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EARNINGS QUALITY AND SHARE PRICES OF QUOTED FIRMS IN NIGERIA

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Abstract: The objective of this study is to ascertain the impact of earnings quality on share price. The population of the study covers the entire listed firms in the financial sector in Nigeria. Consequently, this study employed a sample size of 10 banks for ten years, 2014-2023 financial years. The outcomes of this study revealed that earnings surprise, earnings predictability and earnings predictability have positive effect on share price in the Nigerian banking sector. The result additionally revealed that earnings smoothness has no significant effect on share price. This study recommended that regulators should embark on random stress test in order to curtail discretionary behavior of managers.

Keywords: Earnings Quality, Share Price, Earnings Predictability, Earnings Surprise, Banking Sector

INTRODUCTION

It is well recognized that earning is a company precise information offered in the financial reports and this assumption is buttressed by experimental studies. Liu, Nissim and Thomas (2002) opine that revenue disclosed by a firm reflects its performance and can used by financiers to assess the firm. Investors generally depend more on profit disclosed by firm than any other performance indicator. Francis, Schipper and Vincent (2003) likewise opine that profit is a more reliable parameter to assess management performance. Graham, Harvey, and Rajgopal (2005) offer proof to buttress the assertion that managers rely on profit more than cash flows to assess their performance. Competent and optimum employment of corporate fruitful resource mirrors the worth of returns. Financiers and user of financial report are in great need of intrinsic returns instead of smoothing and discretional earnings. Extant literature reveals that efficient and creative managers seek after huge returns and qualityreturns (Dang, Nguyen &Tran, 2020). Aguguom, Salawu and Akintoye (2018) opine quality return is the longing of all investors. Earnings quality has unswerving influence on share price and reflect the likely worth of the company in nearest future (Ekpe, et al 2020). Investors are concerned about the market value of firm's shares because they only invest in firms that shares that possess reasonable market value. Thus, manage makes sure that the market values of their share are reasonable enough when compare with to shares prices of other firms in the same industry. Stock pricing started as soon as double entry book keeping was developed in the fourteenth century (Coleman, 2006). This paved way for firm evaluation which was grounded on percentages such as price per unit of incomes from income statement, price per unit of net worth of the company from statement of financial position, and price per unit of cash flow from cash flow. With the development in knowledge, a price is actuality tagged to discrete share instead of the entire firm or price per unit of dividend. Consequently, discounting cash flow based on the time value of money to evaluation the worth of shares Lee, Jevons, Li and Yue (2006) postulate that the public uses dividend discounted prototypical to assess a company's share. Company with advanced development rate have higher price receptiveness which generates bigger sum of managed incomes and bigger firms are anticipated to have lower earnings quality (Anjum, 2020).

An investigation on the effect of earnings quality on share price is vital since the worth of earnings is influenced by accounting information made available to the financiers (Ogbaisi, 2021). Stockholders and experts are concerned in the in the aforementioned relationship to enable decide either to continue or discontinue their investment. Fonou-Dombeu et al. (2022) opine that earnings quality is inimitable and can stimulus returns on investment. In the same vein, Alduais (2020) argue that the association earnings and share price is one of the grey areas accounting that has drawn the attention of scholars in recent times. The financial analysts and captain of industries employ accounting numbers rather than equity, sales or other immediate measure to ascertain the performance because external stakeholder rely more on returns.

Epe at el (2020) document that share price oscillation are contingent upon numerous dynamics among like market equilibrium that is the interplay of the forces of demand and supply. Nevertheless, putting into cognizance all known models of valuation, share oscillation can occur as a result of alteration in dividends, dividend growth and appropriate discount rate (Geetha& Swaminathan, 2015). Several dynamics both external and internal determine share price like other commodities in the market.

These dynamics when considered appropriately by firms can result in upsurge in worth of the shares of a firm and by extension boost investors' confidence.Ini and Eze (2019) opine that investors been concern about the declination of share price of shares in the Nigerian stock as a result of the financial the financial crises rock the boat of the of the financial sector in last two decades. The Nigerian stock market is an inept because it is an epitome of red tape and administrative bottle neck which reflect in the quality of accounting information they dispense per time.

Manipulating of accounting record go a long way to determine share price and the profitability of the firm. Earnings quality is contingent upon accounting information at the disposal of the investors' nonetheless elongated postponementor untimely disclosure of this information suggestive perpetrating of earnings management. It is incumbent on management to ensure that accurate and timely disclosure of information. Financial statement epitomizes the channel through which management communication with both internal and external stakeholders. Earnings are vital pointers that can be used to ascertain a business's success and similarity constitute a device that be used measure profitability of a firm. Financial statement that mirrors earnings of high quality are more usage to end users. Outcomes on researches on earnings quality and price carried out specialized and emerging markets reveal mixed results The nonexistence of an agreed the research outcome can be traceable to methodological disparities across board all previous studies, differences in underpinning theories, different features of the market, the use of choice accounting. Lack of adequate past work on the subject makes it worth veer into this research. Alteration in a firm's accretions amid periods ought to be dependable with the alteration in business transactions. Nevertheless, if this variation cannot be elucidated by an alteration in the corporation's activities, then those accruals can be easily presumed as discretionary.

Experts argue that since figure since emanate from discretionary accruals it consequently presume that the earnings possess good quality. The decomposition of earnings quality into its constituent in the Nigerian makes this work novel among prior studies.

Section two describes literature review and hypothesis development, section three describes methodology, and section four describes the findings, while section five describes the conclusion and recommendations.

LITERATURE REVIEW.

2.1 Concept of Earnings Quality

Francis, LaFond, Olsson and Schipper (2004) postulated that earnings quality is a multifaceted term. The selection of an earning quality quantification is contingent upon on the objectives of study and the accessibility to data and valuation model. Some research objectives call for a measurement of earnings quality that is connected to financiers' opinions of earnings. For instance, research that investigate the worth relevance of earnings assumes earnings are valuable to a specific category of market players (namely investors) whose cumulative decisions and choices are abridged by share prices and returns. The authors contend that, other research objectives that is centered on unswerving measurement of earnings quality created employing accounting data only. However another measurement that is significant for selected research objectives is the peculiarity amongst entire, inherent and discretionary earnings quality. Earnings quality is infers as the aptitude of the present earnings to predict forthcoming earnings (Penman 2007). Earnings are of good quality if no returns reverses are predicted. With evaluation in mind, the investors are concerned about future earnings, that is, they purchase forthcoming earnings employing the present ones. Additionally, earning is seen have low quality if the present reported earnings are not good pointers of forthcoming ones. Schipper and Vincent (2003) stress that earnings are the instantaneous pointer of the economic and established forces functioning on the monetary reporting procedure.

Okolie (2006) opines that is an important aspect of evaluating firm's financial health, even though, investors and other users of financial often ignore it. Earnings quality refers to the ability of reported earnings to reflect the firms true earnings as well as the usefulness of the reported earnings to predict future earnings.

Dechow and Schrand (2004) provide two definitions, however incline to be alike. Firstly, ahigh-quality earnings number is one that precisely mirrors the firm's present functioning performance, is a good pointer of forthcoming functioning performance, and is a valuable precipitate measurement for evaluating firm worth. Secondly, earnings quality denotes a condition where the earnings number precisely annuitizes the inherent worth of the firm. These definitions by Dechow and Schrand, specify the nonexistence of enhancement of earnings figure.

Pratt in Hedge (2003) perceived quality of earnings as the degree to which net income disclosed on the financial statement do not vary from factual earnings. Lastly, definitions given for earnings could be perceived in two ways; first, disclosed earnings would be of high quality if it mirrors the basic economic performance of the firmin the precise period. Second, earnings quality depicts how well accounting earnings transmit information about the phenomenon.

For the sake of this research earnings quality means the earnings that is devoid of accruals that is not driven by accounting essentials or inherent dynamics (Discretionary accruals), but are maintainable and are not being impair in order to exaggeratedly decrease the capriciousness in earnings.

2.1.1 Share Prices

Share is seen as one of the equal portions into which the ownership of a firm is separated. Robert (2006) opines that the discovery of double entry book keeping in the 14th century led to firm's estimate which is founded upon

percentages such as price per unit of earnings (from income statement), price per unit of net value (from balance sheet) and price per unit of cash flow (cash flow statement).
The following advancement was to value individual price shares instead the entire firm. A price per dividend was the following development. Forecasters discovery it suitable to use discounted cash flow that is founded on time value of money to evaluate the inherent worth of share (stock) rather than price per dividend of share prices.
Hu and Lin (2005) contend that share price is not simply a replication of accounting rudiments but the amalgamation of suitable discount rate and the design of cash flow, make the stock market to determine the price. Subbramanyam and Titman (2001) stress that high share price might indicate that the firm has a decent product and persuade customers to accept its product to start a affirmative response. They conclude that a high share price can likewise make the concept share price related transactions more favorable. For instance it can upsurge the profits received from the equity offerings or increase directors personal wealth.

2.2.2 Earnings Management

Amat, Blake and Dowds (1999) see earnings management as a procedure whereby accountants use their expertise and choice accounting rules to perpetrate the figures or numbers disclosed on the financial statement of a business. The concept earnings management is defined in a number of ways. Schipper (1992) emphasizes that earnings management is a decisive interference in peripheral financial reporting procedure, with the intention of attaining some sequestered gains. Kirschenheiter and Melumad (2002) seen earnings management as some misdemeanors, wrongdoings or other contravention that change earnings to be disclosed. Hearlyand Wahlen (1999) argue that earnings management happens when management employs its objective tendencies to give professional opinion on the financial statement and in arranging operation to change financial reports either to misinform some stakeholders about the basic economic performance of the firm or to effect predetermined consequences that is contingent upon reported accounting numbers.
DeAngelo (1998) sees it as the earnings management of applying choice accounting guidelines to hide lackluster performance or suspend a percentage of usually good current earnings to future years. A hoary part where accounting is being debauched, where managers are applying fraudulent means and where disclosed earnings is the reflection what of management desire to disclose instead the actual financial performance of the firm (Levit 1998). It employs choice accounting to perpetrate earnings management there thereby under reporting earnings (Ortega& Grant, 2003). Smith (1992) defines earnings management in terms of speculation analysis as the due to accounting sleight of hand instead candid economic growth. Naser (1993:2) sees earnings management as the alteration of financial accounting number from the real figures with the aim taking undue advantage of the loophole prevailing guidelines.
Aforementioned definitions encompass a number of issues. First, management employ judgment in choosing accounting approaches for reporting the similar economic transactions. All selections in accounting approaches have impact on the financial reporting of the firm. Second, the aim of earnings management is to misinformed stakeholders. In order to mislead stakeholders through the use of accounting standards there is a condition that has to be met.
In a faultless market, statistics is understood appropriately and flows very quickly, so earnings management will not affect stakeholders the market will take care of this. Contrariwise when the market is not as effectual as initially supposed, interested party might overlook the accounting technique employed to calculate accounting number in their decision making (Stolowy & Breton, 2004). So, when this situation of market is efficiency is

not met, it is conceivable that stakeholders can be deceived by management of a firm via the use of earnings management approach. Another matter depicted by these definitions is the way financial statement it aid decision making which is likely not to be achieved because of deeds of management. The financial information may not be significant and reliable for various purposes such as valuation among others.

2.2.3 Accrual Quality

Francis, LaFond, Olsson and Schipper (2003) opine that: earnings which chart more carefully into cash flows are highly appropriate. Dechow and Dichev (2002) contend that earnings quality can be calculated by charting of accruals into last, present and succeeding period cash flows. Richardson, Sloan, Soliman and Tuna (2005) contend that earnings' cash component delivers both germane and unswerving information. Thus, they connect earnings quality to cash constituent of earnings expressing persistence. Barragato and Markelevich (2003) document that earnings are of high quality when the earnings' the closenessto-cash upsurges and contend that an earnings rivulet that is its predicting ability of forthcoming operating cash flows is of high quality."

2.2.4 Earnings Persistence

Earnings that reveal a stable growing movement are said to necessary (Wild, et al, 2004). Thus, in financial statements evaluation uncommon, non-operating -recurring objects disclosed on the financial report need more consideration than others with regards to quality of earnings as these items have negatively influence the sustainability of returns. The term "persistence" is widely used interchangeably with maintainable earnings in the prior study.

Penman and Zhang (2002) opine earnings disclosed before extraordinary items that are eagerly recognized on the income statements, is of good quality it is a can be used pointer of forthcoming earnings. Thus, high quality of earnings is sustainable earnings as often referred in financial analysis. Green (1999) argues that quality of earnings depends on the proportion of earnings derived from recurring sources. Richardson, Sloan, Soliman andTuna (2005) define persistence as the degree to which earnings performance persists into the next periods implying that managers have not use their discretion in the reporting processes.

Lev (1983) asserts that the type of company's product, the degree of competition, capital intensity and firm size all affect the persistence of company's earnings. Sloan (1996) indicates that "earnings performance attributable to the accrual components of earnings exhibits lower persistence than earnings performance attributable to the cash flow components of earnings". Similarly Dechow and Dichev (2022) find a positive relation between accrual quality and earnings persistence. Narayanamoorthy (2013) shows that, accounting conservatism affects the persistence of standardized unexpected earnings (SUE) negatively.

Basu (2007) explains conservatism and asymmetric timeliness of earnings and concludes that good news earnings are less timely and less persistent than bad news earnings. Thus, the capitalized value of good news earnings partially reflected in current earnings and in future earnings.

Persistence of earnings plays an important role in company valuation. Since the investors rely on earnings numbers more than other measures, "price-to-earnings ratio" is agreed to be a fundamental multiple in company valuation. Persistent earnings series, on the other hand, produce healthier price-to-earnings ratios (return/earnings) for valuation purposes (Penman & Zhang 2012).

2.2.5 Predictability, Forecasting Ability and Smoother Earnings

Lipe (2010) defines predictability as "the ability of past earnings to predict future earnings". According to Christian (2004), any alteration to earnings stream makes prediction of future earnings challenging due to weakness in the quality of earnings. Schipper and Vincent (2013) consider "predictive ability as an input to the entire financial reporting package, including earnings components and other disaggregation's of the summary earnings number, for improving users' ability to forecast items of interest."

From FASB's point of view, quality of earnings is considered to be the usefulness in forecasting earnings for future periods in both effective and efficient manner (SFAS No.132, par. 26, FASB, 1998.)

Chan, Chan, Jegadeesh and Lakonishok (2004) define earnings quality as "the extent to which earnings quality reflects operating fundamentals." In the context of stock prices, they criticize market fixation on reported earnings while not concerning the earnings quality. They argue that as there may be temporary deviations of prices away from their correct values, the measures of earnings quality should consider predictive power for future stock price movements. Similarly, Cornel and Landsman (2013) consider earnings to be of good quality if it is "a measure for analyzing the relationships between past performance and the value of future growth options" in terms of predictability.

Carnes, et al., (2003) define quality of earnings in terms of smoothing as smoother earnings stream lowers the expected costs of dealing with shareholders and strengthen the relationship between accounting earnings and market returns. However, one needs to be cautious when using smoothness as a measure of earnings quality. As Ayres (2014) states that, income smoothing refers to an attempt to report a steady stream of earnings and growth in earnings. Levitt (2008) ascertains the reason of smoothing with investors preference of smoothly increasing earnings, arguing that, since the absence of persistency and unpredictable earnings can be seen of low quality earnings, providing persistence and predictability may become a major motivation of managers for using earnings management techniques such as income smoothing.

2.4 Theoretical Framework

Agency Theory

The agency theory is established on the principal-agent foundation. The separation of proprietorship from director in modern-day establishments generates the structure for the functionality of the agency theory. In modern eras the owners of businesses are sketchily distinct and are do not participate in the daily running of the firm but alternatively put it in the care of the directors. Managers are hired to supervise daily deeds of the corporations. The separation of proprietors from daily running of business origins scuffle amid director and proprietors. To settle this scuffle and bring into line the interests of agents with proprietors the firm incurs extra cost.

Agency theory is an assortment of arrangements employed in handling a modern-day corporation which is archetypal exclusive by mammoth number of stockholders who permit directors to supervise and accomplish their joint wealth for imminent earnings. The director, archetypal, may not uninterruptedly own stocks but can grip suitable proficient skills and competence in managing the corporation. The theory advocates copious valuable means of examining the association among proprietors and agents, approve how the crucial goal of making the most of the resources commended to them by proprietors. Agency theory identifies that functionality of the regulation as apparatus of corporate governance that lessens agency expenditures and the skirmishes between the agent and the principal. It is palpable that the owner-manager theory is frequently seen as the initial point for all conversations on the subject of corporate governance.

Agency theory is an outshot in economic theory that was exposited by Alchian and Demsetz (1972) and additionally recognized by Jensen and Meckling (1976). Jensen and Meckling (1976) define agency connotation as an arrangement in which the proprietor shire another person or the director to perform certain actions on their behalf. These deeds may comprise allotting certain decision making authority to the agent. The principal can decrease conflict of interest by generating appropriate inducements for manage and by disbursing in a method that inclines to minimalize the information asymmetrical between agent and the principal. Control of agency glitches in the decision making is dynamic when the decision managers who inductee and impose vigorous verdict are not the main remaining applicants and therefore do not have a foremost voting rights. Without good checks and balances devices, such choice creators are likely to make choice that depart from the mutual interests of non-controlling interest. Discrete decision manager can indulged in the making assured decisions. Separation of ownership suggests that an cluster persons does not wield exclusive power in all decision making procedures (Fama & Jensen, 1983).

In Agency theory the director go all-out to achieve his separate objectives at the detriment of the owners. Agents are frequently persuaded by their own individual interests and gains, and labor to enhance their own separate gain instead putting shareholders' interests first. To reduce agency scuffle there must be good overseeing and supervisory apparatus that help to make sure that agents perform the interests of stockholders rather than their individual interests. Agency glitch can be seen from two perspectives namely, adverse selection and moral hazard. Adverse selection can occurs if the director pervert his fitness to carry out the functions allocated to him by owners. Moral hazard occurs when the certain managers dodge the responsibilities or flounders due to nonexistence of suitable assurance to the allotted responsibilities. Such abysmal performance of manager, even when his deed will be beneficial, owners is seen hazardous because of residual expenditures that will come with the deed. This expenditures shoot out from sub-optimum performance of directors and are known as agency costs (Bathula, 2008). The believed corporate governance hypothesizes a vitals training amid shareholders and business executives (Jensen & Meckling, 1976). The goal of a corporation's shareholders is get high dividends but directors are likely to have conflicting aims, such as the authority and repute of making a great firms, and other benefits accrued to their positions. Executives' outstanding entrée to classified info and the reasonably influential position of the numerous and distinct shareholders, suggests that agent are plausible to have the greater control (Fama & Jensen, 1983).

Subsequently, bondholders oversee and direct the activities of agents via their representatives such as board of directors. Non-executive directors are perceived as a vivacious apparatus for safeguarding bondholders from manipulating directors and also assist to meritoriously restrict managers' excesses with respects to fund management. Fama and Jensen (1983) opine that in order to curtail agency skirmish that shoots from the separation of proprietorship and monitoring of the corporation in way that generates a system that permit sit discrete the power of decision maker from decision regulator.

The agency theory conveys a foundation for the predominance of organizations via several inner most and outer apparatus. Corporate governance devices are created to validate the concern of owners and directors, decrease the unscrupulous deeds of directors and safeguard shareholder trepidations, by and large to settling agency glitch (Habbash, 2010). Corporate governance is an device by which stockholders are assured that directors' deed will be to their own advantage. Agency theory suggests that there are several devices that can be hired to reduce conflict between agent and owners.

2.5 Empirical Evidence

Ducharme, Malatesta and Sefcik (2014) carried a study to ascertain the association of earnings management, stock offerings, abnormal accruals, and post offer and shareholders lawsuits. The sample is made of offering companies.

The study postulate that firms in the period round stock offer document affirmative abnormal accrual apparatuses in their earnings. Conversely, in the period after the stock offerings, the abnormal accruals are adversely connected to the returns or even they incline to contrary in the post offer period. The research similarly divulges that the returns are much lesser and the reverse are more noticeable in the post stock subscription period if the companies are sued in linked with their stock subscript than those who are not litigated. The study is quite trustworthy but the findings was dissimilar if they have seen other ways in which stocks are delivered.

Marquardt and Wieldman (2014) examine how return is handled via precise accruals. The authors assert that earlier researcher shown that companies handle earnings ascendant prior to preliminary offerings and seasoned equity offerings in order to upsurge the market price of the share. The advantages of earnings management are countless because the incomes of an equity offering are founded on the share price at one point in time. For the companies to possess a thorough going price influence, they forecast that companies delivering equity will choose to manipulate earnings recurrent instead nonrecurring income statement objects. They gathered their sample from the data from 2012-2013, and a final sample of 1,765 equity offerings. Their outcome reveal that the unforeseen accruals are suggestively more absolute than for the non-offering companies.

Lu and Lin (2005) investigate a prevalent credence that directors of high estimate firms have a sturdier inducement to deploy forthcoming earnings than low evaluation firms. Via U.S. data from 1988 to 2004 with a sample of 74,051 firm-year annotations, they discovered the belief to be solitary half factual. A affirmative association of assessment and forthcoming discretionary accruals only occurs for corporations getting restricted consideration. Examining solitary economy may not be sufficient to have an overall supposition as there occur barricades in terms of laws, philosophy, amongst others.

Zaluki (2008) examines the functioning performance and the presence of earnings management for a sample of 254 Malaysian IPO corporations over the period 1990-2000. Employing accrual-based measurement of functioning performance, the research discovered robust proof of deteriorating performance in the IPO period and up to three years subsequent IPOs relative to the pre-IPO period. This outcome is reliable with the consequences of previous research report the long-run deficit of IPO companies. The outcomes of study reveal the deterioration in post-IPO functioning performance is owing to the presence of earnings manipulation by the IPO. The study was inept to match all firms using all three measurement.

Beneish and Vargus (2002) provide evidence that the accruals anomaly is mainly driven by income-increasing accruals, and that the behavior of insiders is useful in predicting earnings quality. When incorporating information regarding insiders' selling strategy in the implementation of the accruals hedge strategy, these authors are able to obtain an annual abnormal return of 18.1%.

Dechow and Ge (2006) who analyze the impact of special items on the accruals anomaly and find that investors seem not to correctly incorporate in the market price the transitory nature of special items and its impact on earnings persistence. They document that earnings persistence is a function of both the sign (positive or negative) and the magnitude of accruals. They find that accruals increase (decrease) the persistence of earnings compared to cash flows in high (low) accrual firms.

WhereasDesai, Rajgopal, and Venkatachalam, (2004) provide evidence that the accruals anomaly might be subsumed by the value-glamour effect that has been broadly discussed in finance.

Kraft, Leone, and Wasley (2006) argue that the accrual anomaly could be explained by several errors in the methodology used. These include selection biases, data treatments (truncation or winsorization of the data) and data errors. When these limitations are accounted for, the accrual anomaly is still found, but it is driven mainly by the high accruals portfolio, with both low and high accruals portfolios earning negative, buy and hold, abnormal returns.

Furthermore, Kraft et al. (2006) also supports the hypothesis that the accrual anomaly might be driven by operating cash flows, as hypothesized by Desai et al. (2004). The evidence and criticisms described above are based on data from the USA. A few studies have investigated if the accruals anomaly can be found outside the USA. In Germany, a sample of 826 firm-year observation for the period of 1995 to 2002 was examined by Adamek and Kaserer (2005). They provide evidence that German investors also seem unable to correctly assess the different valuation implications of both accruals and operational cash flows.

Contrary to expectations, such a problem does not appear to exist before the adoption of the IAS. The authors attribute this result to either an increase in the earnings management behavior by German firms after the adoption of the IAS, or to investors' inability to fully understand the accounting information provided under the new accounting standards.

In Iran, Haghighat and Raigan (2009) show that the Iranian investors prefer smoothed income and on this regard, managers smooth incomes either for purpose of garbling of information and either benefits or in order to transforming and reporting the insider information about future earnings. For many years, studies of income smoothing and earnings management have suggested that one of its purposes is to increase the level of market return. Bricker, Previts, Robinson and Young (1995) present evidence that analyst's associate earnings quality "with the capability of a company's managers to manage earnings so as to avoid negative earnings surprise".Bowman and Navissi (2003) examine the association between abnormal returns and earnings management in the context of price control regulations to test the construct validity of the earnings management model. Abnormal returns are used as a market-based measure, and discretionary accruals are employed to measure earnings management. Their results support the hypotheses that (1) price control regulations affect firms 'security prices negatively, (2) firms make income-decreasing discretionary accruals to increase the likelihood of price increase approval, and (3) firms that are affected most negatively by the regulations manage earnings more aggressively. They conclude that their model is capable of predicting opportunistic discretionary accruals.

Aflatooni and Nikbakht (2009) test whether the stock market response to accounting performance measure is related to the smoothness and management of companies' reported income. Using data from 2001–2006 to estimate Regression on each of the 81 industry-year cross-sections, the results show that the income smoother firms have compounded abnormal returns (ACOR) that is lower on average by 8% of stock market value to the rest of the sample. They conclude that there isa significant negative relationship between long-run returns and abnormal returns and income smoothing behavior.

Tucker and Zarowin (2006) Examine whether informational risk associated with accounting earnings impact equity market. They collected their sample from 34 different countries around the world between 1985 through 1998 and a final sample of 58,653firm-year observation. The study finds that smoothness improves earnings informativeness. The analysis splits firms into a high smoothing group, defined as firms that have a stronger negative correlation between discretionary accruals and unmanaged earnings (total earnings – discretionary accruals), and a low smoothing group. Their measure of earnings informativeness is the extent to which changes in current stock returns are reflected in future earnings. They conclude that the net smoothing effect of accrual accounting, which they predict would lead to greater informativeness if accruals smooth noise but to reduced informativeness if managers artificially smooth earnings relative to the fundamental process. Biurrun (2010) examines whether cross-country differences in the institutional and regulatory framework can explain differences in the earnings management behavior of banks across borders. The study uses a sample of 21,895 banks from 47 countries over the period 1990 to 2006 and shows that only regulatory restrictiveness is significantly related to income smoothing in the separate and joint regressions. However, corroborating the univariate results, the relation is positive not negative. While this is contrary to the hypotheses, it is in line with Biurrun and Rudolf (2010), who find that investors do not regard this particular form of bank earnings management as detrimental. As a potential reason they mention that corporate hedging activities, which by themselves are regarded as beneficial, may also contribute to the reduction of fluctuations in the income stream. Banks with a smooth income stream could therefore be perceived as less risky, regardless of how the smooth income stream is achieved. The positive association between their institutional measure and income smoothing also corroborates the results of

Bouwman (2009) examines the effect of managerial optimism on earnings smoothing listed U.S. firms that have appeared on a Forbes 500 list at least four times between 1984and 1994 and the data set is complemented with Compustat, CRSP and institutional Brokers' Estimate System (IBES) data. The study arrives at a final sample that contains210 firms and 374 CEOs. They proposed two hypothesis; first, optimistic managers smooth earnings more on average than rational managers do. Second, optimistic

managers are less likely than rational managers to report earnings that fall short of analysts' forecasts by much or exceed them by a substantial amount, and are more likely than rational managers to show small (negative or positive) earnings surprises. These hypotheses are tested using existing optimism measures and supporting evidence is found for both predictions. The data is analyzed with the use of univariate and multivariate regression. This finding is consistent with the premise of the underlying theoretical

motivation that optimists report higher earnings than rational managers in bad times, which then compels them to report lower earnings in good times. A number of studies have examined the effect of income smoothing on cost of equity, earnings informativeness, liquidity, and bond rating. For instance, (Hunt, Moyer and Shevlin 2000, Francis, LaFond, Olsson and Schipper 2004, Graham, Harvey and Rajgopal 2005, Li and Richie 2009, Chen 2009).

Francis, LaFond, Olsson and Schipper (2004) examine the effect of income smoothing on the cost of equity. They find that income smoothing has a negative effect on the cost of equity, although the effect is weaker than for other attributes of earnings, such as accrual quality. Taken collectively, these studies support the notion that income smoothing represents an efficient vehicle for managers to reveal private information.

Heni andRizki (2019) examine the effect of earnings surprise and earnings per share on stock return of manufacturing firms in Indonesia within the period 2016 to 2018. The result revealed that earnings surprise and earnings per share simultaneously and partially have no effect on stock return. Bulsiewicz (2012) investigates forecast ability of earnings surprises. Unlike, prior studies that revealed easy forecast of earnings surprise, the result revealed a great difficulty in forecasting earnings surprises.

Ekpe et al.(2020) examine earnings surprise and stock prices reactions of quoted companies in Nigeria. The study used a sample of 64 firms chosen from all sectors of the Nigerian Stock Exchange within the period 2013 to 2017. The data were analysed using the generalized least squares technique. The results for positive earnings surprise revealed that share price react negatively to positive earnings surprises.

The negative earnings surprise revealed that share price react positively to negative earnings surprises. Lim (2009) examines the relationship between earnings surprise and returns, as well as earnings surprise and volatility using 30 firms listed in USA using data from 2002 to 2008. The study revealed that
the market does use the information provided by estimates and quarterly earnings reports, and in the short
run, earnings surprise is significantly correlated with regard to volatility and overnight returns. Furthermore, there appears to be an increase in volatility in the trading period after earnings are announced, but there is no systematic bias that indicates the direction that prices go in the period. The study further revealed that even when the quarterly earnings reported are equal to what the analysts predicted, the announcement is followed by an increase in volatility in the trading period immediately after the announcement is made. Kothari et al. (217) investigate stock returns, aggregate earnings surprise and behavioural finance using listed firms in the USA using data from 1970 to 2000.

Huang (2019) investigates the impact of earnings announcement surprise on stock prices. The study used Bloomberg quarterly forecasts for three companies (Hewlett Packard, IBM and Walt Disney) from 1984 to2015. The results indicate that positive earnings surprise tends to raise stock prices around announcement. days except for IBM. Positive surprise has a smaller impact than negative surprise under a lower price earnings ratio. The result further revealed that if the forecasts ‘standard deviation is high, investors may respond more or less to earnings surprise.

Lyimo (2014) examines the relationship between earnings quality and stock price synchronicity in India using sample for the period 2006 to 2016. Pooled ordinary least square was used as the method of data analysis. Earnings quality was proxied using earnings surprise. The study revealed that earnings surprise had a significant negative impact on stock price synchronicity. The study further revealed that earnings
surprise improves stock price informativeness. DuCharmeet al. (2019) examine earnings management, earnings surprises and stock price reactions to earnings components in the USA for the period 2000 to 2001. The study decomposed earnings surprises into expected cash flows, expected normal accruals
and an abnormal accrual component. The study revealed that that abnormal stock returns had a positive impact on the three decomposed elements of earnings surprise. The study further revealed that the impact on stock prices varies across the components.

Zou and Chen (2020) examine earnings surprise, investor sentiments and contrarian strategy of firms listed on the New York Stock Exchange within the period 1990 to 2012.The study revealed that both positive earnings surprises and negative earnings surprises had significant impacts on subsequent returns. However, negative earnings surprises have less impact on value stocks relative to glamour stocks. The study further revealed that investor sentiments could be an alternative source of superior performances from value stocks, indicating that when the investor’s sentiment is higher, value stocks earn significant higher returns than glamour stocks.

Okoro and Ofor (2019) examine the determinants of accounting earnings surprises in Nigeria using quoted firms for the period 2008 to 2017. Panel regression was used in analyzing the data. The variables used for the study were Earning Surprises as dependent variable, while the independent variables were Firm Reputation, Earnings Management, Sales Growth, Cash Flow and Firm Size. The study revealed that Firm Reputation have significant negative effect on earnings surprises, while Earnings Management, Sales Growth and Cash Flow have significant positive effect on the earnings surprises of quoted manufacturing firms in Nigeria. Skinner and Sloan (2018) examine earnings surprise, growth expectation and stock return from the Thomson Financial Institutional Brokers

Estimate System from 1984 to 1996. The study revealed that asymmetric response to negative earnings surprises completely explains the return differential between ‘growth’ and ‘value’ stocks. The study further revealed that lower returns of growth stocks relative to value stocks relate to the realized returns in quarters when negative earnings surprises are announced. The study documented that growth stocks perform as well as value stocks in quarters when zero earnings surprises or positive earnings surprises are announced. The study further documents that little of the return differential is observed at the formal earnings announcement date, due to the fact that managers of growth firms tend to preannounce negative earnings surprises.

Erlein (2022) examines earnings announcement and stock return using listed firms in Norway within the period of 2007–2010. The study suggests that several studies have confirmed a high degree of efficiency in capital markets, The author have also detected delayed stock price responses to new value-altering information, a phenomenon referred to as the post-earnings announcement drift. The study revealed that the Norwegian market appears to be largely efficient, with a couple of minor deviations. Earnings announcements that differ from expectations are confirmed to cause abnormal returns and that the negative earnings surprises yield results easiest to interpret. Against the backdrop, earnings surprise has no significant impact on share price of firms in Nigeria.

METHODOLOGY

Sample of the Study

The population of the study comprises thirteen quoted deposit money banks in Nigeria. Study employs some criteria in filtering the population, Out of the ten(10) banks listed in NSE, selected as the sample size of the study using filtering techniques. Data on the earnings quality and share prices proxies are collected from the sampled firms. The criteria used in filtering the

Sources and Method of Data Collection

The data is obtained from secondary source only. It is collected from the published financial statements of the sampled firms covering the period of ten years (10) years (2013-2022). Nigerian stock exchange fact books covering the period of the study and the daily official list of the exchange is also used.

3.5.1 Model Specification

The data collected from the financial statements and market value (share prices) of the sampled firms is used to compute earnings quality.

$Sp= \beta o +\beta_1 ESURP + \beta_2 EPEST+ \beta_3 EPRED +\beta_3 ESMTH +\beta_5 AQ +\varepsilon it$

Where Sp= share price

βo= intercept

ESURP = Earnings surprise

EPREST = Earnings persistence

EPRED= Earnings predictability

ESMITH=Earnings smoothness

AQ= Accrual quality

3.6 Model Definition

Acronym	Variable	Measurement	Status	Apriori sign
SP	Share price	Average price per share at the end of three month after the statement of financial position date selected firms	Omokhudu and Ibadin	
ESURP	Earnings surprise	The difference between actual EPS and forecast EPS.	Atiase et al (2010)	+
EPREST	Earnings persistence	The slope of coefficient by regressing current earnings on preceding earnings of a firm.	Aguguom and Salawu (2018); Al-Shar and Dongfang (2017)	+
EPRED	Earnings predictability	It is measured as the residual of the model for earning persistence	Aguguom and Salawu (2018); Al-Shar and Dongfang (2017)	+
ESMITH	Earnings smoothness	It is measured as the residual of seasonally decomposed EPS	Francis et al(2004); Lyimo(2014)	+
AQ	Accrual quality	It measured as modified Jones	Dechew and Dechew (2002)	+

Source: Researcher's computation

3.6 Techniques of Data Analysis

Multiple regression analysis was considered as the major technique for data analysis in this study. Multiple regression analysis is most advantageous to the study because it is employed to determine the impact of independent variable on the dependent variable. This technique is used because of its ability to predict the relationship between share price and earnings quality of quoted consumer good firms in Nigeria.

ANALYSIS AND PRESENTATION OF RESULTS

Test of regression Assumptions

Table 2 Regression Assumptions Test

Multicollinearity test		
Variable	Coefficient Variance	Centred VIF
ESURP	8.0302	1.12
EPEST	9.0305	1.09
ESMOTH	5.4212	1.21
ACCR	5.7004	3.07
Heteroskedasticity Test: ARCH		
F-statistic = 0.64	Prob. F(1,769)	0.72
Breusch-Godfrey Serial Correlation LM Test:		
F-statistic = 388.8	Prob. F(2,768)	0.09
Ramsey model test		
F-statistic = 67.45	Prob. F(1,769)	0.30

Source: Researcher's Computation (2025)

To further strengthen the result of the absence multicollinearity, we carried out a residual diagnostic test of variance inflation factor. From table 4.3, it is observed that the variance inflation factor (VIF) which measures the level of collinearity between the variables show how much of the variance of a variable most likely the coefficient estimate of a regressor has been inflated due to collinearity with the other variables or likely regressors. They can be calculated by simply dividing variance of a coefficient estimated by the variance of that coefficient had other regressors not been included in the equation. The VIFs are inversely related to the tolerance with larger values indicating involvement in more severe relationships. Basically, VIFs above 10 are seen as a cause of concern (Landau &Everit,2003). In conclusion, the VIFs of the variables are all less than 10 indicating the unlikelihood of multicollinearity amongst the variables and hence the variables satisfy a very important condition the multivariate regression analysis.

The ARCH test for heteroskedasticity was performed on the residuals as a precaution. The results showed probabilities in excess of 0.05 which led us to reject the presence of heteroskedasticity in the residuals. The Lagrange Multiplier (LM) test for higher order autocorrelation reveals that the hypotheses of zero autocorrelation in the residuals were not rejected. This was because the probabilities (Prob. F, Prob. Chi-Square) were greater than 0.05. The LM test did not, therefore, reveal serial correlation problems for the model. The performance of the Ramsey RESET test showed high probability values that were greater than 0.05, meaning that there was no significant evidence of miss-specification.

Table 3 Regress result

Variables	Aprori sign	Fixed effect
C		7.3956 {63.707} (0.000)
ESURP	+	0.52602 3.85797 0.0060
EPEST	+	0.00627 2.3965 0.0025
EPRED	+	0.01262 2.90626 0.0012
EPEST	+	1.60000 0.908739 **0.0800**
R^2		0.71
R^2Adjusted		0.645
F-statistic (p value)		21.87 0.00
DW-sta		1.61
Hausman		

Source: Researcher's compilation (2025) * *sig @ 5%,*

For model using fixed effect least square; revealed that earnings surprise (ESURP) has a positive effect on share price as depicted t=3.8579 and p= 006. This effect is significant at 5% (p=0.006<005). The result further revealed that earnings persistence has a positive effect on share price. This effect is significant at 5% since (p=0.00<0.05). Additionally, the result reveals earnings predictability has positive effect on share price as depicted by t= .90626 and p=0.0012. This effect is significant at 5% since p= 0.0.0012< 0.05.

Additionally, the result reveals earnings predictability has positive effect on share price as depicted by t= .90626 and p=0.0012. This effect is significant at 5% since p= 0.0.0012< 0.05. Finally, the result revealed that earnings smoothing has a positive effect on share price as depicted by t=0.9087 and p= 0.080

The model parameters are as follows; coefficient of determination (R^2) =.64% ADJ R^2 = 0.567808. These values suggest that the model explains about 64% of systematic variations in audit quality. The F-stat=18, P (f-stat) = 0.00 and D.W=1.5. The F-value of 21.87 confirm that the hypothesis of a significant relationship between the variables (dependent and independent) cannot be rejected at 5% level while the D.W statistic indicates that a serial correlation presence in the residuals is unlikely.

CONCLUSION

The robust estimation results for the fixed effects estimation reveal earnings surprise has a positive effect on share. This result is at variance with Ioannnidis (2019) which show earnings surprise has a negative effect share price and also Kotharis et al (2006) which revealed that there is no significant relationship between earnings surprise and share price. However, the result is in line extant positive gotten by Zou and Chen (2017)

result is at variance with Junxiong (2004) which shows that firm earnings surprise has no significant effect on on share price.

The robust estimation results for the fixed effects estimation further revealed that earnings persistence has a positive effect of share price. This result is at variance Kpeli (2013) which reveals that earnings surprise has no significant effect on share price. This result is in line with Aguguom and Rafia (2018) which revealed that earnings surprise has positive effect on share price.

Additionally, the results revealed earnings predictability has positive effect on share price. This result is Jing (2007) which revealed the earnings predictability has a positive effect on share price. This result is however at variance with Aguaguom and Salawu (2018) which revealed that earnings surprise has a negative effect on share price.

Finally, the robust regression result using the fixed effects estimation revealed that the earnings smoothness has no significant effect on share price. This result corroborates with Hossein and Sanaz (2012) which shows that earnings smoothen has no significant effect on share price. However, this result is at variance with Ajekwe and Ibiamke (2017) which revealed that earnings smoothness has a negative effect on share price.

Recommendations

From the findings of the study, the recommendations for improving audit quality include:

1. Regulators should improve the level of market efficiency of the stock market. For this will improve the rate at which earnings news will be impounded into share price
2. SEC should carry out random stress test firms in order to ascertain their compliance level.

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