrual accounting. (Ali, Ahmed, and Henry, 2004).

Cash accounting is the simplest accounting mode and is widely used by small businesses. Also, the transaction is only recorded when the cash is spent or received, that is a sale is recorded when the payment is received, and an expenditure is recorded when a bill is paid. This is the method used by commoners in managing personal finances and works for businesses up to a certain size.(Apoorva, 2021).

Accrual (mercantile) accounting works based on a matching principle, i.e. the timing of revenue and expense recognition much match. The process of matching revenue with expense draws a better picture of a company's financial condition. In this method, the purchase order is recorded as revenue even though the payment is not received. Similarly, expenses are recorded even though the payment is not yet made.

The third accounting method is the hybrid method, which is a blend of cash and accrual methods along with the essence of many other special accounting methods. This method can be used in internal accounting and for tax purposes. (Apoorva, 2021).

Stock market valuation

Stock market valuation is a quantitative process of determining the fair value of an asset or a firm. In general, a company can be valued on its own on an absolute basis, or else on a relative basis compared to other similar companies or assets. Stock valuations can be quickly impacted by corporate earnings or economic events that force analysts to retool their valuation models. Every investor who wants to beat the market must master the skill of stock valuation. Essentially, stock valuation is a method of determining the intrinsic value (or theoretical value) of a stock. The importance of valuing stocks evolves from the fact that the intrinsic value of a stock is not attached to its current price. By knowing a stock's intrinsic value, an investor may determine whether the stock is over- or under-valued at its current market price.

Investors may be overwhelmed by the amount of available information that can be potentially used in valuing stocks (company's finances, newspapers, economic reports, stock reports, etc.). Therefore, an investor needs to be able to filter the relevant information from the unnecessary noise. Additionally, an investor should know about major stock valuation methods and the scenarios in which such methods are applicable.

Types of Stock Valuation

Stock valuation methods can be primarily categorized into two main types: absolute and relative.

Absolute stock valuation relies on the company's fundamental information. The method generally involves the analysis of various financial information that can be found in or derived from a company's financial statements. Many techniques of absolute stock valuation primarily investigate the company's cash flows, dividends, and growth rates. Notable absolute stock valuation methods include the dividend discounted model (DDM) and the discounted cash flow model (DCF).

Relative stock valuation concerns the comparison of the investment with similar companies. The relative stock valuation method deals with the calculation of the key financial ratios of similar companies and derivation of the same ratio for the target company. The best example of relative stock valuation is comparable companies analysis.

For the purpose of this study, stock valuation is measured based on how it affects the all share index of the Nigeria Stock Exchange. The *All-Share Index* tracks the general market movement of *all* listed equities on Nigerian Exchange, including those listed on the Growth Board.

Empirical Review

There are several empirical studies that have been done by previous researchers which are related to this current one. Some of these past works are discussed below:

Oluwaremi, (2014) examined the level of financial information disclosure and corporate attributes in developing economy with special reference to Nigeria and to determine whether some important corporate characteristics have any impact on the quality of disclosure in Nigeria. Approaches adopted for this study are: using structured questionnaire to obtain selected information items considered important and equally using Disclosure Index to define the level of disclosure on corporate annual reports of Nigerian companies. Then the association between the extent of disclosure and various corporate characteristics are examined using a multi-linear regression model. The study revealed that in disclosing mandatory items, the average score is high, whilst the average score for voluntary disclosure is unbelievably low. The findings also indicate that size, profitability, board composition, and market

discipline variables are significant, and other variables such as age, complexity of business and asset in-place are insignificant in explaining the level of disclosure.

Khaled and Abdulqawi (2015) in their study of the role of accounting information systems on business organizations value chain found a deficiency in the level of the availability of the basic components of accounting systems and the level of the quality of accounting information required to improve the value chain of business organizations, and recommended the need to work on improving the level of the basic components of accounting systems to enhance the quality of accounting information.

Hla and Teru (2015) investigated the efficiency of Accounting Information System on performance measurement using the secondary data. The study found a tremendous impact of the use of computerized systems to track and record financial transactions in facilitating management decision making, internal controls and quality of the financial report. The study therefore, recommended that businesses, firms, and organization should adopt the use of AIS as enablement for effective decision-making processes at all levels of management.

Another study by Nzomo (2011) investigating the impact of accounting information systems on organization effectiveness employed the descriptive research design. The study gathered both primary and secondary data. Primary data was obtained through interviews and questionnaires to randomly selected employees from the selected companies. The findings of the study indicated that Accounting Information System is an important mechanism for organizations' effective management, decision-making and controlling activities.

Onuorah and Imene (2014) evaluated the level of performance of some selected companies ranging from commodities, brewery, banking, oil and gas and beverages in terms of corporate governance measure indicators on the firm quality of financial reporting in Nigeria. The data were collected from 2006 to 2015. Econometric analysis were conducted and the result suggests that the correlation among corporate governance indicators of board structure (size-BRDSZ and independence-BRDID), audit quality (audit committee size (ADCMZ), the quality of external audit (EADTQ) as measured by the presence of an auditor among the big-4), board experience (i.e. experience-BRDEX) and financial reporting quality is 93.47%. There is overall significance among the parameters measuring financial reporting quality as discretionary accruals of firm (FRQDA).

Oghoghohem, (2013) investigated Corporate Financial Reporting of Marketable Securities (MS) in Nigeria with a view to determine the impact of the reporting system on the financial performance of banks. A survey method of research design were employed and the 25 recapitalized banks in Nigeria formed the population of the study. The data for this study were sourced from the financial statements of banks and the Central Bank of Nigeria (CBN) statistical bulletin for a period of 15 years, i.e. 1995 – 2009. The data generated for this study were analyzed using frequencies, percentages and bar charts while the stated hypotheses were tested with multiple regression analysis. The findings indicated that the reporting system of MS influences the financial performance of banks. Based on the above findings, it was recommended that Marketable Securities should be reported at market value by Nigerian banks; marketable debt securities should be classified as temporary investments while marketable equity securities should be classified as long-term investment and emphasis on the reliability of accounting information should be shifted to the relevance and timely of accounting information to enable market value have prominence over the cost rule in reporting marketable securities.

Igbekoyi, and Agbaje (2018) examine the effect of corporate governance on the quality of accounting information disclosed in Nigerian banks. The study covers banks that are quoted in the Nigeria Stock

Exchange. Data were collected from secondary sources using the annual reports and factbook of selected banks during the period of 2006-2015. Data collected were analyzed using statistical tools; unit root, co-integration and error correction model. The corporate governance indices used in the study include; Audit committee meeting (ACM), Audit committee qualification (ACQ), Board size (BS), Directors in audit committee (DAC), Ownership structure (OS) and Corporate board members (CBM). It is concluded from the findings of the study that corporate governance contributes to the quality of accounting information disclosed in the banking sector.

Wendy, Philip, Wenwen and Qiyu (2016) examined the link between corporate governance, companies' disclosure practices and their equity market transparency in a study of more than 5,000 listed in 23 countries covering 2003-2008. The findings of the study confirm the belief that better-governed firms make more frequent disclosures to the market. The study also found greater disclosure in common law relative to code law countries; also firm with better governance in both code and common laws make more frequent disclosures. More detailed analysis reveals only certain components of corporate governance are associated with disclosures and overall transparency.

Research Gap

From the empirical review, several authors did similar research in the past, some discovered that corporate disclosure has positive effect on firms in Nigeria, while others discovered that corporate disclosure practices in Nigeria is deficient. However, none of considered how it affects stock market valuation and dummy variables. This has created a knowledge gap which this current study tends to fill. So, the need to evaluate corporate information disclosure and stock market valuation using dummy variables is a point of departure for this study, which in the view of the researcher will fill the perceived knowledge gap in this field of study.

Methodology

The researcher adopted an ex-post facto design for the study due to the fact that the data are more of past events. However, dummy variables were used because they allow us to include categorical variables in our analysis, which would otherwise be difficult to include due to the non-numeric nature of the variables. The secondary data for the research were collected from the yearly financial records and accounts of the firms listed in the Nigeria Stock Exchange for the period of 2005 to 2020. Stock evaluation is measured in terms of All share index. The Ordinary Least Square (OLS) domain Regression approach was adopted. In addition, the unit root test, errors correction model (ECM) Johansen cointegration test and Granger causality test were applied to determine the stationarity, long run relationship and causality respectively.

Model specification.

The operationalized form of the model is given in a multiple equation as:

$$ASI = f(QID, TDI, MA) \text{-----} (1)$$

The econometrics form is given as:

$$ASI = \beta_0 + \beta_1 QID + \beta_2 TDI + \beta_3 MA + e_i \text{-----} (2)$$

On apriori $\beta_1 > 0$, $\beta_2 > 0$, $\beta_3 > 0$

Where:

ASI= All share index

QID= Quality of information disclosure

TID= Timely information disclosure

MA= Mode of accounting

β_0 = Constant Parameter

$\beta_1, \beta_2, \beta_3$ = Estimation parameters

e= Error terms.

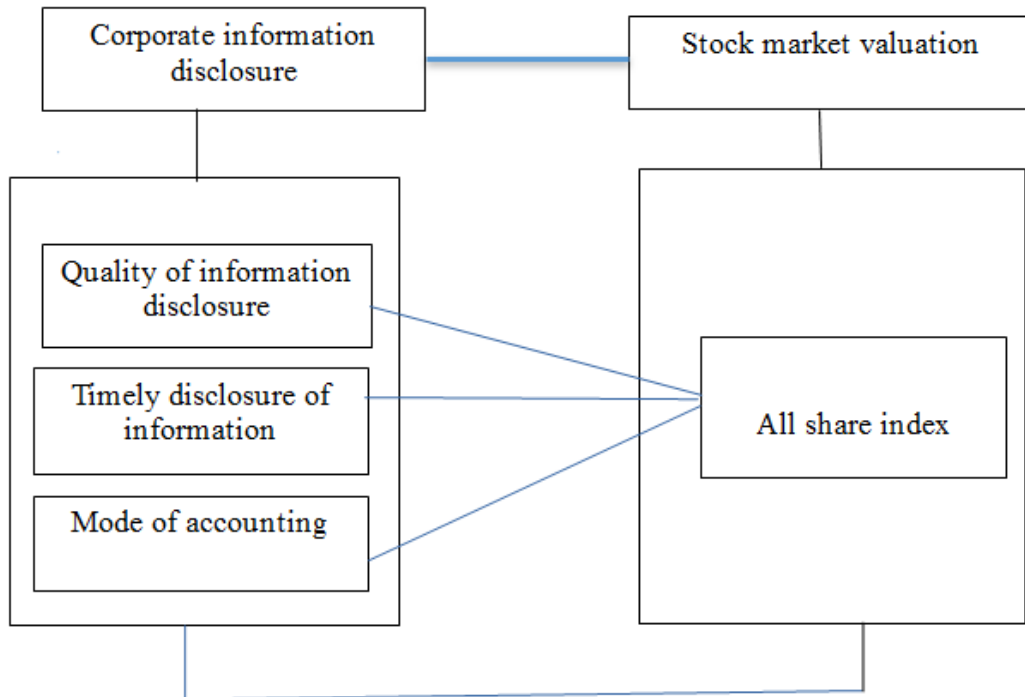


Fig. 2: Operationalization relationship between corporate information disclosure stock market valuation.

Result and analyses

The result of the hypothesis testing begins with the stationarity of the data using the ADF Unit Root Test

Table 1.1: ADF Test Results at Levels- Unit Root Test

Differenced Variable	ADF t-statistics	Critical Value 5%			Order of Integration	Prob.
		1%	5%	10%		
D(ASI)	-5.737873	-3.719999	-2.976263	-2.620000	I(1)	0.0000
D(QID)	-5.660430	-3.011457	-2.321030	-2.449906	I(1)	0.0001
D(TDI)	-6.330088	-3.432878	-2.776300	-2.9901111	I(1)	0.0000
D(MA)	-7.476677	-3.699871	-2.076263	-2.1171420	I(1)	0.0000

Note: Critical Values at 1%, 5% and 10% level of significance

Source: Extracts from E-view 10.0 Output

From the analysis, it could be found that there is stationarity in the employed variables. The decision on the stationarity of the variables is based on the critical values of at 1%, 5% and 10% significance level. From the analysis, it is found that all the variables are stationary at first difference (1). There is stationarity in the variable if the Mackinnon critical value is greater than the Augmented Dickey-Fuller value. It is found that this is the case at all levels of integration (1%, 5% and 10%).

Error correction Model: In light of all levels of integration (1%, 5% and 10%) existing among the variables, the study proceeds to adjust for discrepancies that could occur between the long and short run relationship in the model.

Table 1.2: Error correction Model estimate for ASI

Dependent Variable: ASI				
Method: Least Squares				
Date: 12/02/21 Time: 15:51				
Sample (adjusted): 2005 2019				
Included observations: 15 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.336037	5.345628	37.49770	0.0000
D(QID)	0.002110	5.689999	-0.378094	0.0117
D(TDI)	0.000115	4.88E-10	0.244447	0.0162
D(MA)	0.000212	4.32E-12	0.271236	0.0142
ECM(-1)	-0.210884	0.115141	-2.204434	0.0043
R-squared	0.748343	Mean dependent var		0.490911
Adjusted R-squared	0.709930	S.D. dependent var		0.039806
S.E. of regression	0.010332	Akaike info criterion		-6.21250
Sum squared resid	0.003517	Schwarz criterion		-6.80416
Log likelihood	62.39939	Hannan-Quinn criter.		-5.19093
F-statistic	6.136078	Durbin-Watson stat		1.997722
Prob(F-statistic)	0.000401			

Source: Extracts from E-Views 10.0 output.

The Error Correction Model coefficient of -0.215884 for ASI a disequilibrium in the model which can be adjusted backwards to the tune of about 30% towards equilibrium. This shows that the short run and long run are quite dissimilar by only about 30%. The model also shows via its R-square and Adjusted R-square that corporate information disclosure dimensions jointly account for up to approximately 0.748343 and 0.709930 in ASI variation in the stock market. This shows evidence of goodness of fit in the model employed. Furthermore, the F-statistics value of 6.136078 at a probability level of 0.00401 shows that on the aggregate, the explanatory variables are significant.

Co-integration Test Results

Date: 12/02/21 Time: 18:09 Sample (adjusted): 2005 2019 Included observations: 15 after adjustments Series: ASI QID TDI MA Lags interval (in first differences): 1 to 1 Unrestricted Cointegration Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None	0.440000	21.76707	29.18701	0.2118
At most 1	0.122631	7.939309	15.49471	0.0519
At most 2	0.108957	3.114794	3.441466	0.0642
At most 3	0.100355	3.100654	3.333111	0.0523
Trace test indicates no cointegration at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				

Source: *Author's Computation using E-view*

The co-integration procedure is performed in the vector auto-regression. The values of the likelihood ratio up to column 2 for both models are found to be larger than the corresponding 5% critical values. This implies that there is the existence of at least one co-integrating vectors in the system.

Table 1.4 Regression result for the ASI variable in the model at log

Dependent Variable: Log (ASI).

Method: Least Squares

Date: 12/02/21 Time: 20:10

Sample: 2005 2019

Included observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.010189	32.10101	4.336005	0.0590
Log(QID)	0.000089	51.09880	6.037771	0.0019
Log(TDI)	0.006041	31.24630	5.129880	0.0192
Log(MA)	0.005001	32.34670	5.121590	0.0077
R-squared	0.795899	Mean dependent var		23.32155
Adjusted R-squared	0.625141	S.D. dependent var		14.07512
S.E. of regression	110516.2	Akaike info criterion		16.00292
Sum squared resid	5.91E+21	Schwarz criterion		43.39221
Log likelihood	120.1291	Hannan-Quinn criter.		20.11110
F-statistic	8.910012	Durbin-Watson stat		1.908022
Prob(F-statistic)	0.000203			

Source: Author's computation using E-views 10.0 software

The OLS model at log above did not show much divergence with the result of the Error Correction Model (ECM), thus it is safe to use the OLS result in testing and analyzing our hypotheses. This is reflected below:

Test of Hypothesis

H_{01} : There is no significant relationship between timely information disclosure and all share index (ASI)

From the regression at Log analysis carried out, the computed p- value of the regression coefficient of the log of quality of information disclosure is 0.0019 which is less than the 5% level of significant; we therefore reject the null hypothesis and accept the alternate that there is a significant link between quality of information disclosure and all share index of the stock market in Nigeria.

H_{02} : There is no significant relationship between mode of accounting information disclosure and all share index (ASI)

The computed p- value of the regression coefficient of the log of mode of accounting information disclosure is 0.0077. This value is less than the 5% significant level; we therefore reject the null hypothesis and accept the alternate that there is a significant link between mode of accounting information disclosure and all share index (ASI) of the Nigeria stock market.

H_{03} : There is no significant relationship between timely disclosure of information disclosure and all share index (ASI).

From the E-Views regression at Log analysis carried out, the computed p- value of the regression coefficient of the log of timely information disclosure is 0.0192 which is less than the 5% significant level; we therefore reject the null hypothesis and accept the alternate that there is a significant relation between timely disclosure of information and all share index (ASI) of the Nigeria stock market.

Conclusion and recommendations

Sequel to the result above, we concluded that there is a significant relationship between quality of information, timely disclosure of information, mode of accounting and all share index of the Nigeria stock market. On the aggregate, corporate information disclosure has a significant influence on stock market valuation in the Nigerian stock market. The study therefore recommended that corporate firms in Nigeria should abide by information disclosure policy so as to boost the awareness and confidence of the investors in the stock market.

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