Fair Value Accounting, Managerial Obligation and Financial Reporting Quality of Quoted Consumer Goods Firms in Nigeria

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Abstract

The study examined the nexus between fair value accounting, managerial obligation and financial reporting quality. The study employed *ex-post facto* research design and used secondary data collected from some selected quoted consumer goods on the Nigerian Exchange group for the period of six years spanning 2014 to 2019. Multivariate regression technique is employed to test the formulated hypotheses. The regression results show that FVA has an insignificant positive relationship with FRQ even at 5% level of significance, managerial obligation has a significant negative relationship with FRQ at 1% level of significance, audit firm size has an insignificant negative relationship with FRQ even at 5% level of significance and firm size has a significant negative relationship with FRQ at 1% level of significance. The study recommends that management of quoted consumer goods companies should be conscious of the level of financial commitment to managerial obligation as it would lead to poor quality financial reporting.

Keywords: Audit firm size, financial reporting quality, firm size, firm value, managerial obligation

JEL Classifications: G20, M32, M34

1. Introduction

Accounting standard setters want to move towards the relevance of fair value than reliability of historical value even accounting information has to maintain them in financial position, because the most significant value in financial statements is represented by non-current assets. The harmonization of accounting standards is "absolutely vital to building long-term global financial stability, creating truly international capital markets and providing full transparency for credit management" (Olugbenga, *et al,* 2014). Ozili (2019) argued that Fair Value Accounting (FVA) creates opportunities for earnings manipulations by management. Researchers had argued that fair-value accounting is the reporting of assets and liabilities and recognizing changes in income as fair value as on the financial position as gains and losses respectively (Laux & Leuz, 2010; Bratten, *et al,* 2012).

The FVA for financial instruments and non-financial assets is based on financial statement recognition, accounting standard-setters and securities regulators face the challenge of shaping how much space to give managers when they evaluate fair values for the purpose of rendering quality financial reporting. The manipulations of financial reports had a large asymmetry of information for readers of financial statements and affect their decision making (Mamo & Aliaj, 2014). Song, *et al.* (2010) added that managers normally manipulate the disclosure of fair value measurements with the assumptions of historical approach. The qualitative characteristics of financial statements to be of decision usefulness are reliability and relevance.

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how much space to give managers when they evaluate fair values. Financial assets classified as available for sale which are measured at fair value and fair value differences accounted for in other comprehensive income. The challenge with unquoted equity is that they are not quoted in an exchange and as such the fair values of the instruments are not easily determinable from the market except valuation techniques are used to estimate the values of such unquoted instruments (Oduware, 2012).

The fair value accounting system affects the efficient management of the firm and thereby decreasing the principal-agent conflicts and agency costs, and boosting the efficiency with which the firm is managed. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence (Appah & Bariweni, 2013). Financial reporting does not only constitute an important source of information when assessing the performance of firms, but also a valuable and critical cornerstone set out the meet the society's need for an effective as well as an efficient capital resource allocation. In the following subsection, we therefore reflect upon the critical role of financial reporting in capital markets.

Firm size is one of the firm-specific attributes that have recurrently been pinpointed as a strong determinant of financial reporting quality. Ogundajo, *et al.* (2019) affirmed that firm size has a direct effect on financial reporting quality. It is generally believed that large audit firms, such as the Big four, are argued to be more likely to issue a more accurate opinion and for their audit clients to experience fewer restatements of financial statements and thereafter result to high level of financial reporting quality. Choi, *et al.* (2017) stressed that the nature of the audit firm size whether big4 or non-big 4 may influence financial reporting quality positively or negatively.

The Corporate scandals like Enron, Ahold, and WorldCom have again raised the questions about the FRQ, earnings management and corporate governance. The application of fair value accounting in the area of investments is a very complex and different ways of measuring fair value. Prior studies had been conducted in developing and developed countries only look at the connection between FVA and FRQ without much emphasis on managerial obligation (Al-Kassar & Dannoun 2016; Elfaki & Hammad, 2015; Habbash & Alghamdi, 2017). However, the connection between managerial obligation and financial reporting quality had been revealed by the findings of Gounopoulos and Pham (2017) in US that managerial obligation characteristic of ability is positively influence financial reporting quality and in Nigeria, Obazee and Amede (2019) documented that that managerial obligation significantly influences financial reporting quality in terms of financial timeliness. As a result, most recent studies have increased their enquiry on the relationship between managerial obligation and financial reporting quality, however with different conclusions. To the best of my knowledge, little or no studies have undertaken in Nigeria on the area of fair value accounting, managerial obligation and financial reporting quality (knowledge gap). Therefore, the study intended to address the gap in research.

1.1 Research Objectives
The broad objective of the study is to examine the relationship between FVA, managerial obligation and FRQ. Therefore, the specific objective is to:
(i)   ascertain the relationship between audit firm size and FRQ.
(ii) assess the relationship between firm size and FRQ.

1.2 Research Hypotheses
Based on the research objectives, the hypotheses were formulated in a null form:
H_{O1}: There is no significant relationship between FVA and FRQ.
H_{O2}: There is no significant relationship between managerial obligation and FRQ.
H_{O3}: There is no significant relationship between audit firm size and financial reporting FRQ.
H_{O4}: There is no significant relationship between firm size and FRQ.

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2   Literature Review

2.1   Financial Reporting Quality

Financial reporting quality has long drawn the attention of scholars, researchers, investors, auditors, and regulators in recent times. The essence of financial report is mainly to present relevant information regarding the reliability of audited financial report, which in turn will lower the degree of information asymmetry and limit managerial discretion in accounting estimates (PCAOB 2016). Tang, *et al.* (2008) defined quality of financial reporting as the degree to which financial statements of company give a true and fair view of the accounting position. Financial statement ought to be understandable, relevant, reliable and comparable if quality decisions are to be made by the stakeholders. Ha, *et al.* (2018) asserted that for financial report to be considered to be of high quality, it has to be useful to its intended users; and for it to be useful. In this paper, financial reporting quality is defined as the degree to which financial statements of company give a true and fair view of the accounting information.

2.2 Fair Value Accounting

Accounting to International Financial Reporting Standard (IFRS 13), fair value can be referred to as the price that is received or earned in selling an asset or paying to transfer a liability in an orderly transaction between market participants at the measurement date. FVA has become the most alternative choice to correct abnormality created by the historical cost assessment of assets, liabilities and recognition of income (Skoda & Bilka, 2012). Barth (1994) defined fair value as the value of market securities or value of stock based on the prevailing market price. Fair value is also referred to the amount added to the cost in order to determine the selling prices of securities. Given the justifications of the above definition, fair value is the market value which is influence by forces demand and supply while fair value determination is based on an objective study of the elements affecting the value of securities. In the view of Samuelson theorem (Hitz, 2007), fair value accounting is seen as market values which comprises of all available information.

The presence of FVA helps to reflect the economic reality of the business entity (Skoda & Bilka, 2012). Fair value accounting is a "means of expressing the fair financial statements (financial position) of the business as well as the cash flows and changes in equity. Fair value accounting is usually focuses on the changes in the purchasing power of the currency unit. Sodan (2015), stressed that the use of FVA as a measurement attribute in accounting standards has gain momentum in recent time going by the evolution of financial markets and development of complex financial instruments. However, the decline of transaction cost-based model and the rise of market-value (fair value) based model of financial reporting has great implications for the role and properties of balance sheet measurement and accounting income (Sodan, 2015). However, FVA is measured by income statement approach reported audited financial statement of quoted companies (Bratten, *et al,* 2012).

FVA is a measure of fair value gains and losses of net income (absrelFVI) which is the ratio of absolute value of FVI (absFVI) and the sum of absolute value of FVI (absFVI) and absolute value of net income without FVI for every quoted consumer goods company (absHI) (Bratten, Causholli, & Khan. 2012). This is represented in the equation below; $FVA = abs\ (OCI_{i,t})/[abs(NI_{i,t} + abs(OCI_{i,t})]$. This means that FVA based on the computation of other comprehensive income (absrelOCI) is the ratio of absolute value of other comprehensive income (absOCI) and the sum of the absolute value of net income (absNI) and absolute value of other comprehensive income (absOCI).

2.3 Managerial Obligation

Managerial obligation entails the management accounting system that deals with the internal management of the entity which provides vital information to managers on forecasting, cost calculation and analysis, coordination, decision-making, control and evaluation for effective

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financial reporting (Ciuhureanu, 2018). Shuto and Takada (2010) explored the signally theory and agency theory to examine the connection between managerial obligations of ownership and affirmed that the presence of high managerial obligation adversely affects accounting information. Almadi and Lazic (2016) added managerial obligation exhibited by top management leads to high level of financial reporting quality of listed companies. The manager's obligation is to serve the interest of the stakeholders in terms of maximization of wealth. Managers intend to maximize shareholders' wealth, creditors and to beat analysts' forecast and to make the taxes as low as possible (Dure-e-Shawar & Qaisar, 2015).

2.4 Audit Firm Size

The size of the audit firm is strong determinants of financial reporting quality. Large audit firms are able to provide rigorous training for their staff, which contributes to the development of the skills and knowledge of the auditors (DeFond, *et al*, 2002). Seyyed, *et al* (2013), claimed that "the size of the audit firm determines the audit quality which is the ability of the auditor to detect material misstatement and reporting the errors and irregularities. However, auditors are one of the key determinants of earnings quality because of the role they play in mitigating intentional and unintentional misstatements. Given the classification of audit firm size, "it is classified into big and small auditors, Big 4 firms and non-Big 4 firms. The BIG4 comprise of Klynveld Peat Marwick Goerdeler (KPMG), Pricewaterhouse Coopers (PWC), Akintola Williams Deloitee and Ernst and Young" (Bello, *et al.,* 2016).

2.5 Firm Size

According to Ali, et al (2015), firm size is defined based on the capacity of a company to possess more funds to utilize the best technology and expertise to generate in time financial information to public. Therefore, larger companies may have more sophisticated internal control systems and have more competent internal auditors as compared to smaller companies. An efficient internal control system helps control inaccurate disclosure of financial information to the public. Barton and Simko (2002) are of the opinion that companies witnessing expansion in size have the tendency of managing more earnings more than small size firm because they have to manage their earnings due to the more pressure of investors and to meet the expectations of analysts. Firm size and earnings management with respect to quality financial reporting has face a lot of controversy in prior research. Yodbutr (2017) study in Thailand financial firms revealed that firm size and financial reporting quality is significantly related.

2.6 Theoretical Review

In this study, the study developed relevant theories that helps explain the relevance of FVA, managerial obligation and FRQ. However, this study is hinged on the stewardship theory.

2.6.1 Stewardship Theory

The stewardship theory is the theory that draws connection between management and ownership of company and it is developed by Donaldson and Davis in the year, 1991 and 1993. The stewardship theory assumes the objective of accounting which is based on the premise of separation between ownership and management in public companies (Sodan, 2015). The stewardship theory is very relevant in the area of management research in the present-day going concern concept of business organisations. Donaldson and Davis (1991), argued that the "theory is concerned with identification of situations in which the interests of the principal and the steward are aligned between the client firm and the audit firm". Moreover, given the conflict of interests between managers and owners, stewardship function of financial reporting is to constrain management to act in the shareholders' interests (Watts & Zimmerman, 1990). Stewardship theory mainly deals with leadership and management in organizational context with the obligation of enhancing organizational goals rather selfish reasons (Donaldson & Davis, 1991). The application of the theory is relevance to the study because its center on goal

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alignment based on shared goals and trust, numeration of workers should be non-pecuniary mechanism and cushion the effect of information asymmetry.

2.6.2 Signaling Theory

The signal theory is propounded by Akerlof in the year, 1970. The theory is tied to the flow of information asymmetry in the capital markets (Akerlof, 1970). The signaling theory considers that the same information is not shared by all economic agents. Sun, *et al* (2010), argued that the signal theory is used to reduce the level of information asymmetry in the capital market. It is believed that managers of well performing firms tend to disclose the performance of the organization in their financial statements with greater transparency than managers of poorly performing firms. The level of disclosure in this case, sends a kind of signal of healthy and unhealthy firms to the stakeholders who view and use the financial statements. The theory is relevant to this study because financial reporting perspective has its basics on the quality of information disclosure in the audited annual report of corporate organizations.

2.7 Empirical Review

Bretten, *et al,* (2012) research work on FVA and the predictive ability of earnings of the banking industry revealed that increase in the level of FVA brings about high level of financial reporting. This also means that the presence of FVA and FRQ improves the ability of predicting earnings through future cash flows. A study conducted by Hashem, *et al* (2012), on empirical analysis of earnings management motives in firms listed on Tehran Stock Exchange revealed that firm size had a significant positive relationship with earnings management and FRQ. It shows that expansion of the firm would significantly lead to high FRQ. James (2014) examined the effect of audit firm characteristics and financial reporting quality and audit quality in Nigeria. Data is collected some selected quoted companies in Nigeria for the data analysis. The regression results showed that audit firm size exerts a significant negative impact financial reporting and audit quality. Elfaki and Hammad (2015), examined the "impact of FVA on the quality of accounting information. They made use of descriptive approach where structured questionnaire is used to measure FVA It would be revealed "from the regression results that FVA and quality of accounting information (AI) was positively related. They also found that a positive relationship between the application of fair value and reliability of AI.

Al-Kassar and Dannoun (2016), carried out a study on the importance of the application of FVA on the quality of financial statements in Jordanian commercial banks information. The study made use of primary source of data by developing a questionnaire. It would be revealed from the results that the high quality of AI is affected by the appropriateness of fair value. They also found out "that the application of fair value accounting has a significant impact on the appropriateness of the AI contained in the financial statements of commercial banks listed in ASE. Habbash and Alghamdi (2017), carried out a study on the significant relationship between audit quality and earnings management in the less developed economies, providing their various shortcoming and difference and covered a sample of 337 non-financial Saudi listed firms from 2006 to 2009, measured audit quality in five forms (auditor size, auditor industry specialization, auditor opinion, auditor change and timeliness of audit report) and the absolute value of discretionary accruals was used as a proxy for earnings management practices. According to the study, this measurement followed a cross-sectional variation of the Kothari model and the result from regression and correlation analyses approach showed that only auditor opinion indicates earnings management practices. In addition, the result suggested that auditors are powerless in front of managerial optimistic activities.

Yodbutr (2017) conducted on the relationship between corporate governance and earnings quality of Thailand financial firms. The study adopted the use of longitudinal research design where data was collected from the period of 2011 to 2015 and employed the use of multiple regression analysis for the data analysis. The regression results showed that firm size has a relationship with

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financial reporting and earnings quality. This means that the size of firms determines the earnings quality and financial reporting quality of the firms. Alsmairat, *et al*, (2019) carried out a study on the effect of audit tenure and audit firm size on the audit quality in Jordan and adopted survey research design through the administration of structured questionnaire to 200 sampled auditors in Jordanian and employed Partial Least Squares and Structural Equation Modeling for the analysis of data. The regression result showed that audit firm size has a significant positive effect on financial reporting quality as well as auditing quality. The results also audit tenure exerted a significant positive effect on financial reporting and audit quality. This implies that larger audit firm size brings about increase financial reporting and audit quality.

3.   Data and Methods

Research design employed in this study is *ex-post facto* and longitudinal research design which enables the researcher to collect, analyse and interpret data. The population of this research is made up of 21 quoted consumer goods companies whose shares are quoted on the floor of the Nigerian Stock Exchange. Each of the quoted consumer goods companies in the population must have finished its obligation in delivering annual report for the year ended 2014 to 2019. The study employed multivariate regression techniques to examine the relationship between FVA and FRQ. Descriptive statistics and Pearson correlation matrix was also conducted.

3.1 Model Specification

The underpinning theory of the study is stewardship theory which draws connection between management and ownership of company and it is proposed by Donaldson and Davis (1991). The theory is very relevant in the area of management research in the present-day going concern concept of business organizations. Hence, the study adopted the regression model of Emmanuel and Emen (2020) to explain change or variation in the value of the dependent variable (financial reporting) on the basis of changes in the independent or explanatory variables. Therefore, the adapted the model of Emmanuel and Emen (2020) is presented below:

$$FRQ_{it} = \beta_0 + \beta_1 AF_{it} + \beta_2 AUDLY_{it} + \beta_3 FS_{it} + \varepsilon$$

Where;
$B1-\beta 3$ = coefficient of the variables
i,t = firm i, time t
FRQ_{it} = Financial reporting quality
AF_{it} = Audit fees
$AUDLY_{it}$ = Audit delay
$FS4_{it}$ = Firm size
ε = error term

The regression model of Emmanuel and Emen (2020) is re-specified to incorporate fair value accounting and managerial obligation, as shown below:

$$FRQ_t = \beta_0 + \beta_1 FVA_{it} + \beta_2 MOB_{it} + \beta_1 AUDFS_{it} + \beta_2 FZE_{it} + e_t \ldots\ldots (1)$$

Where;
FRQ = Financial reporting quality,
FVA = Fair value accounting
MOB = Managerial obligation
AUDFS = Audit firm size
FZE = Firm size
β = variables that vary across companies but do not vary over time
ω_t = variables that vary over time but do not vary across companies at any given time
ε_{it} = error terms.

The presumptive signs of the parameters in the specifications are:

$\beta_1, \beta_2, \beta_3, \beta_4, > 0$

The above signifies the *a priori* expectation which shows a positive trend among the independent variable and brings about change in the dependent variables.

Table 1: Measurement of Variables

Variables	Measurements	Source
Dependent Variable		
FRQ= Financial reporting quality	measured by the amount of money paid as audit fees for the periods	(Chan, Ezzamel, & Gwilliam (1993).
Independent Variables		
FVA = Fair value accounting	measured by income approach	Hodder, *et al.,* (2006)
MOB= Managerial obligation	measured by the amount of money paid to directors	(Olaniyi & Obembe, 2015);
AUDFS= Audit firm	measured by a dummy variable, "1" for Big 4 audit firm, OTHERWISE "0"	Deloitte, Klynveld Peat Marwick Goerdeler (KPMG), Ernst & Young and Pricewaterhouse coopers (PWC)
FZE = Firm size	measured as the natural logarithm of total asset	Akrawah, *et al.,* (2020)

Source: Authors' Computation, 2021.

4. Data Analysis and Discussion of Findings

4.1 Descriptive Statistics

The descriptive statistics shown in Table 2 focused on the description of the mean, standard deviation and normality test. The below was the descriptive statistics of the variables for the period of 2014 to 2019. The result showed that financial reporting quality proxied by audit fee (FRQ) has a mean of 460273.15 with a corresponding standard deviation of 52249.23. The high value of the standard deviation indicates that there is presence of quality financial reporting among the sampled quoted consumer goods. Fair value accounting (FVA) has a mean of -0.26 and standard deviation of 1.85. The negative value of the mean implies that there are unrealized fair value losses on available-for-sale securities, effective portion of losses on hedging instruments in a cash flow hedge and translation losses. Also, audit firm size (AUFS) has a mean value of 85% and a standard deviation value of 35. This indicates that majority of the sampled quoted consumer goods were audited by the Big 4 audit firm. Firm size (FZE) has a mean of 7.76 and standard deviation of 0.58. Finally, based on the probability of the Jarque Bera statistics, financial reporting quality, fair value accounting, managerial obligation and audit firm size were normally distributed with a probability value less than 0.05 while firm size was abnormally distributed with a probability value greater than 0.05.

Table 2: Descriptive Statistics

Parameters	Mean	Standard Deviation	Jarque-Bera	Probability
FRQ	46273.15	52249.23	341.54	0.00
FVA	-0.26	1.85	6102.19	0.00
MOB	212898.6	262521.5	255.81	0.00
AUFS	0.85	0.35	46.67	0.00
FZE	7.76	0.58	4.19	0.12

Source: Authors' Computation (2021)

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4.2   Correlation Matrix

The Pearson correlation matrix in Table 3 revealed that fair value accounting (FVA) has a positive coefficient value of 0.0629 and weakly correlated with FRQ. This implies that unrealized fair value gains on available-for-sale securities, effective portion of gains on hedging instruments in a cash flow hedge and translation gains might lead to high quality financial reporting. Managerial obligation (MOB) has a negative coefficient value of -0.0288 and weakly correlated with FRQ. This therefore means that more commitment to managerial obligations might lead to poor quality financial reporting. Also, audit firm size (AUFS) has a positive coefficient value of 0.2275 and moderately correlated with FRQ. This implies that company audited by Big 4 audit firm might lead to high quality financial reporting. Firm size (FZE) has a positive coefficient value of 0.5589 and moderately correlated with FRQ. This means that the expansion of the company might lead to high FRQ. It was also observed from the correlation coefficient that none of the independent variables were perfectly correlated. This therefore reveals the absence of multicolinearity among the independent variables. Multicollinearity between explanatory variables may result to wrong signs or implausible magnitudes, in the estimated model coefficients, and the bias of the standard errors of the coefficients.

Table 3: Pearson Correlation Matrix

Variable	FRQ	FVA	MOB	AUFS	FZE
FRQ	1				
FVA	0.0629	1			
MOB	-0.0288	0.0001	1		
AUFS	0.2275	-0.0590	0.2771	1	
FZE	0.5289	0.0842	0.4998	0.4724	1

Source: Authors' Computation, 2021.

4.3   FVA, managerial obligation and FRQ

The multivariate regression results shown in Table 4 reveal that adjusted-R^2 value of 0.345856 that about 35% of the systematic variations in financial reporting quality were jointly explained by fair value accounting, managerial obligation, audit firm size and firm size while the remaining 65% was captured by error term. The F-statistic value of 8.137665 and its associated p-value of 0.000039 show that there exists a significant relationship between the dependent variable and the independent variables. The Durbin Watson statistic value of 0.248224 revealed the presence of serial correlation in the regression results but this was ignored in this study due nature of the data employed. FVA has an insignificant positive relationship with FRQ even at 5% level of significance. This therefore means that that unrealized fair value gains on available-for-sale securities, effective portion of gains on hedging instruments in a cash flow hedge and translation gains would lead to high quality financial reporting but it was statistically insignificant. The insignificant relationship of FVA was because the variable failed the t-test at >0.05 level of significance. Managerial obligation (MOB) has a significant negative relationship with FRQ at 1% level of significance. This therefore means that we were 99% confidence level that more commitment to managerial obligation would lead to poor FRQ but it was statistically significant. The significant relationship of managerial obligation was because the variable passed the t-test at < 0.05 level of significance.

It was also found out that audit firm size (AUFS) has an insignificant negative relationship with FRQ even at 5% level of significance. This therefore means that the size of the audit firm would enhance FRQ negatively but it was statistically insignificant. The insignificant relationship of audit firm size was because the variable passed the t-test at > 0.05 level of significance. Firm size (FZE) has a significant negative relationship with FRQ at 1% level of significance. This therefore means that we were 99% confidence level that the larger the firm size, the higher the FRQ but it was statistically significant. The significant relationship of firm size was because the variable

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passed the t-test at < 0.05 level of significance. The findings would form the basis of policy recommendations and implications. The results were represented in Table 1, 2 and 3 respectively

Table 4: Multivariate Regression Result

Variables	Coefficient	t-test	P-value
C	-0.442196.3	-4.91	0.0000
FVA	43.15	0.01	0.9891
MOB	-0.08	-3.06	0.0035
AUFS	-1174.83	-0.06	0.9496
FZE	65132.51	5.19	0.0000

$R^2 = 0.394311$, Adjusted $R^2 = 0.345856$, F-statistic = 8.137665, P-value (F-stat. = 0.000039), Durbin Watson = 0.248224

Source: Authors' Computation, 2021.

4.4 Discussion of Findings

Fair value accounting has an insignificant positive relationship with FRQ even at 5% level of significance. The result was inconsistent with the findings o Al-Kassar and Dannoun (2016) that the high quality of AI is affected by the appropriateness of fair value. That is, FVA has a significant impact on the appropriateness of the AI. The findings of Elfaki and Hammad (2015) were also inconsistent with the result that FVA and quality of AI was positively related. Managerial obligation has a significant negative relationship with FRQ at 1% level of significance. The result was consistent with the findings of Azona (2019) in South Sudan that managerial obligation of the accountant significantly enhanced quality financial reporting.

Audit firm size has an insignificant negative relationship with FRQ even at 5% level of significance. The result was inconsistent with the findings of Oliveira, Rodrigues and Craig, (2006) that companies audited by big four (4) has the probability of reporting quality financial information about intangible assets in the financial statement than those that are audited by non-big four (4) audit firm. The findings of Ajona, Arnedo, Dallo and Alegria (2008) were also inconsistent with the result that audit type proxy by Big 4 auditors act in a less conservative manner in settings where there are fewer restrictive regulations and enforcement mechanisms that demand high-quality auditing reporting by stakeholders. Firm size has a significant negative relationship with FRQ at 1% level of significance. The result was consistent with the findings of Hashem, Bahman and Azam (2012) that firm size had a significant positive relationship with FRQ. Also, the finding of Shehu (2012) was consistent with the results that firm size and FRQ was significantly and negatively related. The findings of Nelson and George (2013) were inconsistent with the result that there was no significant relationship between firm size and FRQ

5. Conclusion and Recommendations

The study focused on the relationship between fair value accounting and financial reporting quality. It was concluded that FVA has an insignificant positive relationship with FRQ even at 5% level of significance, managerial obligation has a significant negative relationship with FRQ at 1% level of significance, audit firm size has an insignificant negative relationship with FRQ even at 5% level of significance and firm size has a significant negative relationship with FRQ at 1% level of significance.

Based on the findings of the study, the following recommendations were made;

(i) Since fair value accounting is positive and insignificant, management of quoted consumer goods companies should consider the level of unrealized fair value gains on available-for-sale securities and hedging instruments in a cash flow hedge and translation gains as it would improve quality financial reporting in the long-run

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(ii)   Management should be conscious of the level of financial commitment to managerial obligation as it would lead to poor quality financial reporting because of the negative relationship.

(iii)   Management should evaluate the quality of the auditor and the size of the audit firm as it would lead to poor quality financial reporting in the long-run.

(iv)   Firm size was found to be significant, then management should consider the expansion of the size in order to maintain high quality financial reporting.

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