FAIR VALUE ACCOUNTING AND EARNINGS QUALITY OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

Adewale Emmanuel OLANLOKUN
Department of Accounting,
Faculty of Management Sciences,
University of Lagos, Lagos, Nigeria.
olanlokuna@gmail.com

Oluwamayowa Olalekan IREDELE
Department of Accounting,
Faculty of Management Sciences,
University of Lagos, Lagos, Nigeria.
Corresponding Author: oiredele@unilag.edu.ng

Semiu Babatunde ADEYEMI
Department of Accounting,
Faculty of Management Sciences,
University of Lagos, Lagos, Nigeria.
sadeyemi@unilag.edu.ng

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Abstract
This paper assesses the influence of fair value accounting on the earnings quality **(**Earnings variability) of deposit money banks in Nigeria with a focus on post- COVID period. Specifically, the study objectives include to examine the effect of fair value gains or loss through income profit or loss and fair value gains or loss through other comprehensive income on earnings variability of listed deposit money banks in Nigeria. The study employed ex –post facto research design through census sampling technique and obtained secondary data from annual reports and accounts of seven (7) deposit money banks quoted on the Nigerian Exchange Group, which are categorized as Tier 1 as at April 26, 2024. The study covered the period from 2020 to 2024. Fair value accounting was proxied as fair value net gains through the income statement and fair value net gains through other comprehensive income with firm size as a control variable. Earnings quality was represented by earnings variability. Our findings shows that FVTIS does not significantly impact earnings variability but FVTOCI was found to significantly impact earnings variability while the combined effect of FVTIS with FVTOCI showed the similar result. The study conclude that FVTOCI showed noteworthy influence on earnings fluctuations of the sampled Tier 1 banks with the recommendation that standards regulators should revise accounting standards relating to FVTIS and DMBs should also enhance transparency in reporting FVTOCI in their financial reports. Future researchers may consider thesame study across non-financial sectors, thefinancial sector, which includes smaller and regional banks.

Keywords: Earning variability, fair value accounting, firm size, fair value under income statement, net gains of fair value under other comprehensive income.

1.0 Introduction

Quality of earnings is a significant issue that has been raised as a common front that raises concerns aboutthe interest of decision makers on the financial information; these are the users that are covered in this category; they are internal and external users especially the market participants. The managers are highly concerned to fulfill theeconomic decisions of such users by ensuring thesustainable growth of the companies. Gospel and Akpeekon (2019) have speculated that the users care about the best way to quantify the quality of earnings with a view to achieving the pertinent economic choices and vice versa; the investors to maximize the earnings of their portfolios.

According to Ebirien and Nwanyanwu (2017), earning offers concern accounting data to diverse stakeholders in decision making of an entity. The quality of earnings reported indicates the current and future operating performance of the firm as far as profitability is concerned.

Various researchers, the standards board, professional accountants and other professionals referred in the submission by Pompili and Tutino (2019) are interested in the quality of earnings.

According to Danimir, Mirjana and Ivana (2019), the quality of earnings are used as an indicator to predict future earnings, performance and liquidity position of the entity. Value of earnings is critical to different stakeholders that facilitate them to make sound decisions. Still, the level of an entity is defined by the level of its earnings that is one of the parameters of the level of financial performance of an organization (Akpaka et al., 2024).

According to Dechow et al. (2010), the reported earnings quality is actually a matrix of current operating profitability which is future performance and value of a firm. The past studies have taken into account the quality of earnings in the manufacturing companies since the companies contribute significantly towards theproduction of industrial and consumer goods to enhance the welfare of the citizens of a country and to offer them work opportunities.

The earnings quality measurement process can be affected as there are two important parties involved one of which are the international standards bodies and the managers of various companies where standard setters establish various methods that should be used and the second one can be made by management and can choose the technique to use. The two actors as well as recent interest have led to numerous indicators of measuring the reported earnings quality (Dechow et al., 2010; Hapsoro and Shufia, 2018). Some of the metrics commonly employed in ascertaining the degree of the quality of the earnings reported entail accruals-based, cash flow-based, persistence, predictability, smoothness, timeliness, conservatism, variability etc.

The critical nature of the effect of fair value accounting on the earnings of the deposit money banks in Nigeria is the main reason why we are conducting this study and hence leads us to discuss the background information on fair value accounting. Osisioma et al. (2014) believed that fair value presents present and estimated value assets and liabilities of a firm that depicts the amount, timing, and uncertainty of future cash flows associating assets or liabilities as stipulated in the international financial reporting standards 13.

Banking sector and accounting regulators worldwide are concerned with the contributions towards fair value accounting on financial information disclosures sharing the view of American Bankers Association, 2009 that various critics have been deliberated in respect to fair value accounting. It has had great contributions to reporting and disclosures in the financial statement. This research is a paradigm shift of historical cost accounting that has been used as the traditional accounting and reporting financial instruments included in the financial statements.

The international accounting standards include fair value as a standard to impose that all financial assets and liabilities of a firm are reported at their current value in annual reports and accounts of a firm which is deemed as historical accounting. When this standard was introduced, the reported earnings of a firm have been problematic. Past studies have taken into consideration fair value accounting and earnings quality of the firms in developed and developing nations across the globe with varying outcomes under consideration, limited research done, and have failed to critically assess the Nigerian setting (Olaoye and Ibukun-Falayi, 2020). Other studies discussed companies which were not in the financial sector like the Manufacturing, Agriculture and Consumers goods retail companies. Moreover, the majority of the studies have failed to critically analyze the post pandemic (COVID' 2019) era.

Fair value accounting was introduced as part of the international financial reporting standards to ensure that companies report their financial assets and liabilities in their financial reports at

the current value instead of reporting them at the historical value. More studies are needed in the Nigerian context by exploring the link between fair value accounting and earnings variability because some studies have considered other proxies particularly earnings persistence, predictability and accruals. The post pandemic has been a major period in this study because the business operations were affected by this virus which in turn imposed negative effect on the market conditions and earnings variability of firms. Our specific objectives are: (i) to examine the effect of fair value gains or losses through profit or loss on earnings variability of deposit money banks in Nigeria. (ii) assess the effect of fair value gains or losses through other comprehensive income on earnings variability of deposit money banks in Nigeria, and (iii) explore the combine effect of fair value gains or losses through profit or loss and fair value gains or losses through other comprehensive income on earnings variability of deposit money banks in Nigeria In addition to the specific objectives, a major contribution of this study is the understanding created on the difference between the influence on earnings between fair value gain or loss through profit or loss and fair value gain or loss through other comprehensive income thereby signaling the need to pay more attention to items within the other comprehensive income, because of their tendencies to cause variations in earnings.

2.0 Literature Review

Earnings Quality

Akpaka et al. (2024) articulated that the quality of earnings represent the extent to which the reported earnings will translate into corporate earnings in future since decision makers regard quality of earnings as means of determining the efficiency of capital market.

Dechow et al. (2010) explained that quality of earnings generate cash flows that forecast the future earnings and cash flows. Olaoye and Ibukun-Falayi (2020) defined earnings quality as maintains the earnings and is repeatable. Good quality of earnings is due to core operations activities and not the transitory or one-off items that lack consistency in giving a clear image of financial performance. Persistence, smoothness, predictability, total accruals and earning variability are used to measure the quality of revenues (Akpaka et al. 2024; Gregory, 2014; Hapsoro and Shufia, 2018; Paoloni et al., 2017). By comparing the review above, the authors have measured the quality of earnings as total accruals and earnings predictability respectively.We used earnings variability as an indicator of the quality of earnings since it represents large and low fluctuation changes in the level of earnings of the firm which was obtained through work.

Earnings Variability

As Korna et al. (2025) have discussed, variability of earnings is also known as earnings smoothness that is one of the measures of quality of earnings and are important constituents of financial statements of firms. One of the primary elements that dictate the change in the earnings of the firm is variability of earnings on the levels of high or low quality. According to Osamor, Abata and Elluh (2020), the variability of earnings can be explained as a volatility in the earnings of a firm during a specific period.

Fair Value Concept in Accounting.

IFRS 13 described fair value as the exact amount that one ought to receive on selling an asset or paying a certain obligation on an ordinary course of business transactions between two market participants at a measurement level.Emphasisis lay on the market conditions of such transactions (Danimir et al., 2019). Adeleye et al. (2025) described that fair value was considered to be the price at which an asset is sold and also discussed further that variations in value of a firm is recorded in the profits and losses and unrealized values are indicated in the accounts.Economic order quantity, ABC Analysis, firm size, financial leverage, fair value net

gains through income statement, and fair value net gains through other comprehensive income are the measures, which have been applied to proxy fair value accounting (Horsfall&Omah, 2020; Paoloni et al., 2017).

Net Gains of Fair Value Through The Income Statement.

Eshiett et al. (2023) talked about the net gains of fair value in three business strategies; financial assets hold to sell, hold to collect which were explained as per IFRS 9 with emphasis that profit or loss be used to realize fair value on such assets retained to be collected which did not meet the contractual cash flow basis.

The use of fair value net gains through income statement is mainly applied to derivatives and other financial instruments that a firm is in control and assessment of. This point of view highlights strategic side of the classification which is agreeing to the intention of management. Adenugba, Ige and Kesinro (2016) established that fair value accounting offers more pertinent financial information than the historical cost accounting. This timeliness is important in times of economic uncertainty where fair value accounting is more appropriate as it captures the current state of everything in the market. An example is to use a case where the firm purchased stocks with the aim of selling them in a shorter time at a profit or the credit worthiness of the firm diminishes and therefore the value of the liability decreases invariably leading to a fair value gain on the income statement and vice versa. The profit is recorded as revenue otherwise the loss is recorded on expenses that have a direct effect on income statement of a certain year.

Net Gains of Fair Value through other Comprehensive Income

Akpaka et al. (2024) asserts that changes in fair value is reported in other comprehensive income and not in profit or loss which reflects the unrealized changes in values of some of the financial assets that are being recorded in equity other than in profit or loss. This method is used in investment such as specific debt instruments or equity securities which are not traded. The standards would compel companies to disclose their changes on fair values without any effect on the income statement of a specific year.

Firm Size

According to Akpaka et al. (2024), firm size can be explained as the value of total asset that a firm possesses at the specific period and contribution of the asset to the economic decision of the various stakeholders and then the big companies do well compared to small and medium sized companies. Setiadharma and Machali (2017) wrote that big-sized firm signals stronger growth, which sends a valid message to the investors resulting to appreciation of such a firm. One of the most significant determinants that influence the growth of the firm is firm size. The size of the firm dictates the frequency of an entity to enhance its capacity to increase earnings.

Empirical Review

Slavko (2015) has considered fair value accounting, the quality of earnings in Eastern European countries during 2002-2011. Their research elaborated that the Eastern European banks were estimating the fair values with the assistance of valuation techniques. The first measurement is done using income statement method where the fair value accounting is determined whereas the second method measures it using other comprehensive income. These findings agree with earlier researches that indicate that companies that have high proportions of fair value measurement encounter less earnings quality.

The study by Shaban et al. (2020) evaluated the impact of fair vale accounting on earnings predictability usingevidence about Jordan between 2011 and 2018. Their research was quantitative (secondary data) in nature in which they obtained information through the reports of ten commercial banks in Jordanian. Their results showed that the unrealized gains or losses

of fair value calculated as profit or loss has a high predictability ability of quality of earnings in the Jordanian commercial banks.

Olaoye and Ibukun-Falayi (2020) evaluated how fair value accounting affects quality of earnings of deposit money banks in Nigeria during the period of 2012/2021 in which ten purposely selected banks were used through secondary. Their proxy study indicates quality of the earnings predictability and independent variable as fair value by other comprehensive income, natural log of total asset and leverage. Their research design adopted quantitative research as their finding revealed that the fair value is significantly positive to the earnings under the conditions that control variables (firm size and financial leverage) of the banks under consideration are being considered.

Eshiett et al. (2023) evaluated the fair value accounting and market value of the deposit money banks in Nigeria. The proxy of the independent variable is fair value net gains through profit or loss and dependent variable is market value proxy in terms of earnings per share and market capitalization. The non-probability sampling technique was used to select five quoted banks on the Nigerian Exchange Group that covered 2017 to 2021. Their research employed Clark Dynamic Theory of profit whereby their results indicated that increment of fair value accounting enhanced profitability with respect to their earnings per share.

The article by Paoloni et al. (2017) explored how fair value accounting affects the quality of the earnings in the European banking sector between 2007 and 2016. Their analysis presupposed that the banks will generate substantial impacts on the quality of earnings whenever there is an exposure of fair value adjustment to their system of financial reporting. They pointed out that in instances where the prices of the financial instruments are not available, the firms can use an approximate fair value referred to as market to model valuation method. The results indicated that the banks in Europe with massive fair value treatment will give high quality of earnings.

Pompili and Tutino (2019) studied fair value accounting and earnings management that is presented US. Their research used the communication theory and the quantitative research design within the period of 2011 - 2016. Their research stated that corporate fair value accounting methodology is more likely to increase the decision making process of the users of the financial reporting.The focus is made on the earlier researches that described issues concerning earnings discretionary. Their results revealed that fair value accounting did not have a positive effect on earnings quality of US banks that are not reliant on the hierarchy of input employed in evaluation process.

Table 1:
Summary of Empirical Studies

Author(s)	Country/Region	Study Period	Sample	Key Variable(s)	Major Findings
Slavko (2015)	Eastern Europe	2002-2011	Commercial banks	Earnings quality	Extensive use of fair value accounting was associated with reduced earnings quality.
Shaban et al. (2020)	Jordan	2011-2018	10 banks	Earnings predictability	Fair value gains significantly improved earnings predictability.
Olaoye and Ibukun-Falayi (2020)	Nigeria	2012-2021	Deposit money banks	Earnings predictability	Fair value accounting had a positive effect on earnings quality.

Eshiett et al. (2023)	Nigeria	2017-2021	Five quoted banks	Earnings per share, market capitalisation	Fair value measurement enhanced the market value of listed banks.
Paoloni et al. (2017)	Europe	2007-2016	Banking institutions	Earnings quality	Exposure to fair value accounting improved earnings quality.
Pompili and Tutino (2019)	United States	2011-2016	Banks	Earnings quality	Fair value accounting showed no consistent positive effect on earnings quality.

Source: Compiled by the Authors (2025).

Identified Gaps and Contribution of the Present Study

Despite extensive empirical evidence, notable gaps remain. First, most Nigerian studies focus broadly on deposit money banks without isolating Tier 1 banks, whose size, complexity, and systemic importance may alter the fair value earnings relationship. Second, existing studies largely cover periods prior to or immediately after IFRS adoption, leaving limited evidence for the post-pandemic period (2020-2024). Third, prior research predominantly measures earnings quality using predictability or accrual-based proxies, with little emphasis on earnings variability, which more directly captures income volatility arising from fair value adjustments. This study addresses these gaps by focusing exclusively on Tier 1 Nigerian banks, examining a more recent period (2020-2024), and employing earnings variability as a distinct proxy for earnings quality. By doing so, it provides updated and more targeted evidence on the effect of fair value accounting in a highly regulated and systemically important banking segment.

The null hypotheses that were set in our study include:

H_{01}: Fair value net gains using income statement does not play any significant role in earnings variability by deposit money banks in Nigeria.

H_{02}: The net gain of fair value by other comprehensive income does not affect the variability of earnings of the deposit banks in Nigeria significantly.

H_{03}: The combination of the effect of fair value net gains using income statement and fair value net gains using other comprehensive income does not significantly affect the earnings variability of deposit money banks in Nigeria.

Theoretical Framework

This study is anchored on Stakeholder Theory, originally developed by Freeman (1984), which posits that an organisation is accountable not only to its shareholders but to a broad network of stakeholders who have legitimate interests in the firm's activities and outcomes. These stakeholders include shareholders, regulators, depositors, creditors, employees, customers, analysts, and the wider society. Each of these groups depends on credible financial information to make informed economic, regulatory, and governance decisions. Stakeholder Theory is particularly relevant to this study because earnings quality and fair value disclosures directly affect stakeholders' ability to assess firm performance, risk exposure, and long-term sustainability. In the context of financial institutions, especially deposit money banks, stakeholders rely heavily on transparent and reliable accounting information due to the systemic importance of the banking sector. Fair value accounting, through profit or loss and other comprehensive income (OCI), provides valuation-based information that reflects current market conditions, asset quality, and exposure to financial risks.

From a stakeholder perspective, high-quality earnings are those that faithfully represent economic reality and are useful for decision-making. When fair value disclosures are properly measured and transparently reported, they enhance earnings quality by reducing information asymmetry between management and stakeholders. Conversely, inadequate or opaque fair value reporting can distort earnings figures, mislead stakeholders, and undermine confidence in financial statements.

Regulators such as the Central Bank of Nigeria (CBN) rely on fair value disclosures to assess banks' financial soundness and vulnerability to market shocks. Investors and analysts depend on these disclosures to evaluate earnings sustainability and firm value, while depositors and creditors use them to assess the safety of their funds. Employees and other internal stakeholders also benefit from credible earnings information, as it influences job security, compensation decisions, and long-term organisational stability.

Therefore, Stakeholder Theory provides a strong theoretical justification for examining how fair value accounting affects earnings quality. The theory supports the argument that financial reporting practices should prioritise transparency, relevance, and reliability to meet the diverse information needs of stakeholders. In this study, fair value accounting is viewed as a mechanism through which firms communicate economic performance and risk, while earnings quality serves as an outcome that reflects how well stakeholders' informational needs are satisfied. By adopting Stakeholder Theory, this study underscores that fair value disclosures are not merely technical accounting requirements but essential tools for protecting stakeholder interests and enhancing confidence in the financial reporting system.

The Study Conceptual Model

This section concentrates on conceptual framework of this study and it gives a platform through which the objective of the research is achieved. The research of Akpaka et al. (2024); Olaoye and Ibukun-Falayi (2020); Paoloni et al. (2017) is the basis of the formulation of the conceptual model. Fig. 1 contains the schematic diagram that illustrates the conceptualization of the impact of fair value accounting on the earnings quality of the Nigerian deposit money banks.

The research framework (Figure 1):

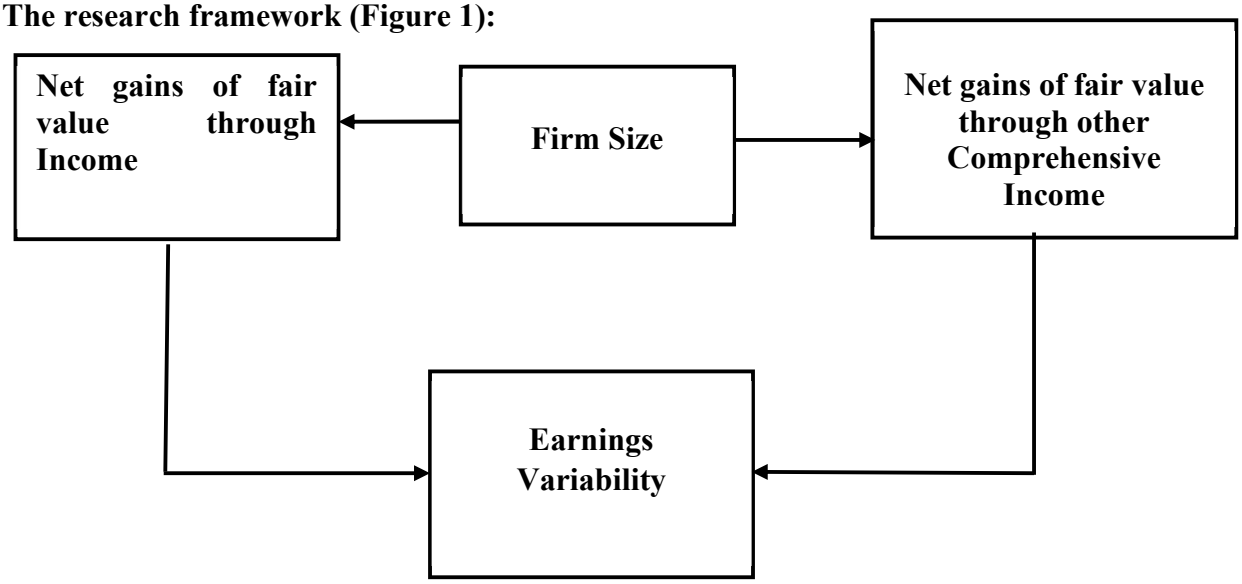


Figure 1: Research Framework of the Study is adapted from Akpaka et al. (2024); Olaoye and Ibukun-Falayi (2020).

3.0 Methodology

The study considered the population of seven (7) Nigerian deposit money banks quoted in the Nigerian Exchange Group having similar population characteristics as highest customer base, minimum capital base, capital market, regulatory bodies, profitability, business environment, Tier 1, license to operate internationally and market capitalization up to the period of April 26, 2024. The quantitative research designis adopted using e*x-post facto*design. Our study adopted the seven (7) banks representing our sample size with the use of Census sampling technique which gives whole population an equal chance of being selected. The banks are classified as Tier 1 being certified by the Central Bank of Nigeria and they have international license to operate. However, IFRS adoption is a global standard which is more relevant to their financial disclosures. The sampled banks are; First Bank, Access Bank, Zenith Bank, United Bank, Guaranty Trust Bank, First City Monument Bank and Fidelity Bank.

There have been limitations in this study about the period cover and sample size. Though Tier 1 banks are of the interest and they are not many among regional banks in Nigeria because our study single handedly conducted research on Tier 1 banks.

Model Specification

Our research variables are specified in form of a model in order to establish the connection between them as adapted from Akpaka et al. (2024); Paoloni et al. (2017) which is specified in a stochastic form.

Model 1: $EVA_{it} = \beta_0 + \beta_1 FVTIS_{it} + \beta_2 FMZ_{it} + U_{it}$

β_1= Coefficient representing the effect of net gains of fair value through income statement

β_2= Coefficient representing the intervening effect of firm size

Model 2: $EVA_{it} = \beta_0 + \beta_1 FVTOCI_{it} + \beta_2 FMZ_{it} + U_{it}$

β_1= Coefficient representing the effect of net gains of fair value through other comprehensive income

β_2= Coefficient representing the intervening effect of firm size

Model 3: $EVA_{it} = \beta_0 + \beta_1 FVTIS_{it} + \beta_2 FVTOCI_{it} + \beta_3 FMZ_{it} + U_{it}$

β_1, β_2= Regression Coefficient

β_3 = Coefficient representing the intervening effect of firm size

Where:
EVA_{it}= Earnings Variability of the ith deposit money bank at time t
$FVTIS_{it}$= Fair value net gains through income statement ith at time t
$FVTOCI_{it}$= Fair value net gains through other comprehensive income ith at time t
FMZ_{it}= Firm Size ith at time t

β_0= Intercept term,

U_{it}= Error term

t = Time period under this study (2020-2024)

Operationalization and Measurement of Variables

Table 2:
Variables Classification and Measurement

Variable	*Variable Type*	*Measurement / Computation*	*Source*	*A-Priori Expectation*
Earnings Quality (Earnings Variability)	Dependent Variable	Standard deviation of firm earnings over the study period	Paoloni et al. (2017)	
Fair Value Through Income Statement (FVTIS)	Independent Variable	Natural logarithm of financial assets measured at fair value through profit or loss	Akpaka et al. (2024)	Positive (+)
Fair Value Through Other Comprehensive Income (FVTOCI)	Independent Variable	Natural logarithm of financial assets measured at fair value through other comprehensive income	Akpaka et al. (2024)	Positive (+)
Firm Size	Control Variable	Natural logarithm of total assets	Akpaka et al. (2024)	Positive (+)

Source: Researchers' Operationalization, 2025.

4.0 Findings and Discussion

We present our analysis of research data which is divided into four key parts: Descriptive Statistics, Inferential Statistics, Hypotheses Testing, and explanation of the results. Descriptive analysis provides a glance insightful information about our research data and inferential statistics help to draw a general conclusion on our research population. The test of hypotheses evaluates the relationships between variables, and the discussion interprets our results based on the research objectives.

Table 3:
Descriptive Statistics showing the summary of the Research Variables

Statistic	EVA (₦ million)	FVTIS (₦ million)	FVTOCI (₦ million)	Firm size (₦ million)
Mean	255,297.10	28,091.77	22,252.03	6,326,602.00
Median	239,394.00	4.00	444.00	3,989,009.00
Maximum	554,802.00	444,297.00	235,506.00	27,681,603.00
Minimum	8,585.00	−4,904.00	−4,670.00	4,062.00
Std Dev.	198,951.10	92,206.97	55,325.52	7,492,730.00
Skewness	0.08	3.78	2.70	1.27
Kurtosis	1.59	16.09	9.17	3.84
Jarque–Bera	2.95	333.33	98.26	10.44
***p*-value**	0.23	0.00	0.00	0.01

Note. EVA = Earnings variability; FVTIS = Fair value net gains through income statement; FVTOCI = Fair value net gains through other comprehensive income. Negative values indicate net losses. All monetary values are reported in Nigerian naira (₦) millions.
Source: Authors' Computation, 2025.

The Table 3 provides a snap shot description regarding the research variables investigating the impact of fair value accounting on the earnings quality of the deposit money banks in Nigeria.

Earnings Variability (EVA): The standard deviation of ₦255,297.10 million shows that the earnings variability of ₦255,297.10 million is moderate, and the standard deviation of

N198,951.10 million is high, which implies that there is a wide spread of the sampled banks. The value of skewness of 0.08 shows that the skewness is relatively symmetric, meanwhile the value of kurtosis of 1.59 gives a moderate distribution.

FVTIS: Given the mean of ₦28, 091.77 million and a large standard deviation of ₦92,206.97 million, there is a high range in the net gains on fair value. The skewness (3.78) and kurtosis (16.09) are very high, which implies that the distribution is highly skewed on the right and leptokurtic, thus, the presence of extreme outliers. Non-normality is also ensured by the value of Jarque-Braher (333.33).

Firm Size (FMZ): ₦6, 326,602 million is the mean firm size with a large standard deviation (₦7, 492,730 million) meaning that the dispersion in firm size is spread widely. The skewness (1.27) and the kurtosis (3.84) values indicate a skewed distribution in the middle of the right however; the Jarque-Bra value (10.44) indicates the non-normality albeit not as much as the other variables.

FVTOCI: The mean of FVTOCI is ₦22,252.03 with large standard deviation of ₦55,325.52 that represents high variability. The skewness of 2.70 and kurtosis 9.17 point to the existence of an extremely skewed distribution with outliers or extreme values playing up in the data.

Table 4:
Correlation Matrix of Variables in the study

Variable	EVA	FVTIS	FVTOCI	FMZ
EVA	1.00	0.25	0.41	0.76
FVTIS	0.25	1.00	−0.12	0.59
FVTOCI	0.41	−0.12	1.00	0.54
FMZ	0.76	0.59	0.54	1.00

Source: Authors' Computation, 2025.

Correlation matrix reveals relationships among earnings variability (EVA), fair value net gains through income statement (FVTIS), fair value net gains through other comprehensive income (FVTOCI), and firm size (FMZ). It shows that EVA has a high relationship with FMZ (0.76), suggesting big banks tend to have higher earnings variability. FVTOCI and EVA show a moderate positive correlation (0.41), indicating that changes in FVTOCI are somewhat associated with earnings variability. Conversely, FVTIS has a weaker correlation with EVA (0.25), and FVTOCI and FVTIS have a negative correlation (-0.12), reflecting limited interaction between them.

Inferential Statistics
Hausman Test Results for Period Random Effects

Test Summary	χ^2 Statistic	df	p-value
Period random effects	2.41	3	.492

Source: Authors' Computation, 2025.

The Hausman test is used to determine whether the fixed effects or random effects model is more appropriate for the analysis. In this case, the test statistic is 2.411427 with 3 degrees of freedom and a p-value of 0.4915. Since the p-value is greater than 0.05, we fail to reject the null hypothesis, suggesting that the random effects model is appropriate for studying the effect of fair value accounting on earnings quality in Nigerian deposit money banks.

Test of Hypotheses

Hypothesis One

H_{01}: Fair value net gains through income statement has no significant influence on earnings variability of deposit money banks in Nigeria.

Table 5:
Panel EGLS Regression Results for Model 1

Variable	B	SE	T	P
Constant	4.218	1.359	3.105	.004
LNFVTIS	0.026	0.045	0.572	.571
LNFMZ	0.516	0.097	5.299	< .001

Source: Authors' Computation, 2025.

Model Summary Statistics

Statistic	Value
R^2	.530
Adjusted R^2	.500
F-statistic	18.03
Prob (F-statistic)	< .001
Standard Error of Regression	1.121
Durbin–Watson Statistic	0.128
Mean of Dependent Variable	11.72
Standard Deviation of Dependent Variable	1.59

Source: Authors' Computation, 2025.

The dependent variable is the natural logarithm of earnings variability (LNEVA). Estimation was conducted using Panel EGLS with period random effects. LNFVTIS represents the natural logarithm of fair value net gains through the income statement, while LNFMZ denotes firm size measured as the natural logarithm of total assets. Coefficients are unstandardized. Statistical significance is assessed at the 5% level. Based on the regression analysis in Table 5, the regression coefficient of FVTPL is 0.025545, the standard error is 0.044658 and the t-test is 0.572012. The p-value of this variable is 0.5713, and this is above the standard level of significance of 0.05. This implies that LNFVTIS (fair value net gains through income statement) is not statistically significant in influencing the earnings variability (LNEVA) of the deposit money banks in Nigeria. The p-value of FVTIS is more than 0.05 which allows us to reject the null hypothesis (H0). We can therefore conclude that there is no strong effect of fair value net gains through income statement on the earnings variability of deposit money banks in Nigeria at the significance level of 5%.

Hypothesis Two

H_{02}: Fair value net gainsthrough other comprehensive income has no significant influence on earnings variability of deposit money banks in Nigeria.

Table 6:
Panel Regression Results for Model 2

Variable	B	SE	t	P
Constant	6.23	1.43	4.36	< .001
LNFVTOCI	0.13	0.05	2.77	.009
LNFMZ	0.34	0.11	3.12	.004

Source: Authors' Computation, 2025.

Model Statistics

Statistic	Value
R^2	.621
Adjusted R^2	.598
F-statistic	26.24
Prob (F-statistic)	< .001
Durbin–Watson	0.19
Mean of dependent variable	11.72
SD of dependent variable	1.59
Standard error of regression	1.01
Sum of squared residuals	32.38

Note. The dependent variable is LNEVA (log of earnings variability). The estimation method is Panel EGLS with period random effects. *B* represents regression coefficients, *SE* denotes standard errors, *t* refers to t-statistics, and *p* indicates probability values.
Source. Author's Computation using Eviews, 2025.

To achieve this hypothesis, a regression model was made, where the earnings variability (LNEVA) was the dependent variable and fair value net gains through other comprehensive income (LNFVTOCI) was the primary independent variable, and firm size (LNFMZ). The employed panel data approach was EGLS (Period random effects). Also, the FVTOCI coefficient is 0.132767 with t-statistic 2.774122 and p-value 0.0092, which is not below the significant level of 0.05. This implies that FVTOCI is significantly associated with the earnings variability positively. Because the p-value of FVTOCI is less than the 0.05 quantity, the null hypothesis (H02) is rejected and the conclusion drawn is that fair value net gains through other comprehensive income are important in determining variability of earnings of deposit money banks in Nigeria.

Hypothesis Three
H03: Fair value net gains through income statement, and fair value net gains through other comprehensive income have no significant combined effect on earnings variability of deposit money banks in Nigeria.

Table 7:
Panel Regression Results for Model 3

Variable	B	SE	t	p
Constant	6.533	1.465	4.459	< .001
LNFVTOCI	0.137	0.048	2.856	.008
LNFVTIS	0.037	0.040	0.923	.363
LNFMZ	0.305	0.114	2.669	.012

Model Statistics

Statistic	Value
R^2	.632
Adjusted R^2	.596
F-statistic	17.736
Prob (F-statistic)	< .001
Durbin–Watson	0.225
Mean of dependent variable	11.722
SD of dependent variable	1.586
Standard error of regression	1.008

The dependent variable is LNEVA (log of earnings variability). The model was estimated using Panel EGLS with period random effects. LNFVTOCI represents the natural logarithm of fair value gains through other comprehensive income, LNFVTIS represents the natural logarithm of fair value through income statement items, and LNFMZ denotes firm size measured as the natural logarithm of total assets. Statistical significance is assessed at the 5% level.
Source. Author's Computation, 2025.

The effect of LNFVTOCI (Fair Value Net Gains through Other Comprehensive Income) on the earnings variability (LNEVA) is positive and significant with the t-statistic of 2.855610 and the p-value of 0.0076 which is less than the significance level of 0.05. This implies that other comprehensive income fair value gains or losses have significant impact on the variability of earnings. On the other hand, LNFVTIS (Fair Value Net Gains through Income Statement) has a t-statistic of 0.923118, a p-value of 0.3631 that is below 0.05. This implies that profit or loss that is acquired due to fair value gains or losses do not affect the variability of earnings significantly. The relationship between LNFMZ (Firm Size) and earnings variability is strongly positive (p-value = 0.0120). On this basis we reject the null hypothesis (H03). Other comprehensive income has a great effect on the variability of earnings, whereas, on the other hand, fair value net gains through income statement do not have the same effect.

Discussion of Findings

The research indicates that FVTIS does not have a significant impact on the variability of earnings of Nigerian bank. This result is consistent with the findings of Paoloni et al. (2017) who have found that the adoption of fair value accounting by European banks may not necessarily lead to the improvement of the quality of earnings, in particular, when valuation techniques are more subjective (as in the case of the mark-to-model valuation techniques as opposed to actual market-based prices). In addition, as pointed out by Slavko (2015), the more Eastern banks apply the fair value accounting, the worse the quality of earnings will be, perhaps because of the use of subjective valuation methods. This implies that the findings presented in this research could be representative of parallel issues in the banking industry in Nigeria where the subjective aspect of FVTIS could be having an insignificant role of influencing earnings variance.

In this study, FVOCI had a major influence on earnings changes. This is corroborated with the findings of Shaban et al. (2020) who discovered that the fair value net gains by the comprehensive income were highly predictive of the quality of earnings in Jordanian commercial banks. This indicates that FVOCI or the changes in fair value of assets of the banks is a more reliable measure of the quality of earnings relative to FVTIS. This has also been supported by Akpaka et al. (2024) who found significant and positive correlation between FVOCI and earnings quality in Nigerian deposit money banks suggesting that FVOCI represents financial stability of a bank.

In relation to the joint impact of FVTIS and FVOCI on the variability of earnings, it was revealed that FVOCI had a considerable influence, but FVTIS did not. This is consistent with the results of Eshiett et al. (2023) who demonstrated that the fair value accounting (in particular, FVTIS) had a positive effect on profitability but was not a good predictor of the variability of earnings. Conversely, Ebirien and Nwanyanwu (2017) established that the quality of earnings in Nigerian financial institutions is more influenced by comprehensive income than profit and loss accounts, which aligns with the notion that FVOCI has a better and consistent value of earnings variability.

5.0 Conclusion, Contributions, and Recommendations

This study examined the effect of fair value accounting on earnings quality, measured through earnings variability, in Nigerian deposit money banks. The findings indicated that fair value gains and losses recognised through profit or loss did not have a statistically significant effect on earnings variability during the study period. In contrast, fair value adjustments recognised through other comprehensive income (OCI) exerted a significant influence on earnings variability. This suggests that fluctuations in banks' earnings are driven more by valuation changes captured through OCI than by those reported in the income statement.

The results further demonstrate that comprehensive income provides a more robust representation of earnings quality in the Nigerian banking sector. Earnings volatility appears to reflect longer-term valuation adjustments and market-driven re-measurements rather than short-term operating performance. Consequently, reliance solely on profit or loss may obscure underlying financial dynamics that are critical for assessing the sustainability and stability of banks' earnings.

Contributions of the Study

Theoretical Contribution

This study contributes to the fair value accounting literature by reinforcing the view that earnings quality is multidimensional and cannot be fully assessed using profit or loss measures alone. By demonstrating the stronger influence of OCI-related fair value adjustments on earnings variability, the study supports theoretical arguments that comprehensive income better captures economic reality, particularly in financial institutions operating in emerging markets.

Empirical Contribution

Empirically, the study provides new evidence from the Nigerian banking sector by disaggregating fair value accounting into profit or loss and other comprehensive income components. The findings reveal that OCI is the dominant channel through which fair value accounting affects earnings variability. This distinction adds depth to existing empirical studies, which often treat fair value accounting as a single construct.

Policy Contribution

From a policy standpoint, the study offers evidence-based insights that are relevant for financial regulators and standard setters concerned with earnings quality, financial stability, and transparency in the banking sector.

Regulatory and Policy Implications

The findings have important implications for International Financial Reporting Standards (IFRS) standard setters and the Central Bank of Nigeria (CBN). For IFRS setters, the results underscore the importance of strengthening disclosure requirements related to OCI under IFRS 9, particularly in relation to valuation techniques, assumptions, and sensitivity analyses. Enhanced disclosures would improve comparability and enable users of financial statements to better understand the sources of earnings volatility.

For the CBN, the study highlights the need to incorporate comprehensive income measures into prudential supervision, stress testing, and risk assessment frameworks. Given the significant effect of OCI on earnings variability, supervisory reliance on profit or loss indicators alone may underestimate underlying risks. Integrating OCI-based metrics into regulatory oversight could improve early warning systems and support the maintenance of financial system stability.

Recommendations

The study provide the following recommendations:

i. Because the net gains of fair value via the other comprehensive income have a major effect on the earnings variability, it is essential that deposit money banks in Nigeria should improve the transparency in the reporting of such values. The transparent reporting of these will help the investors and stakeholders to make sound decisions.

ii. The banks need to focus more on the significance of fair value net gains by using other comprehensive income in the analysis of earnings variability. The strategy will create a more realistic picture on the financial health of the bank.

iii. Since fair value net gains under income statement have not had a major influence on the variability of earnings, it is appropriate that policy makers and regulators revisit changes on accounting standards with the aim of emphasizing more on the comprehensive income method to enhance the quality of earnings.

Suggestion for Further Study

To continue with the research, it is proposed that the topic of research needs to be researched in non-financial sectors and in particular in other non-banking industries to furnish comparative results across different sectors. To have a more comprehensive picture, it may be a good idea to expand the sample of the financial institutions to contain a larger group of smaller and regional banks. Also, further studies may analyze role in relation to economic monetary variables such as inflation or regulations in evaluating the fair value accounting on earnings variability. More qualitative analysis by interviewing industry professionals might have also been used to give better insight into the implications of the accounting practices in practice.

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