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QUANTITATIVE ACCOUNTING INFORMATION AND BOND MARKET YIELD: EVIDENCE FROM NIGERIA CAPITAL MARKET 2003-2012

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Abstract

The study is an empirical examination of the casual connection between quantitative accounting information and bond market yield (return). The study is motivated by the perceived underperformance of the Nigerian domestic bond market, investors' apathy in the bond market and the dearth in accounting literature in the Nigerian capital market. A Correlation and casual comparative (Ex-post Facto) designs were adopted. Secondary data were analyzed using multiple regression technique. The finding suggests that there is significant positive relationship between quantitative accounting information and bond market yield. Thus, bond market yield is significantly predicted by quantitative accounting information components (Balance sheet, income statement, cash flow statement etc.), including the application of ratios for evaluation of financial performance. The study also revealed significant effect of quantitative accounting data on bond market yield in Nigeria. The result however, exposed paucity of accounting information of the high rate of creative accounting practices by government and corporate bond issuers which tend to impair transparency, probity, accountability and loss of confidence by users of accounting data in the Nigerian bond market. Furthermore, the untimely and in most cases non-disclosure of financial statements by government entities whose bond issues are dominance of *the Nigerian bond market hinders the development and performance of the domestic bond market. The study therefore recommends that government and corporate bond issuers should compulsorily disclose at least 10 years' financial statements to the investing public before accessing the bond market, with strict compliance to post listing regulation requirements of the statutory authorities through the Nigeria Stock Exchange X-issuers portal. The model is also recommended for use by bond market stakeholders and the general public in making informed investment decisions. To make accounting information relevant in the bond market there should be promotional initiative in the bond market to increase the proportion of corporate bond that will attract the use of accounting information as a tool for investment decision by interested corporate bond investors.*

Keywords: Accounting, Quantitative Accounting Information, Bond Market, Investment, Yield

INTRODUCTION

A group of indispensable investors in the capital market that uses accounting information are the potential bond investors and bondholders whose primary investment objective is the bond yields which is the amount of return an investor will receive on investment in bond and other fixed income securities. The return (yield) on bond is an essential bond market performance indicator capable of attracting investors to the bond market. Investors and other stakeholders in the Nigeria domestic bond market require to ascertain whether bond yield reflect accounting information published by firms and governments. The importance of the bond market cannot be overemphasized. Domestic bond market serves as a source of domestic debt finance, offers the potential for deeper markets by attracting foreign investors, and affords investors a source of steady income. Functional domestic bond market is necessary for capital investments, and An active sovereign bond market prevents the economy from over-heating as it allows large temporary over flows from the money market. How best can Accounting figures be used as a tool to counsel investors in making investment decisions particularly in the Nigerian capital market? What justifies accounting as an indispensable guide to bond market users capable of propelling the performance of the domestic bond market? There is perceived underperformance of the Nigerian emerging domestic bond market perhaps due to Alleged creative and glossy preparation of accounting figures by accounting data preparers which may have significant impact on the performance of the domestic bond market in Nigeria. Hossain, et al (2004) contend that financial information is essential in making sound investment decisions and it will reduce the information asymmetry problem between firms' manager and investors. while, Accounting information is any data or information obtained from accounting system of a firm whether contained in a financial statement, a special or verbal statement (William, 1968). According to Sherita,(2011) Accounting information is expected to be helpful when it is used in economic decisions, which means that it should be able to make distinction in the decision. According to Chen(2004) the understanding of information depends on the background knowledge and investors takes longer time to understand information from sources they are less familiar with. It is imperative to study the association between Quantitative accounting information and bond market performance indicators so as to unravel its impact on the Nigeria capital market and by extension the Nigeria economy. It is essential to investors and other stakeholders to determine whether bond yields reflect accounting information published by firms and governments.

Although, most studies on accounting information and bond market yield has been focused on advanced countries of the world. Hofmann et al (2012),Easton et al (2005), Chen Liao (2008), Liao et al (2008), Reiter(1996), Ziebart& Reiter (1992), Reiter at el (1986), chan et al (2007). Suffice it to say that Nigeria capital market – bond market research literature in accounting is scanty. Thus, Kantude (2005), kyle (1999), Afrinvest West Africa ltd (2010). According to Negah (2008) it has not been comprehensively researched primarily because of problems with data availability. For the identified extant research works conducted in this area, none to the best of our knowledge account for the empirical evidence of the impact of accounting information on yields of the domestic bond market and by extension the overall performance of the bond market in Nigeria. Consequently, the study attempt to fill the gap in literature by investigating the connection of accounting information in determining bond market performance and its attendant effect on bond return (yield) in Nigeria

In view of the above issues of the study, the following specific research questions were formulated:

1. What is the relationship between Quantitative accounting information and bond market performance?

2. To what extent does quantitative accounting information influence bond market yields (returns) in Nigeria?

Accordingly, and in order to validate the data analyses the following null hypotheses were formulated:

Ho_1: There is no significant relationship between Quantitative accounting information and bond market performance.

Ho_2: Bond market yield (returns) is not significantly affected by Quantitative accounting information.

RELATED LITERATURE

In bond market, yield(return) is a critical concept and crucial for measuring the return on investment in bonds. Bond yield is relevant and an indicator of bond market performance. Yield is fundamental to investors in making informed investment decisions either for sale or purchase. Thus, bond market will strive when investors know the returns they are expected to realize from bond investment. However, accounting information may have impact on bond returns and by extension the general performance of the bond market. Published financial statements of both government and corporate firms provide valuable information to both equity and bond holders for making investment decisions. However, in the wide range of accounting literature, the very definition of accounting theory insists that accounting is a source of information. According to Atrill et al (2007), the main role of accounting is to help people make informed financial decisions. Christensen and Demski (2003) refer to accounting as providing data on organizations financial history. What makes this data information is the fact it reveals knowledge we did not process before. Although, there have been many indicators taken into consideration in deciding bond investment, accounting information have a significant contribution in debt market (Francis et al. 2005; Core et al 2008). Datta et al (1993) investigates the response of bond market towards unexpected earnings announcements. Subramayam (2010) investigates the influence of accounting information in bond market.

Theoretical Framework

This paper is driven by the ability of corporate and government bond issuers to disclose accounting information to investors, since accounting information is value relevance in determining investment values.

Scottt (2003) in his notable paper observed that accountants have decided that investors are the major users and as a result have turn to various theories in economics and particularly finance, to theories of decision and investment, to understand the type of accounting information investors need. Therefore, this study is underpinned by the following theories**:**

Signaling Theory

Signal theory explains the justification behind organizations motive to share and disclosure information regarding financial report to external users. Verrecchia (1983) asserts that as a result of information asymmetry problem, companies signal certain information to investors to show that they are better than other companies in the market for the purpose of attracting investment and enhancing a favourable reputation. The motivation usually arises where there is a distinction between the information from the companies and the one from the external users.

Companies and governments should know about their situation as well as future prospects more than investors or creditors from the external side. Signally behavior by both government and corporate bodies include: Issue of financial statements whether in a regulated or unregulated environment, submitting to auditing procedures and Voluntary disclosure of accounting information.

Value Relevance Theory

The value relevance theory is based on the idea that accounting information is useful in determining investment values. Beaver (1968) defined value relevance of accounting information as the capacity of accounting information in describing accounting values. Value relevance of accounting information become critical as there are claims that historical cost based financial report has lost its relevance to investors caused by significant change in the economy namely the transformation from industrial economy to high-tech economy and service oriented, Francis et al (1999).

Empirical Review

The relationship between accounting information and the performance of domestic bond market have been investigated in literature but such studies are predominant in advanced countries. For instance, Chen et al (2007) investigated segment disclosure quality, information asymmetry and corporate bond yield spreads. The study used panel regression with different model settings to examine how segment disclosure quality affect corporate bond yield spreads. The result of the research shows that volatility of the segment disclosure of accounting information significantly and positively relates to a firm's information asymmetry and its bond yield spreads. (Ziebart and Reiter, 1992) examined bond rating, bond yield and financial information. The study used a simultaneous equation system to construct firm-specific financial information, bond ratings by two major rating agencies, and initial offering yields. The study revealed that financial information affects bond ratings, while bond ratings directly affect bond yields, financial information also affect directly bond yields, and that financial information indirectly affects bond yields through its effects on bond ratings. Furthermore, Reiter (1996) investigated the use of bond measures in financial accounting research. The study focused on the use of bond prices and yield in financial accounting research using the price, risk premium, bond yields as models. The research revealed strong association between risk premiums and accounting information, and highly correlation between accounting information and bond ratings. Relatively, Hofmann and Watrin (2012) investigated the role of accounting information in the debt market during the financial crisis for annual bond returns. The study used spearman (below) and spearman (above) correlation methods, which revealed that the association of earnings with bond returns varies during the stages of financial crisis. The study concludes that earnings liquidation value has an impact on bond returns. Hofmann and Loy (2012) study on dynamic properties of earnings in the bond market provide evidence that accrual and cash flow accounting are not associated with corporate bond returns in the three years preceding the financial crisis. They adopted a point estimate of the conditional mean of annual bond returns, the study revealed a positive and significant association of accounting accrual with annual bond returns during the recent financial crisis. They contend that debt market investors based their investment decisions on credible market -based measures during the recent financial crisis. Easton et al (2009) examined some initial evidence on the role of accounting earnings in the bond market. The study used multivariate analyses techniques (regression analysis) to demonstrate that incidence of bond trade increases during the days surrounding quarterly earnings announcements and that there is a positive association between bond returns and annual earnings. Reiter et al (1986) examined the use of bond market measures in financial accounting research. Bond yields, risk premium and number of bond years to maturity were used as study variables. Their study used the basic models; viz: market model and yields and price model with ordinary least (OLS) method used to estimate the risk premium model. The work sample size of public issues of utility bonds issued in U.S spanning from 1981 through 1984 where drawn from Barrons International, Wall street Journals, the weekly bond buyers and Salomon Brothers price lists for institutional portfolios and other. Their study shows evidence of relationship between the efficiency of the bond market and theoretical bond market risk and return.

METHODOLOGY

The study focused on the five (5) government bond (state government bonds), and five (5) corporate bonds listed on the Nigeria stock Exchange during the period 2003 to 2012 for the aggregate market reaction to accounting information. The choice of this period is as a result of acceleration that greeted the Nigerian bond market from 2003 to 2012 when the federal government and some states government returned to the debt market to mobilize funds for long term capital projects.

The sample size was limited to a total of ten (10) bonds because of non-availability of data. The geographical location is Nigeria. Study population for the aggregate market reaction to accounting information consists of State Government (15) and corporate bond (12) listed on the floor of Nigerian stock exchange as at 31/12/2012. The random sampling techniques were adopted in this study on the condition that the bonds are listed on Nigerian stock exchange, Government and the firms have audited financial statements.

Using the above conditions the following governments and corporate bonds were selected: Delta State, Imo State, Bayelsa State, Ebonyi State and Niger State, Gt-Bank, UBA, Access Bank, C&I Leasing and UAC Property spanning between 2003-2012.

The analytical model considered in this study takes domestic bond market performance proxy by bond market Yield, as explanatory variable (dependent variables) and accounting information proxy by quantitative accounting data as independent variables. These variables are used to obtain reliable parameter estimates of time series regressions. The model followed the basic econometric model which specifies the relationship between dependent and independent variables under study.

The model is specified as:

yi=fi(xi)

where:

yi = dependent variable (Bond market yield)

xi = independent variable (Accounting information)

Accordingly, the models are specified as follows:

Quantitative Accounting Information Model - The effect of Quantitative accounting information on bond market performance indicators is specified as follows:

$Y_1 = b_0 + b_1(DEBTR) + b_2(INTCR) + b_3(CURR) + e$ -------------- equation (1)

Where:

Y= Bond market yield (BMY)proxy by yearly average interest rates

e= Error term measuring the extent to which the model cannot fully explain bond market performance.

B_0= Constant term (or Y intercept).

$b_{1,b2,b3}$.=Coefficient of the independent variables(DEBTR,INTCR and CURR respectively).

bi = debt Ratio(DBTR), b2=interest coverage ratio(INTCR), b3=current ratio(CURR)

This model specified for quantitative accounting information viz:

BMY = bo + bi(DBTR)+ b2(INTCR)+b3(CURR)+e…………… equation (2)

Data collected and computed in course of the study were analysed using Pearson regression/correlation analysis with the aid of statistical package for social science (SPSS) version 17.0.

RESULTS AND DISCUSSIONS

Ho$_1$: There is no significant relationship between Quantitative accounting information and bond market performance.

Summary of the test result is shown in table 1 below

Table 1. Relationship between Quantitative Accounting Information and Bond Market Performance

		Quantitative accounting information	**Bond market performance**
Quantitative accounting information	Pearson correlation	1	.683***
	Sign (2 – tailed)	-	.000
	N	48	48
Bond market performance	Pearson correlation	.683	1
	Sign (2 – tailed)	.000	-
	N	48	70

**Correlation is significant at the 0.01 level (2-tailed)

Source: computed by the authors with bond issuers financial statement and Nigeria bond market yield data 2003-2012

The table above presents the test result on the relationship between quantitative accounting information and bond market performance. The correlation result indicates significant and positive relationship between quantitative accounting data and the performance of bond market. Thus, quantitative accounting information is statistically significant at 1%. The coefficient correlation (*r*) value of .683 shows high significant relationship between quantitative accounting information and bond market performance.

Based on the above result, we therefore reject the null hypothesis and conclude that there is significant association between the quantitative accounting data and bond market performance.

However, the quantitative accounting information is significant at 1% level in explaining the performance of the Nigerian domestic bond market. In affirmation, the increased in activities of corporate bonds in the Nigerian bond market may have accounted for the significant association between quantitative components of accounting information and the performance of the bond market. Investors and other users of accounting information are sensitive about accounting information from both corporate and government bond issuers due to the fact that investors require accounting information in other to make investment decisions despite the fact that state government bonds are usually backed by federal government guarantee through the Irrevocable Standing Order Payment (ISPO). However investors with sentiment in the corporate bonds essentially require corporate bond issuer financial statement components such as cash flow statement, balance sheet, income statement, five year financial summary among others as a guide to investment decision in the bond market despite the challenge of perceived window dressing and creative accounting among financial accounting information issuers which could result to apathy of investors to use the financial statement of corporate bond issuer as tool for investment guide in the bond market thereby resulting to the underperformance of the Nigerian bond market. In the same vein investors, analysts, regulators and other stakeholders in the bond market that might have lost confidence in accounting data published by bond issuers as a result of several cases of creative and window dressing of accounting figures which resulted to the collapse of some international and local organizations still insist on use of accounting data. There is perceived demand of accounting figures in bond market irrespective of perceived fraudulent accounting practices, misrepresentation of accounting information and general financial reporting failures among government and corporate entities financial data. Perhaps the performance of bond market might have indirect relationship with other qualitative variables such as inflation, government expansionary policy, economic boom or recession, level of government sources of revenue and other economic fiscal policy measures of government. Relatively, the significant correlations could be that quantitative accounting information data derived from balance sheet, income statement, cash flow statements among others reflect the real situation in domestic bond market in Nigeria. Another reason could be that bond market investors' use of accounting number as a guide in making investment decisions thereby making quantitative accounting information book value as a good indicator of bond market performance. This result is in agreement with findings of Sherlita (2011) that accounting information directly and significantly associate with performance of bond market and further in agreement with the findings of Sridharan (2011) whose study revealed a direct significant relationship between balance sheet information and corporate bond market.

Ho2: Bond market yield (return) is not significantly affected by quantitative accounting information.

Summary of the test result is shown in the table 2 below.

Table 2. Effect of Quantitative Accounting Information on Bond Market Yield (Return)

Model	**Linear Function**	**Semi-log Function**	**Double log Function**	**Exponential Function**
Constant (β)	8.058*** (.6444)	14.093*** (4.683)	2.615*** (13.340)	2.149*** (2.604)
DEBTR	14.290*** (.918)	13.597*** (1.465)	.943*** (1.561)	.994*** (.988)
INTCR	-7.067*** (-2.648)	-9.839*** (-3.547)	-.622*** (-3.440)	-.445*** (-2.528)
CURR	2.139*** (2.321)	7.622*** (3.330)	.523*** (3.506)	.147** (2.417)
R	.784	871	.873	.781
R^2	.615	.759	.763	.611
Adj. R^2	.422	.639	.644	.416
Standard error of the estimate	2.05544	1.62587	.10584	.13557
F-ratio	3.195***	6.313***	6.429***	3.138***
Durbin- Watson	1.133	1.130	1.235	1.199

Source: extract from Appendix XA--XD

N/B: *** Significant 1%; ** Significant 5%; * Significant 10% and above; t values are shown in bracket

Table 2 above shows the effect of Quantitative Accounting Information on Bond Market Yield (Return) in this subsection, we have investigated the effect of quantitative accounting information on bond market yield (return) in four functional forms. Based on the number of significant factors and the statistical values of the coefficient of determination (r2) and F-ratio, the double log function is adopted as basis four our discussion. It is revealed from the test result in table 4.3.5 that the F-ratio 6.429 is significant at 1% probability level and provide strong evidence that the model specification is adequate. The result revealed that quantitative accounting information variables account for 76.3% change in yield of the domestic bond market in Nigeria causing a very high performance due to high bond yield. However, all the quantitative accounting information variable viz: debt ratio (DEBTR), interest coverage ratio (INTCR) and current ratio (CURR) shows beta coefficient of .943, -.622 and .523 respectively, and are all significant at 1% level of probability. While debt ratio and current ratios showed positive significance, the interest coverage ratio showed negative significance effect on the yield of the bond market. This indicated an overall improvement in the debt and current activities of the bond issuers. This shows a moderate risk associated with the bond issuers with low borrowing capacity which in turn has the capacity to lower the bond issuer's financial flexibility.

A negative beta coefficient interest coverage ratio of -.622 implies an inability of the bond issuers to service debt which might result to difficulties and inability in payment of interest expenses out of retained earnings due to net operating losses with extended number of times the interest payments can be made available to bond holders.

Beta values measures the extent to which the predictor affects the dependent variables. Using the Double log function, the coefficient of debt ratio (DEBTR) of .443, interest coverage (INTR) and current activity (CURR) of .943, -.622 and .523 respectively indicates that 1% change in debt and current activities will generate 94.3% and 52.3% positive effect on the yield of bond market while the interest coverage activity will generate negative effect of -62.2% on the bond market returns and may discourage investors from investing in the bond market and thereby causing reduction in the bond performance. However, a high positive effect of beta coefficient with respect to current ratio on bond market yield attracts more investors in the bond market and thereby capable of increasing the level of activities and performance of the bond market. Every bond investor is interested in the yield/returns derivable from investment in the bond market. Investors will divest from the bond market if the issuer activities cannot generate returns to compensate the investors for the investment made. A high positive debt level of the bond issuer may affect the bond market performance negatively because of low borrowing capacity and greater risk that may be associated with the bond issuer. This definitely could cause reduction on performance of the bond market.

Furthermore, using the double log function, the t-test for DEBTR,INTCR and CURR are 1.561, -3.440 and 3.506 respectively. T-test serves as basis for checking individual significance of each independent variable. Note that t-test value less that 2 is not significant. The t-test confirm that current activity (CURR) is highly significant in explaining the yield in the bond market while INTCR is negatively significant in explaining the yield in the bond market and the DEBTR is moderately significant in explaining the yield in the bond market.

The above generally shows that there is positive and negative effect of quantitative accounting information variables on the yield of bond market in particular and in general performance of the domestic bond market. Hence, we reject the null hypothesis and conclude that bond market yield (return) is significantly affected by quantitative accounting information variables in Nigeria. Research works conducted in this area in developed economy of the world that are in agreement with our results include Ziebart and Reiter (1992), Liao et al (2008) Holfmann and Watrin (2012) and Easton et al (2009)

CONCLUSION

There is strong relationship between quantitative accounting data and the performance of Nigeria domestic bond market and the effects of quantitative accounting information and bond market yields is largely significant and positive. The drivers of the bond yields are the quantitative accounting data hence changes (increase or decrease) in yield depend significantly on the disclosure of balance sheet, cash flow, income statement and other components of financial statements. However, the underperformance of the Nigerian domestic bond market is as a result of failure of application of relevant accounting theories such as Agency theory, signally theory, and relevance theory among others in the bond market by bond issuer especially the government. These accounting theories forecast and predict how bond market investors react to accounting information and how users react to accounted data. Therefore, the need for disclosure of accounting information to stakeholders is very crucial for the development of bond market in Nigeria.

RECOMMENDATIONS

Considering the findings of this study, the following recommendations are proffered:

1. Accounting information preparers for corporate institutions particularly bond issuers should be made to compulsorily disclose at least 10 years past financial statement of the entity as a precondition for accessing the capital market to raise funds. The existing 3 to 5 years financial summary report as one of the requirements for accessing the bond market is inadequate.
2. To make accounting information relevant in the bond market there should be promotional initiative in the bond market to increase the proportion of corporate bond that will attract the use of accounting information as a tool for investment decision by interested corporate bond investors
3. Governments at all levels should be made to compulsorily disclose Audited financial statements semi-annually and annually as a post listing requirement for the government whose bonds are listed on the bourse of the Nigerian Stock Exchange and this publication should be in print media, internet facility and other useful channels. The Nigeria Stock Exchange (NSE) launch of X-issuers' portal, an initiative for secure and electronic delivery of issuer information in a structured and continues manner is a welcome development. The portal eliminates the delay associated with submission of information in hard copy format and allows issuers to fulfill their disclosure obligations accurately and in a timely manner. Through X-issuer portal submission and dissemination of company information, corporate actions, director dealings, financial statements, earning forecast and meetings notices now made easier, convenient and reliable. Since the inception of X-issuer portal corporate bond issuers seem to have been complying to this directive. However, Government at all levels whose bonds are already listed on the bourse of the Nigerian Stock Exchange and prospective government wishing to access the capital market to raise long term funds

through bond issue should be compulsorily made to disclose its financial statements and other intangible information to stakeholders and the investing public through the X-issuer portal. The benefits derivable to the bond market includes timely release of financial information to the bond market, offer unique platform for data capture, greater transparency in information dissemination as issuers take full ownership and responsibility, greater market integrity, with significant reduction of information leakage potentials.

4. The models are also recommended to investors, rating agencies, regulatory authorities and other stakeholders as a tool for accessing the emerging domestic bond market performance and in guiding investors in making investment decisions. Thus, our model serves as complementary use by policy makers, investors, bond issuers in Nigeria and as tool for the assessment of the bond market performance.
5. In addition to having access to accounting data, bond investors and other users of accounting information should equally have access to several other sources of information such as prospectuses, derivative market, press releases and credit ratings as these channels would in no small measures act as a source of guidance for investment decisions in the bond market.

AREAS FOR FURTHER STUDIES

1. The study considered the association of accounting information and the performance of bond yield in Nigeria from 2003 to 2012, and considered 5 corporate and 5 government bonds listed on the Nigerians Stock Exchange. Further research could be examined on accounting information relationship on bond yield listed on the Over-The-Counter (OTC) market. Thus, the study should be replicated on the bonds not quoted on the bourse of the Nigerians Stock Exchange.
2. The conclusion from the primary data sources are based on the opinions of the investment advisers, stockbrokers (fixed income dealers), portfolio managers, accountants and others. Further research could consider the opinions of non-professional, about their perception on the effects of accounting information on over-the-counter bond market in Nigeria. Particularly, in the area of accounting information and bond market risk in emerging African domestic bond market.

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