International Journal of Economics, Commerce and Management
United Kingdom Vol. VI, Issue 3, March 2018
http://ijecm.co.uk/ ISSN 2348 0386

RELEVANCE OF FINANCIAL REPORTING ON PROFITABILITY OF QUOTED COMPANIES IN NIGERIA

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Abstract

The study focuses on impact of financial reporting on profitability of quoted companies in Nigeria. For the study, the primary data sources were obtained by distribution of questionnaire while the secondary data were obtained from online annual financial statement of the sampled companies. The study adopted the survey research and cross sectional research design. The sample companies were obtained by using the proportionate stratified sampling. The variables considered in the study were financial reporting and financial performance, which were represented by quality of financial reporting, return on equity, return on asset and profit after tax. The hypotheses for this study were analyzed with the aid of Eviews 7 statistical software, and the level of significance used to test the hypothesis was 5%. The findings of the analysis show that there is positive relationship between quality of financial reporting and profit after tax (i.e. 0≤Pat≤0.002). It also establishes that quality of financial report has significant effect on return on asset (0≤Pat≤0.002). Based on this, study concludes that there is strong relationship between profit after tax(PAT) and financial reporting of quoted companies in Nigeria as P-value obtained (0.000). Hence, study recommends that management of quoted organization should ensure they adopt best practices in financial reporting because there is direct relationship between quality of financial reporting and profit after tax, and also because quality of financial reporting has positive impact on return on asset of the quoted companies in Nigeria.

Keywords: Financial performance, reporting, profit after tax, return on asset, return on equity

INTRODUCTION

Financial reporting is the communication of financial information to various users of accounting information for the purpose of making investment decision, obtaining credit facilities , and other financing decisions (Wild, Shaw, & Chiappetta, 2009). Furthermore, most financial reports in Nigeria are governed by regulations and standards from various recognized financial regulatory bodies such as the Securities and Exchange Commission (SEC), the Financial Accounting Reporting Council of Nigeria (FRCoN), Nigeria Stock Exchange to mention a few. Financial reports are formal and comprehensive statement describing financial activities of a business organization such as the manufacturing firm. It is also a statement that reports all relevant financial information, presented in a structured manner and in a form easy to understand for managerial use and for taking prompt and informed decision relating to investment (IASB, 2007).

The major relevance of the financial report to some users of financial statement is to provide information about the performance and changes in financial position of a firm. These users include managers, directors, employees, prospective investors, financial institutions, government regulatory agencies, media, vendors and general public. Financial reports are often prepared according to national standards, corporate governance, professional ethics, and code of ethics to avoid financial reporting fraud and scandals that might hinders effective decision making process by management and other users of reports. The financial reports comprises of balance sheet (now called statement of financial position), profit and loss statement (now called statement of comprehensive income), statement of equity changes (Statement of changes in equity, the company's equity), and cash flow statements (now referred to as statement of cash flow activities).

It has also been the primary concern of business practitioners in all types of organizations since financial performance has implications to organization's health and ultimately its long term survival. High performance reflects management effectiveness and efficiency in making use of company's resources and this in turn contributes to the country's economy at large (Naser and Mokhtar, 2004). There have been various measures of financial performance. For example return on sales reveal show much a company earns in relation to its sales, return on assets determines an organization's efficiency in ability to make use of its assets and return on equity reveals the return investors expect to earn for their investments. The advantages of financial measures are the simplicity of calculation and also that their definitions are agreed worldwide. Traditionally, the success of a company has been evaluated by the use of financial measures (Tangen, 2003).

Statement of the Problem

Since the dramatic collapse of the Enron Corporation, an American company, in 2001, and the subsequent dissolution of Arthur Andersen, which was then one of the Big five. Audit and accountancy firms around the world have been seen as laughable organization, because of their inconsistency in reporting and poorly structured accounting standard, Infact, according to Bratton (2002) Enron failure was described as the biggest audit failure of all time, because WorldCom another American company in telecommunication industry with over US$107 billion in assets, also suddenly collapsed just after one year of the Enron misfortune (i.e2002). This financial scandals and the financial crunch facing the economy of most nations have resulted in increased attention to improve and enforce quality financial reporting practices worldwide in order to reform the global economy, which has made stock market regulatory body such as the Nigerian Stock Exchange (NSE) to direct all companies, quoted on the exchange to ensure they adopt the IFRSs by December 2011 while the Central Bank of Nigeria has also directed Nigerian banks to adopt the IFRSs by December 2010 (Egedegbe, 2009). But, despite all this financial regulation most quoted organization still evade this regulation through fraudulent mechanisms which involves them ensuring that the audited financials records sent to the central bank of .The problem of this study is therefore, to examine why quoted organizations in Nigeria still involve themselves in sharp practices despite the guidance put in place by various regulatory bodies in Nigeria. Existing studies on financial reporting(e.g. Ferdy, Geert, & Suzanne,2009; Mohammadi, 2014; Hassan,2013) only consider financial reporting and investment, financial reporting and qualitative characteristic, but to the best of the researcher's knowledge none of these studies have considered how financial performance and quality financial reporting can affect quoted companies.

Research Question

Is there any significant relationship between profit after tax and quality of financial reporting of quoted companies in Nigeria?

Objectives of the Study

The main objective of this study is to examine the impact of financial reporting on financial performance of quoted companies in Nigeria.

The specific objectives is to

- determine the relationship between the quality of financial reporting and profit after tax of the quoted companies in Nigeria.

Research Hypothesis

There is no significant relationship between the quality of financial reporting and profit after tax of quoted companies in Nigeria.

Significance of the Study

The study is significant because it will provide more information to users of financial inform-ation that will enable them develop confidence in financial report. It is also important because it will give insight into some of the statutory provisions put in place by relevant statutory organizations to strengthen the quality of financial reporting in quoted companies in Nigeria. The study will also provide relevent information to investors that will guide them in making appropriate investment decision. It is also important because it will serve as a resource material and an addition to existing literature or knowledge. The study is also important because it will provide management with information that will help them to reduce poor financial reporting

Scope of the Study

The study was limited to thirty (30)quoted companies which cut across the eleven(11) sectors listed on the Nigeria Stock exchange. The study will cover a period of 5years, which is 2012-2016.This period was chosen because it is the period Nigeria Started adopting the international financial reporting standards. The companies considered are; Ellah Lakes Plc., Chellarams Plc., Arbico Plc., UACN Property Development CO. Ltd., Champion Brew. Plc, Guinness Nig Plc, Mcnichols Plc, Nestle Nigeria Plc. Access Bank Plc. Aso Savings and Loans Plc, Custodian and Allied Plc, FBN Holdings Plc, Goldlink Insurance Plc, Jaiz Bank Plc, N.E.M Insurance co (NIG) Plc.Prestige Assurance co. Plc. Skye Bank Plc, Sterling Bank Plc.Unity Bank Plc, Zenith International Bank Plc, Glaxo Smithkline Consumer Nig. Plc.Pharma-deko Plc, E-tranzact International Plc, Austin Laz & Company Plc, CapPlc, Lafarge Africa Plc. Aluminium Extrusion Ind. Plc. Capital Oil Plc, Mobil Oil Nig Plc.Total Nigeria Plc.Capital Hotel Plc,

LITERATURE REVIEW

Conceptual Review

Concept of Financial Reporting

Financial reporting involves recording financial information according to relevant accounting standards. According to (Vargiya, 2015) Financial Reporting includes the exposure of financial related information to the different Stakeholders about an organisation over a pre-defined timeframe. These Stakeholders include – investors, lenders, suppliers, and government organizations. Financial Reporting is generally considered as final result of Accounting. It comprises of various important statement which include - financial related explanations from statement of financial position, Statement of comprehensive income, Statement of cash flow, Statement of changes in equity, notes to financial related explanations, Quarterly and Annual reports (if there should be an occurrence of quoted organizations),Prospectus (if there should be an occurrence of organizations going for Initial Public Offers) and Management Discussion and Analysis (if there should be an occurrence of open organizations).

Goals and Objectives of Financial Reporting

According to International Accounting Standard Board (IASB), the goal of financial related reporting is "to give information about the financial position, performance and changes in financial position of an undertaking that is helpful to an extensive variety of users of accounting information.

The reasons for financial reporting involves, providing information to management of an organisation which is utilized with the end goal of planning, examination, benchmarking and basic leadership, making information available to investors, promoters, obligation supplier and leasers which is utilized to empower them to male sane and reasonable choices with respect to business, credit and so forth, communicating information to shareholders about the nature of activities in an organization, Providing information about the financial assets of an organisation, events to those assets (liabilities and proprietor's value) and how these assets and events have experienced change over a timeframe, Providing information with respect to how an organisation is securing and utilizing different assets. Providing information to different Stakeholders with respect to performance of management of an organisation in the matter of how tirelessly and morally they are releasing their fiduciary obligations and duties. It includes providing information to the statutory reviewers which thus encourage review. It also enhances social welfare by investigating the enthusiasm of workers, exchange union and Government.

Importance of Financial Reporting

As indicated by (Vargiya, 2015) the significance of financial related reporting cannot be over underscored. It is required by every last partner for numerous reasons and purposes. The following focuses highlights why financial communication system is essential, because it causes an organisation to conform to different statues and administrative necessities. The organisations are required to record financial related proclamations to Government Agencies. In the event of quoted organizations, quarterly and also yearly outcomes are required to be documented to stock trades and distributed, encourages statutory review - the Statutory reviewers are often required to review the financial proclamations of an organisation to express their assessment.

Financial reports also shape financial planning, examination, and basic leadership. Financial reporting also helps organisations to raise capital both locally and also abroad. On the premise of financials, general society at large can affect the performance of the organization and of its management if information about them is not contained in the financial statement.

Concept of profitability

The word profitability is comprised of two particular words which are, ""Profit"" and "Ability". Profit has different definitions in view of its use and reason, it is frequently a critical fact to consider in most financial related articulation. While the term Ability, demonstrates the energy of the business worry to produce profit. Profitability can likewise be referred to as Earning power" or working performance of the business which add up to Investment (Verma, 1988).

According to Upton(1961) as cited in Adetoso & Akinselure (2016) profit is characterized as the capacity an Investment has, to acquire a sizable income from its consistent use in business. This suggests that profit is a composite idea relating to the effectiveness of the organization to earn profit.

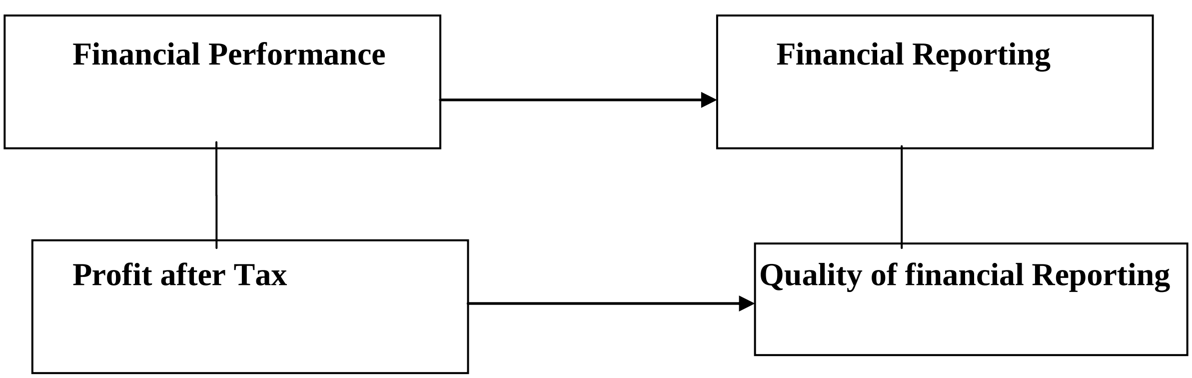
Furthermore according to Gibson and Boyer(1979) as cited by Adetoso & Akinselure (2016) profitability measures the capacity of the firm to persistently create income, while Franks and Broyles(1979) uncovered that the normal return, for the most part alluded to as profit, realise from the capital market, can likewise be considered as the opportunity cost. Business organisations can without much of a stretch utilize their reserve in the capital market, along these lines, the market, fills in as a kind of perspective indicator which measure profitability. Form another viewpoint, a beneficial Investment venture can be characterized as one which return is adequate to draw in an enormous capital from the capital market (Frank and Broyles, 1979) as cited by Adetoso & Akinselure (2016).

In the word of Barasara (2014) as cited by Eniola, & Akinselure (2016) Profitability is a relative measure, which shows the most beneficial option, though Profit is a flat out measure, which demonstrates the general measure of income that can be created from a transaction. In business organisation, it is critical to note that high profit does not generally demonstrate a sound hierarchical productivity and low profitability ought not to be considered as organisation affliction.

Profit making is the fundamental rationale of most organizations, infact, it is the essential persuading power for most financial exercises. Most organisation, as a rule build up a solid methodology to guarantee profit is earned on a consistent bases. Business worries that are not ready to create adequate profit as a rule have conflict with the suppliers of capital and this makes their consistent presence a major test. Profit is required to re-pay suppliers of capital as well as to back development and extension of an organisation. Organisations that think that its hard to make profit regularly end – up disintegrating the underlying capital contributed and which thus, prompts the conclusion of such organizations. It is additionally a measure of the surplus riches created by the business worries from its general exercises more often than not on occasional premise. Most circumstances, it includes contrasting the consequence of the business between two particular dates, typically isolated by a time of one year (Barasara, 2014) as cited by Adetoso & Akinselure (2016) As indicated by Weston and Brigham (1978) as cited by Adetoso & Akinselure (2016), profit can be deciphered in different ways. They proposed that, in financial related administration, profit is viewed as a trial of the proficiency and a measure of control; to the proprietors, it is depicted as the measure of the value of the whole business; to the Creditor, it is viewed as the Margin of wellbeing; to the representatives, it is viewed as a wellspring of incidental advantages, while to the administration, it is portrayed as a measure of assessable limit which fills in as reason for Legislative Decision. At long last, they inferred that to the nation, profit, is viewed as list of financial advance, national development, and sensible exclusive requirement of living. The survival of any business depends for the most part on its purchasing power. In this manner, any disappointment of the organisation to make profit will prompt disintegration of the capital, this is the reason, profits are portrayed by numerous as the spirit of business, in fact without it, a business will be said to be inert. The bigger the profit, the more productive and gainful the business is considered to be.

Conceptual Framework

Figure 1. Relationship between Dependent and Independent Variables



Theoretical Framework

Asymmetric Theory

The asymmetric information theory accepts that no less than one party to a transaction has significant information while others don't. Asymmetric information talks about a deviation from impeccable information. Akerlof (1970) opined that imbalances in access to information can easily influence the capital market for the trading of merchandise and business. It says that in some financial transactions, disparities in access to information annoy the ordinary market for the trading of merchandise and business. This theory gives a hypothetical clarification of the weight to unveil on the executives of the banks who are better put in the corporate structure to know the banks better and along these lines discharge the information they have to the financial specialists that will utilize same for basic leadership. Ball (2009) take note of that reviewed financial related articulations and intentional exposures are corresponding systems for directors to impart information. Gigler and Hemmer (1998) watch that reporting autonomously inspected financial results play a 'corroborative part', enabling shareholders to assess the education and honesty of past optional Disclosures. Thus, this enables directors to solidly reveal value applicable information, regardless of the possibility that the information is not specifically unquestionable.

Voluntary Disclosure Theory

The thought of theory of Voluntary Disclosure emphasizes that, even without control, managers still wish to reveal extra information. This is because in the light of contemplations found in organization theory, which affirm that agency expenses are borne for the most part by agent (Jensen and Meckling, 1976). Along these lines, operators attempt to diminish their agency expenses to augment their riches. As depicted in organization theory, agent expenses are a result of information asymmetry, whereby the specialist has more private information about the organization's performance than the essential. Hypothetical and exact reviews in accounting center on the educational part of willful revelations for the capital markets. (e.g. Healy and Palepu, 2001; Verrecchia,2001). The SEC and the FASB give rules to obligatory revelations; the exposure writing in accounting alludes to deliberate and optional disclosures, conversely, as information management discharges itself. The hidden supposition in the disclosure writing is the administrator has better information than others. The outcome is executives' exchange off between settling on accounting decisions and giving revelations to "convey their better information of an organisation's performance than financial specialists, and to oversee announced performance for contracting, political, or corporate management reasons" (Healy and Palepu, 2001). 08145104440

Empirical Framework

Corporate Financial Disclosure in Nigeria

Wallace (1988) is one of the pioneer considers on the Nigerian corporate communication. He researches the degree of Disclosure utilizing statutory and willful things. Wallace's decision of information things was important to the client assemble - Accountant, government workers, supervisors, investors and different experts. He utilizes a specimen of 47 organizations, 54% of the aggregate populace of recorded firms cited at the Nigerian Stock Exchange amid 1982 and 1986. Disclosure is dealt with as a dichotomous thing, for a thing unveiled and zero for those not revealed. The scoring framework is educated by its power. Two sorts of revelation files are built, unweight and weighted. The weighted Disclosure file mirrors the inclinations of the six-client gatherings. The aftereffect of the investigation uncovers that organizations which distribute yearly reports don't sometime agree with the management view. The general revelation record uncovers the shortcoming in the Disclosure rehearse in Nigeria, extending from 37.55% to 43.11%. There is an abnormal state of Disclosure identifying with asset report, historical things and valuation techniques, while there are clear shortcomings in status information, social reporting, pay articulation things and projections.

According to (Okike 2000) most accounting reports have been discovered inadequate as in they need key information. Ofoegbu and Okoye (2006) explore the degree to which Statement of Accounting Standards are consented to in Nigeria. Utilizing a specimen of seven guidelines (SAS 3, 7, 8, 10, 11, 18 and 19) helpfully picked, they broke down the yearly reports of 41 organizations freely cited at the Nigerian Stock Exchange. It is found that there is a blended consequence of consistence with Disclosure necessities. Outstandingly, full consistence (100%) is recorded for things, for example, bases of deciding book estimation of returns, income introductions, revelation of different types of duty and developments of charges and resources amid the year. Fractional consistence (extending from 2% to 90%) is recorded for things, for example, recurrence of revaluation arrangement, measure of remote trade pick up or misfortune, development profile of hazard resource of banks, and commission paid/got. Adeyemi (2006) considers SAS 1 to SAS 21 and utilizing an example of 96 recorded organizations with year-end in the vicinity of 2003 and 2004. Furthermore, he experimentally decided the connection amongst revelation and some organization qualities. Umoren (2009) considers SAS 1 to SAS 30 and IAS 1 to 41, utilizing a specimen of 90 recorded organizations that cut crosswise over 25 businesses on the NSE. The review attempts a solitary period examination as all the organizations utilized were those that distributed their yearly reports amid the period January 31 and December 31, 2006.

METHODOLOGY

The methodology of this study is based on survey research design and cross sectional research design.. The survey research design was used because the study involved the distribution of questionnaire to some selected respondents in the companies considered by the study, while, the cross sectional design was used because it will help to determine the prevalence(i.e. Commonness) of quality financial reporting, profit after tax of the various sectors consider by the study in the period specified for this research work. Furthermore, the survey approach involves the distribution of four hundred (400) copies of questionnaire to various users of accounting information who have shares, in Nigeria companies presently, in past and those who intend to have in the future. Also, the data obtained were analyzed using ordinary least square regression in Eviews 7. The sample for this research work was determine as follows

Formula for infinite population is given as follows;

$$SS = \frac{Z^2 \times (p) \times (1-P)}{C^2}$$

Where,

SS = Sample Size

Z = Z-value(e.g., 1.96 for a 95 percent confidence level)

P = Percentage of population picking a choice, expressed as decimal

C = Confidence interval, expressed as decimal ($0.05^2 = 0.0025$)

The Z-values for confidence levels (i.e. ∞ to z)

1.645 = 90 percent confidence level

1.96 = 95 percent confidence level

2.576 = 99 percent confidence level

$$SS = \frac{1.96^2 \times 0.5 \times 0.5}{0.0025}$$

$$SS = \frac{3.8416 \times 0.5 \times 0.5}{0.0025}$$

SS = 384.16

Approximately = 400

The four hundred (400) questionnaires were distributed among the various user of accounting information interested in financial reporting and financial performance of quoted companies.

Table 1. Schedule of Sectors and Companies Used in the Research

S/N	Name of Sectors	**Names of Companies**	**Ticker**	**Sectors(NSE)**	**Sampling Computation.**
1	Agriculture	ELLAH LAKES PLC.	ELLAHLAKES	AGRICULTURE	1/171 x 30 = 0.18
2	Conglomerate	CHELLARAMS PLC.[BMF]	CHELLARAM	CONGLOMERATES	1/171 x 30 = 0.18
3		ARBICO PLC.	ARBICO	CONSTRUCTION/REAL ESTATE	2/171 x 30=0.35
4		UACN PROPERTY DEVELOPMENT CO. LIMITED	UAC-PROP	CONSTRUCTION/REAL ESTATE	
5		CHAMPION BREW. PLC.	CHAMPION	CONSUMER GOODS	4/171 x 30= 0.70
6		GUINNESS NIG PLC	GUINNESS	CONSUMER GOODS	
7		MCNICHOLS PLC	MCNICHOLS	CONSUMER GOODS	
8		NESTLE NIGERIA PLC.	NESTLE	CONSUMER GOODS	
9		ACCESS BANK PLC.	ACCESS	FINANCIAL SERVICES	12/171 x 30= 2.11
10		ASO SAVINGS AND LOANS PLC[MRF]	ASOSAVINGS	FINANCIAL SERVICES	
11		CUSTODIAN AND ALLIED PLC	CUSTODYINS	FINANCIAL SERVICES	
12		FBN HOLDINGS PLC	FBNH	FINANCIAL SERVICES	
13		JAIZ BANK PLC	JAIZBANK	FINANCIAL SERVICES	
14		N.E.M INSURANCE CO (NIG) PLC.	NEM	FINANCIAL SERVICES	
15		PRESTIGE ASSURANCE CO. PLC.	PRESTIGE	FINANCIAL SERVICES	
16		SKYE BANK PLC[MRF]	SKYEBANK	FINANCIAL SERVICES	
17		STERLING BANK PLC.	STERLNBANK	FINANCIAL SERVICES	

18	UNITY BANK PLC	UNITYBNK	FINANCIAL SERVICES	
19	ZENITH INTERNATIONAL BANK PLC	ZENITHBANK	FINANCIAL SERVICES	
20	GLAXO SMITHKLINE CONSUMER NIG. PLC.	GLAXOSMITH	HEALTHCARE	2/171 x30= 0.35
21	PHARMA-DEKO PLC.	PHARMDEKO	HEALTHCARE	
22	E-TRANZACT INTERNATIONAL PLC[BLS]	ETRANZACT	ICT	1/171 x 30 =0.75
23	AUSTIN LAZ & COMPANY PLC[MRF]	AUSTINLAZ	INDUSTRIAL GOODS	3/ 171 x 30 = 0.53
24	CAP PLC	CAP	INDUSTRIAL GOODS	
25	LAFARGE AFRICA PLC.	WAPCO	INDUSTRIAL GOODS	
26	ALUMINIUM EXTRUSION IND. PLC.	ALEX	NATURAL RESOURCES	1/171 x 30 =0.18
27	CAPITAL OIL PLC[RST]	CAPOIL	OIL AND GAS	3/ 171 x 30 = 0.53
28	MOBIL OIL NIG PLC.	MOBIL	OIL AND GAS	
29	TOTAL NIGERIA PLC.	TOTAL	OIL AND GAS	
30	CAPITAL HOTEL PLC[BLS]	CAPHOTEL	SERVICES	1/171 x 30 =0.18

Model Specification

The model specification used in this study is based on the description of the relationship between the dependent and independent variables of this research work.

Y = f(X)

Where, Y = Dependent Variable represented financial performance which was represented by Return on asset, profit after tax, return on equity

X = Independent Variable represented by quality Financial Reporting

The multiple linear regression models for this study is defined as:

$Y= \beta_0 + \beta_1X_1+\beta_2X_2+\beta_3X_3 + e$

$Y= \beta_0 + \beta_1PAT_1+\beta_2ROE_2+\beta_3ROA_3 + e$

Where, β_0 = Constant

X_1 to X_3= Independent Variable.

β_1 = Regression Coefficient

PAT_1 = Profit after Tax

ROE_2= Return on Equity

ROA_3 = Return on Asset

e = error term

Data Presentation and Analysis

The statistical analysis was done using Coefficient of correlation, Multiple regression and Ordinary least square Regression analysis, and the analyses involves analyzing the responses obtained from the questionnaire and other secondary data used in this research work data. Also to reduce the variance in the qualitative and quantitative data, the logarithm value for the quantitative data was used in the hypothesis three of this research work

FINDINGS AND INTERPRETATION

Response Rate

Table 2. Rate of Respondents

	Frequency	Valid Percent	Cumulative Percent
Valid Returned	350	87.5	87.5
Invalid Returned	20	0.05	87.55
Unreturned/Missing	30	0.075	87.63
Total	400	100	

The above tables shows that four hundred (400) copies of the questionnaire were printed and distributed, but only three hundred and fifty (350) were returned, while twenty (20) were wrongly filled and the remaining thirty (30) were missing . The reasons for invalid returned(wrongly filled) and missing questionnaires includes the following.

1. Some respondents misplaced the questionnaires given to them.
2. Some respondents filled the questions wrongly, majorly because they did not read them carefully before answering them; therefore, the researcher had to cancel them.
3. Few respondents ticked two answers for a question and these were recorded as void or missing to avoid incorrect interpretation.

Hypotheses Testing and Interpretation

Decision Rule: Accept the Alternate hypothesis and reject the Null Hypothesis if the P-value result is lower than the benchmark value of 5% specified in Eviews for this analysis, but if otherwise reject the Alternate Hypothesis and accept the alternate Hypothesis, while the decision rule for Durbin Watson is to accept the Alternate hypothesis if the value obtained does not exceed 2, but if otherwise, then, the alternate hypothesis will be rejected while the Null hypothesis will be accepted, meaning that there is no serial correlation between the variables, but for R square the decision rule is to assume a strong relationship exist between the dependent and independent variable if the result of the R square is above 50%, but weak if the value obtained is less than 50%.

The Panel Ordinary least square analysis statistical tool used in the study was based on Fixed Effect because the Test of the Variable using the Redundant Fixed effect tool shows that there is significant positive relationship between the dependent variable and the explanatory or independent variable. Also for the Analysis of the Hypotheses to be rational and logical, the qualitative data (i.e. Financial reporting data) were converted to their logarithm values, before comparing them with the quantitative data (i.e. ROE) obtained from annual financial statement.

Hypothesis One

There is no significant relationship between the quality of financial reporting and profit after tax of the quoted companies in Nigeria.

Table 3. Fixed Effect Testing of Panel Data for Hypothesis One

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.000000	(4,19)	1.0000
Cross-section Chi-square	0.000000	4	1.0000

Cross-section fixed effects test equation:
Dependent Variable: PAT1
Method: Panel Least Squares
Sample: 2012 2016
Periods included: 5
Cross-sections included: 5
Total panel (balanced) observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.277839	0.158486	-1.753079	0.0929
F_REPORTING	0.216097	0.005560	38.86351	0.0000
R-squared	0.985000	Mean dependent var		5.600000
Adjusted R-squared	0.984348	S.D. dependent var		1.892969
S.E. of regression	0.236824	Akaike info criterion		0.033618
Sum squared resid	1.289967	Schwarz criterion		0.131128
Log likelihood	1.579777	Hannan-Quinn criter.		0.060663
F-statistic	1510.373	Durbin-Watson stat		3.230773
Prob(F-statistic)	0.000000			

The result of the Redundant Fixed effect test shows that the dependent variable, that is, the profit after tax has significant impact with the explanatory variable quality of financial report, this is because R square valu of is 99% which indicate that the independent variable accounts for only 99% of the dependent variable, while only 1% is accounted for by other variables outside the scope of this study. this was also supported by the chi – square value calculated and F-statistic are (i.e.1.0000 and 1.0000) since they were both greater than the chi-square value and F- statistic tabulated (i.e. 9.448 and 2.90 respectively). Therefore since this satisfy the assumption that there is significant impact between the dependent and independent variable, the hypothesis can be tested using Ordinary least square Regression Fixed effect panel Data. This was also established by the f value of (0.00000).

Table 4. Testing of Hypothesis One Using Ordinary Least Square Regression (Panel Data)

Dependent Variable: PAT1
Method: Panel Least Squares
Date: 09/07/17 Time: 21:18
Sample: 2012 2016
Periods included: 5
Cross-sections included: 5
Total panel (balanced) observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.277839	0.174373	-1.593362	0.1276
F_REPORTING	0.216097	0.006118	35.32279	0.0000

	Effects Specification		
Cross-section fixed (dummy variables)			
R-squared	0.985000	Mean dependent var	5.600000
Adjusted R-squared	0.981053	S.D. dependent var	1.892969
S.E. of regression	0.260563	Akaike info criterion	0.353618
Sum squared resid	1.289967	Schwarz criterion	0.646148
Log likelihood	1.579777	Hannan-Quinn criter.	0.434753
F-statistic	249.5398	Durbin-Watson stat	3.230773
Prob(F-statistic)	0.000000		

The above analysis shows that there is statistical relationship between quality of financial reporting and profit after tax. This is because the p-value obtained (0.0000) was lower than the benchmark value of 5% specified in Eviews for this analysis. This also implies that as quoted companies improve the quality of financial reporting, the level of their profit will also begin to improve, since both variables have direct relationship with each other. However, this result was different from the Durbin Watson test, since the value obtained (i.e.3.230773) was higher than the benchmark of 2, hence, we can conclude that using durbin watson the variable do not show relationship with each other. this also implies that there is problem of serial correlation problem with the variables, which implies that that the variables are not correlated with each other. But, the result of the R square also validate the output of the P-value, because it shows a value of 99%, which implies that the independent variable accounts for 99% of the dependent variable while the remaining 1% can be accounted for by other factor outside this model. The variance in the result of the statistical parameters used in this analysis may seems to contradict each other, however, this contradiction can be settle by the result of the F statistic (i.e. 0.0000).Therefore, since this value is lower than the benchmark significance value specified in Eviews for this analysis, we can conclude that there is significant relationship between both variables. This is in agreement with the study of Cerf (as cited in Fremgen 1963) who directly emphasized that financial reporting quality has positive relationship with profitability and shareholders wealth

DISCUSSIONS

The findings of this study demonstrated that there is strong relationship between profit after tax and financial reporting of the selected quoted companies in Nigeria, this is because the P-value obtained(0.0000) using Ordinary least square regression was lower than the benchmark value of 5% specified in Eviews for this analysis. This is in agreement with the study Cerf (as cited in

Fremgen 1963) support that financial reporting has positive relationship with profitability and shareholders wealth. The statistical findings also show that financial reporting has significant effect on return on asset of the quoted companies in Nigeria, since, the P-value (i.e.0.0000) obtained using Ordinary least square regression shows was lower than benchmark value of 5% specified in Eviews statistical software for this analysis. This was also corroborated by the study of Aroh, Ndu.,Aroh (2011) who emphasized that the main purpose of financial reports is to keep shareholders inform about key financial indicators (e.g. return on asset, current ratio etc.) and also the financial position of the organization. Finally the findings of this study indicated that financial reporting does not have impact on return on equity of the selected quoted company, because the P-value (i.e. 0.2844) using Ordinary least square regression was higher than benchmark value of 5% specified in Eviews statistical software for this analysis. This was supported by study of (Okike, 2000) who established that most financial reports are inadequate because they do not contain adequate financial information that can help stakeholders make financial decision, which implies that sometimes quality of financial report may not have relationship with key financial information needed to make investment decision.

CONCLUSION AND RECOMMENDATIONS

The study concludes that there is strong relationship between profit after tax and financial reporting of the quoted companies in Nigeria, this is because the P-value obtained (0.0000) was lower than the benchmark value of 5% specified in Eviews for this analysis.

Management of quoted companies must introduce new strategies to improve their financial reporting quality; so that the level of their profit can significantly increase since this study has confirmed that both variables have significant influence on each other.

Stakeholders and potential Investors in quoted companies should question any fluctuation in value of return on asset, because quality of financial reporting has direct impact on the variable and which will eventually affect the profit value.

CONTRIBUTION TO KNOWLEDGE

The study contributed to knowledge by establishing that;

1. Not all financial indicators affect the quality of financial report, therefore investors should not panic if there is sudden fluctuation in percentage attached to return on equity, since this study has empirically confirmed that this does not have relationship with financial report.

2. Regulatory bodies Like Central Bank of Nigeria, Nigeria Stock exchange and other regulatory institution should regularly review their reporting framework, so as to identify possible, lapses that may rubbish their image in the future.

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