Financial Accounting Ratios and Corporate Performance of Firms in Nigeria

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ABSTRACT
This study examined financial accounting ratios and corporate performance of firms in Nigeria. The main purpose of the study is to examine the effect of financial accounting ratios and corporate performance of firms in Nigeria. After exhaustive literature review, secondary data was sourced from Dangote Nigeria plc. financial accounting ratios were proxied with current ratio, quick ratio, and debt/equity ratio while corporate performance was proxied with return on equity. The study employed ordinary least square (OLS) using SPSS statistical package. Findings reveals that current ratio have positive and insignificant relationship with return on equity, quick ratio have negative and insignificant relationship with return on equity and debt/equity ratio has positive but insignificant relationship with return on equity of firms in Nigeria. We conclude that financial accounting ratios have positive but insignificant relationship with corporate performance of firms in Nigeria. The study therefore recommends that since the current ratio had a positive but insignificant effect on ROE, firms should avoid relying solely on liquidity management as a performance driver.
***Keywords**: Financial Accounting Ratios, Corporate Performance, Nigeria*

INTRODUCTION
Background of the study
In today's increasingly competitive and dynamic business environment, the evaluation of corporate performance remains a critical issue for stakeholders, including investors, creditors, regulators, and management. One of the key tools employed in assessing the financial health and operational efficiency of companies is financial accounting ratios. These ratios derived from published financial statements offer a quantitative basis for analyzing various aspects of a firm's performance, such as profitability, liquidity, efficiency, leverage, and market valuation. (Atrill & McLaney, 2019)

For the survival of any business organization in the present economy, the need for better financial accounting report on the corporate performance of a business organization is very important for the achievement of the business objective of the organization. Accounting ratios, according to Brigham and Ehrhardt (2010), are made to aid in the analysis of financial account. Accounting ratio analysis is used to assess an organization's performance; it seeks to identify its strong and weak aspects and gives solutions by outlining relevant plans based on the evaluator's particular interests. Ratio analysis is a crucial technique for gauging business performance and selecting wise investments (Drake & Fabozzi, 2012).

Financial accounting ratios are indispensable in corporate financial analysis because they simplify complex accounting data and facilitate comparisons across firms, industries, and time periods. Ratios such as return on assets (ROA)**,** return on equity (ROE)**,** current ratio**,** debt-to-equity ratio**,** and earnings per share (EPS**)**

serve as proxies for managerial efficiency and financial robustness (Atrill & McLaney, 2019). These metrics are especially useful in Nigeria's corporate landscape, where the reliability and transparency of financial reporting are still evolving, and where stakeholders rely heavily on financial statements to make informed economic decisions. (Penman, 2013)

Rashid (2018) asserted that financial ratio analysis helps with "analyzing and assessing linkages between various pieces of financial information throughout the company's history. They provide information about events as they happened throughout time and help assess a company's financial health.

According to Oduware (2021)**,** financial accounting is a specialized field of accounting that systematically records, summarizes, and reports the financial transactions of a business using standardized principles, culminating in financial statements such as the balance sheet, income statement, and cash flow statement. A financial reporting therefore is a document statement which informs the various interest of a business on the operations and performance of their business. Financial reporting includes the company's annual report to shareholder, its annual report to the security and exchange commission, and other financial information reported by the company.

Corporate performance, in both financial and non-financial terms, reflects a firm's ability to effectively deploy its resources to achieve strategic objectives. From a financial perspective, this performance is often measured through profitability indicators, asset utilization efficiency, growth rates, and shareholder value creation (Nyor & Mejabi, 2013). In emerging economies like Nigeria, firms face unique challenges such as macroeconomic volatility, regulatory uncertainty, fluctuating exchange rates, and limited access to capital. These challenges underscore the need for robust financial ratio analysis to monitor and enhance firm performance.

Financial accounting on the corporate performance of business organization becomes necessary with the obvious need for accountability of stewardship from the managers to whom investors entrusted their financial resources.

Statement of the problem

In Nigeria's increasingly volatile and competitive business environment, corporate entities are under constant pressure to deliver sustainable performance and generate returns for shareholders. Stakeholders including investors, creditors, regulatory agencies, and management depend heavily on financial information to assess the operational and financial health of companies. Among the key tools used in this assessment are financial accounting ratios, which are designed to simplify and interpret financial statement data for decision-making. (Akinleye & Adigun 2019).

Financial accounting ratios consists of the reports that are provided by firms to ensure users makes decision. This information is derived from the transaction carried out by the firms in their day-to-day activities inherent in the financial statement, it is from this information through the ratios provided that the investors would decide whether to invest in a firm or not and also customer's patronage. (Oduware, 2021). This means that the firm's patronage and investment is dependent on the effectiveness and availability of the relevant accounting ratios provided by the firm. An auditor is also required to identify the extent to which a standard financial report contributes to or detracts from the growth of a business organization and the extent to which the financial reports of business organization comply with statutory provisions. However, despite the

widespread use of these ratios, concerns remain regarding their reliability, consistency, and predictive power in evaluating corporate performance within the Nigerian context.

The quality and integrity of financial reporting in Nigeria have historically been challenged by weak enforcement of accounting standards, instances of earnings manipulation, and a lack of transparency in disclosures. These issues compromise the accuracy of the input data used to compute financial ratios, thereby diminishing their effectiveness in reflecting true corporate performance (Okoye & Alao, 2019).

Furthermore, the increasing globalization of financial markets and the adoption of International Financial Reporting Standards (IFRS) have introduced new complexities in financial reporting and performance measurement. There is a pressing need to evaluate whether conventional ratio analysis methods still offer reliable insights under these evolving standards and practices.

It is on this backdrop that the researcher tends to evaluate the financial accounting ratios and the corporate performance of firms in Nigeria.

Objectives of the study

The main objective of this study is to examine financial accounting ratios and corporate performance of firms in Nigeria. Furthermore, the specific objectives are to:

1. examine the relationship between current ratio and return on equity of firms in Nigeria.
2. evaluate the relationship between quick ratio and return on equity of firms in Nigeria.
3. Ascertain the relationship between debt/equity ratio and return on equity of firms in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Review

The concept of financial accounting ratios

Financial accounting ratios are fundamental tools used in analyzing and interpreting the financial statements of firms to assess their performance, financial health, and sustainability. These ratios, derived from the balance sheet, income statement, and cash flow statement, provide insights into a company's operational efficiency, profitability, solvency, and liquidity (Atrill & McLaney, 2019). The use of financial ratios enables stakeholders to make informed decisions by simplifying complex financial information into quantifiable and comparable metrics.

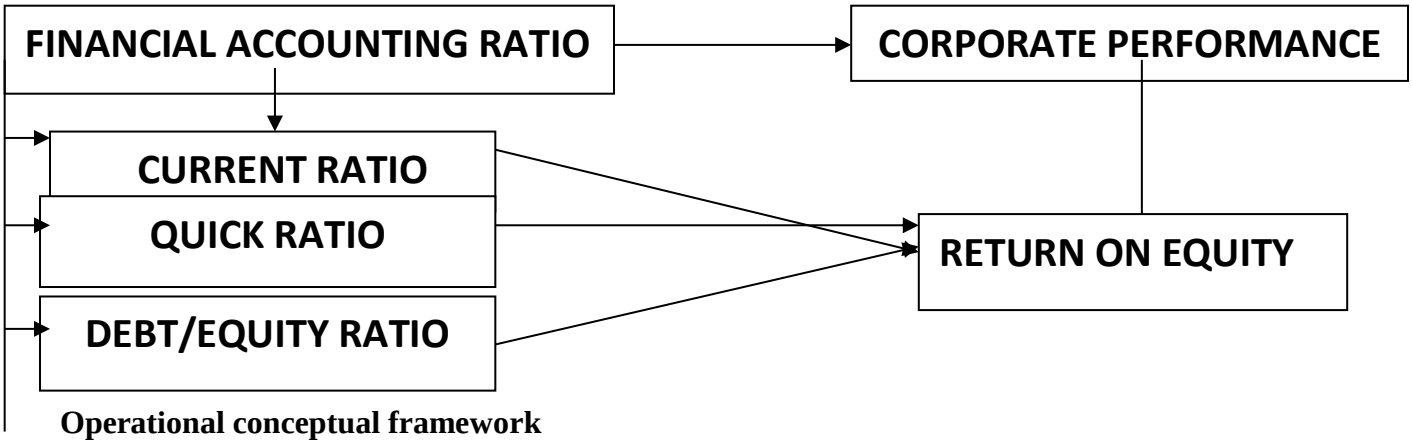
The concept of financial accounting ratios encompasses various categories, each serving a unique analytical purpose. Liquidity ratios (e.g., current ratio and quick ratio) measure a firm's ability to meet short-term obligations (Afolabi & Adekunle, 2023). Profitability ratios (e.g., return on assets, return on equity, and net profit margin) assess the ability of a firm to generate earnings relative to sales, assets, or equity (Okezie, Eke, & Ujah, 2025). Leverage ratios (e.g., debt-to-equity ratio) evaluate a firm's capital structure and long-term solvency (Akinleye & Olanipekun, 2024), while efficiency or activity ratios (e.g., inventory turnover and receivables turnover) reflect how effectively a company utilizes its assets in operations (Abdulrahman & Bello, 2022).

In the Nigerian context, financial accounting ratios are vital given the volatile economic environment, currency instability, inflation, and regulatory changes that affect firm performance. According to Akinleye and Adigun (2020), financial ratios play a significant role in understanding the financial performance of manufacturing firms in Nigeria, revealing how effectively resources are managed to enhance profitability.

Similarly, Oladele and Ugochukwu (2023) found that profitability and leverage ratios have a statistically significant influence on the financial performance of listed non-financial firms in Nigeria, affirming the relevance of ratio analysis in strategic planning.

The increasing enforcement of the International Financial Reporting Standards (IFRS) in Nigeria has also emphasized the importance of uniformity and transparency in financial reporting, which in turn strengthens the reliability of ratio analysis (Oduware, 2021). As financial statements become more standardized, the interpretation of ratios becomes more consistent across firms and industries, allowing for better benchmarking and decision-making.

Furthermore, recent technological advancements have enabled financial analysts and accountants to automate ratio analysis using software and data visualization tools, improving accuracy, and reducing human error (Ibrahim &Olayemi, 2022). However, it is important to note that while ratios provide essential indicators, they are only as reliable as the financial data from which they are derived. Creative accounting, reporting delays, and inconsistent application of accounting policies can undermine the integrity of ratio analysis.



Operational conceptual framework

Source: Researchers view showing relationship between the dependent and independent variables.

Current ratio

The current ratio is a fundamental liquidity metric used to evaluate a firm's short-term financial health and its ability to meet current liabilities with current assets. It is calculated by dividing current assets (such as cash, receivables, and inventories) by current liabilities (such as payables and short-term debts). A higher current ratio generally indicates a stronger liquidity position, meaning the company has sufficient assets to cover its obligations due within a year (Atrill & McLaney, 2019).

According to Oladele and Ugochukwu (2023), the current ratio serves as a key indicator for assessing how well a firm can manage its working capital and short-term solvency. In their study on non-financial firms in Nigeria, they observed that firms with higher current ratios tended to perform better financially, as they were less vulnerable to liquidity-related risks. However, an excessively high current ratio may also suggest underutilization of resources or inefficient working capital management.

In the Nigerian business environment, where firms often face economic uncertainties such as inflation, currency fluctuations, and tight credit conditions, the current ratio becomes particularly crucial. Ibrahim and

Olayemi (2022) noted that Nigerian firms with consistently low current ratios often experience operational bottlenecks due to cash flow issues and supplier pressures, which negatively impact overall corporate performance.

Despite its usefulness, the current ratio has limitations. It treats all current assets as equally liquid, though in practice, some (like inventories) may not be easily converted to cash. Therefore, analysts often use it in combination with other liquidity ratios such as the quick ratio for a more accurate picture (Oduware, 2021).

The quick ratio

The quick ratio, also known as the acid-test ratio**,** is a stringent measure of a company's short-term liquidity and its capacity to settle current liabilities using only its most liquid assets. It is calculated by subtracting inventory from current assets and then dividing the result by current liabilities:

Quick Ratio = (Current Assets – Inventories) / Current Liabilities

This ratio excludes inventory from the calculation because inventory is generally less liquid and may not be easily converted to cash within a short period (Atrill & McLaney, 2019). As such, the quick ratio provides a more conservative assessment of a firm's immediate financial strength than the current ratio.

According to Oladele and Ugochukwu (2023)**,** the quick ratio is especially useful in volatile economies like Nigeria, where delayed inventory turnover and supply chain inefficiencies may reduce a firm's ability to rely on stock for liquidity. Their study on listed Nigerian firms revealed that those with stronger quick ratios had better resilience during periods of economic downturn, as they could meet obligations without depending on inventory sales.

In Nigeria's current business climate characterized by inflationary pressures, unstable exchange rates, and fluctuating consumer demand the quick ratio has gained importance in evaluating whether firms can cover short-term debts using assets that can be rapidly liquidated. Ibrahim and Olayemi (2022) note that Nigerian firms with low quick ratios often struggle with supplier payments and face reputational risks, which may further constrain their access to credit and trade financing.

While the quick ratio provides critical insight into liquidity, it also has limitations. For instance, it assumes that all receivables are readily collectible, which may not always hold true, especially in economies with weak enforcement of credit policies. Therefore, financial analysts often use the quick ratio alongside the current ratio and cash ratio to obtain a balanced liquidity analysis (Oduware, 2021).

Debt/equity Ratio

The debt-to-equity (D/E) ratio is a key financial leverage indicator that compares a company's total debt to its shareholders' equity. It is calculated as:

Debt-to-Equity Ratio = Total Liabilities / Shareholders' Equity

This ratio shows the proportion of a firm's financing that comes from external debt versus internal equity contributions. A high D/E ratio suggests that a company is aggressively financing its growth with debt, which may increase financial risk, while a lower ratio indicates a more conservative capital structure (Atrill & McLaney, 2019).

In the context of Nigeria, where access to long-term capital is often limited and interest rates are relatively high, the debt-to-equity ratio has critical implications for both financial health and strategic decision-making. According to Oladele and Ugochukwu (2023), Nigerian firms with high D/E ratios tend to experience greater volatility in financial performance due to interest burdens and repayment risks, especially during periods of economic instability.

Furthermore, Ibrahim and Olayemi (2022) emphasized that investors and lenders closely monitor the D/E ratio when evaluating a firm's credit worthiness and investment potential. A rising D/E ratio may signal increasing default risk, while a stable or declining ratio may enhance the firm's attractiveness to investors seeking financially stable entities.

The ratio is particularly relevant in industries that are capital-intensive, such as manufacturing and construction, where debt financing is often used to fund asset acquisition and expansion. However, Oduware (2021) cautioned that overreliance on debt can lead to financial distress, especially if the returns on borrowed funds do not exceed the cost of capital.

Despite its usefulness, the debt-to-equity ratio has limitations. It does not consider the cost of debt or the maturity structure of liabilities. A firm with long-term, low-interest debt may appear riskier than it actually is when relying solely on the D/E ratio. Hence, analysts often complement it with interest coverage ratios and capital adequacy metrics for a more comprehensive evaluation.

Return on Equity

Return on Equity (ROE) is a profitability ratio that measures a company's ability to generate profit from shareholders' equity. It indicates how efficiently management is using the firm's equity base to create earnings. ROE is calculated as:

ROE = Net Income / Shareholders' Equity

A higher ROE generally reflects efficient utilization of equity capital, while a lower ROE may indicate operational inefficiencies or suboptimal use of shareholder funds (Atrill & McLaney, 2022).

ROE is widely used by investors, analysts, and corporate managers to assess the financial performance and investment attractiveness of firms. It provides insight into how well a company converts investors' capital into net income. According to Adegbite and Okonkwo (2023), ROE serves as a critical indicator in evaluating firm profitability in the Nigerian corporate environment, particularly in the banking and manufacturing sectors, where equity-financed operations are prevalent.

Additionally, Yakubu and Salami (2022) observed that ROE is a key determinant in market valuation, as firms with consistently high ROE tend to command higher price-to-book ratios. It also influences dividend policy decisions and reinvestment strategies, guiding whether profits should be distributed or retained for expansion.

ROE also plays a role in strategic decision-making and performance benchmarking across firms and industries. However, its interpretation should be approached with caution. For instance, a high ROE may result from low equity due to accumulated debt or share buybacks, rather than genuine profitability. Okoro and Bello (2024) emphasized that a company's capital structure and accounting policies can distort ROE,

making it necessary to analyze it alongside other metrics such as Return on Assets (ROA) and Debt-to-Equity Ratio for a balanced view.

In developing economies like Nigeria, where equity financing options are limited and retained earnings often serve as the primary source of funding for operations, return on equity (ROE) becomes particularly critical in reflecting sustainable financial health. ROE is especially important for investors who seek long-term value creation and for firms aiming to demonstrate sound stewardship of shareholders' equity (Okonkwo & Ugochukwu, 2024).

Users of Accounting Information

Accounting information refers to the financial data and reports produced through accounting processes, which are essential for decision-making across various stakeholders. These users are broadly categorized into **internal** and **external users,** each having distinct objectives and information needs (Atrill & McLaney, 2022).

Internal Users

Internal users are individuals within the organization who rely on accounting information to manage and control business operations. The primary internal users include:

- **Management**: They use financial reports for planning, controlling, and evaluating performance. According to Akintoye and Akinola (2023), managers in Nigerian firms use budgeting reports, cost analyses, and profitability statements to enhance operational efficiency and strategic planning.
- **Employees**: Workers are concerned about the financial stability of the company, which may influence job security, remuneration, and career progression. Olowe and Jimoh (2022) note that timely disclosure of performance metrics boosts employee morale and fosters trust.

External Users

External users are individuals or entities outside the organization who use accounting information primarily for investment, regulatory, or economic decisions. These include:

- **Investors and Shareholders**: They assess profitability and sustainability through ratios such as ROE and earnings per share to make investment decisions. Adegbite and Okonkwo (2023) emphasize the relevance of audited financial statements in boosting investor confidence in emerging markets like Nigeria.
- **Creditors and Lenders**: Banks and financial institutions evaluate a firm's solvency and liquidity using financial statements to decide whether to extend credit or loans.
- **Regulatory Authorities**: Government agencies such as the Federal Inland Revenue Service (FIRS) use financial data to ensure tax compliance and monitor economic activity. In their study, Nwachukwu and Ojo (2024) highlighted that transparent accounting systems are critical to fiscal governance in Nigeria.
- **Customers**: Especially in long-term contracts, customers may analyze a company's financial health to ensure continued service or product supply.
- **Suppliers**: Suppliers examine accounting information to assess the creditworthiness of a business before engaging in transactions.
- **General Public and Researchers**: Academicians, analysts, and policy makers use financial data for economic research and national development planning.

The quality and reliability of accounting information are thus central to the decision-making processes of these diverse users. As emphasized by International Financial Reporting Standards (IFRS), financial statements must be relevant, faithful, comparable, and understandable to meet the needs of all users.

Financial accounting ratios and performance

The relationship between financial accounting ratios and performance lies in the ability of these ratios to serve as diagnostic tools that measure various dimensions of a firm's financial health, which directly or indirectly affect overall performance. Ratios such as the current ratio and quick ratio assess a company's liquidity position—its ability to meet short-term obligations—thereby indicating operational efficiency and cash management practices. Firms with higher liquidity ratios are often better positioned to handle financial shocks and sustain operations, which enhances performance (Charles & Uford, 2023; Oladipo& Adebayo, 2023).

Leverage ratios, including the debt-to-equity ratio, reflect the extent to which a firm is financed by debt relative to shareholders' equity. A moderate debt-to-equity ratio often signals effective use of financial leverage, which can lead to enhanced return on equity and shareholder value. However, excessive reliance on debt increases financial risk and may impair long-term performance (Ibrahim & Musa, 2024).

Profitability ratios such as return on equity (ROE) directly measure the company's ability to generate profits from shareholders' investments. A consistently high ROE indicates efficient use of resources and effective management decisions, thereby signaling strong performance. Additionally, return-based ratios provide insights into managerial efficiency and are critical for investor evaluation and market valuation (Ogunyemi&Okoro, 2023).

Empirical studies affirm that financial ratios provide predictive insights into future performance and help stakeholders identify strengths and weaknesses in operations. For instance, firms that consistently maintain favorable liquidity, leverage, and profitability ratios are generally observed to experience better growth, improved market valuation, and stronger investor confidence in both developed and emerging markets.

Theoretical Review

The following theories were review in the study:

Signaling theory: Propounded by Michael Spence in 1973**,** the signaling theory posits that companies convey relevant information to external stakeholders (especially investors) through financial reports and performance indicators. Financial ratios, as part of these reports, serve as signals of a firm's quality, future prospects, and management efficiency. A strong set of financial ratios signals financial health, which may attract investors and enhance firm valuation.

Stakeholder theory: Introduced by Edward Freeman in 1984, stakeholder theory emphasizes that firms must consider the interests of all stakeholders—not just shareholders in their decision-making processes. Financial accounting ratios are critical tools that inform various stakeholders (investors, creditors, regulatory bodies, and employees) about a firm's operational and financial performance, thereby enabling them to make informed judgments about the company's sustainability and trustworthiness.

Resource-based view (RBV): Formulated by Jay Barney in 1991**,** the resource-based view argues that firms achieve sustainable competitive advantage by effectively utilizing internal resources—tangible and intangible. Strong financial health, as revealed through accounting ratios like ROE and current ratio, indicates optimal use of resources such as capital, assets, and managerial expertise. Hence, financial ratios reflect how well firms convert resources into superior performance.

This study is anchored on the Signaling Theory (Spence, 1973) because it best explains how financial accounting ratios serve as signals to external users, especially investors and creditors, about the underlying performance and financial stability of a firm. Through these ratios, firms communicate their viability and growth potential, which forms the basis for critical investment and lending decisions.

Empirical Review

Mgbenu, Obiekwe, and Osuji (2025) investigated the impact of financial strategies on market performance during periods of recession in Nigerian manufacturing firms. The study employed a panel regression analysis on secondary data spanning from 2016 to 2020, focusing on the interaction between financial leverage, dividend policy, and firm value as measured by Tobin's Q. The authors found that while long-term leverage alone negatively influenced firm value, its effect became significantly positive when moderated by dividend payout. The study concluded that dividend policy acts as a market signal that helps mitigate the adverse effects of debt financing during economic downturns.

Okezie, Eke, and Ujah (2025) examined the relationship between capital structure and financial performance of listed consumer goods firms in Nigeria. Using panel data regression analysis, the study analyzed financial data from 10 consumer goods firms listed on the Nigerian Exchange Group over a ten-year period (2013–2022). The independent variables included short-term debt ratio, long-term debt ratio, and total debt ratio, while return on investment (ROI) served as the dependent variable. The results revealed that all forms of debt ratios had a statistically significant positive impact on ROI, with long-term debt exhibiting the strongest influence. The authors concluded that capital structure decisions, when effectively managed, serve as a critical driver of financial performance in the Nigerian consumer goods sector.

Akinleye and Olanipekun (2024) explored the effects of financial leverage on firm performance in the Nigerian manufacturing sector. The study used multiple regression analysis on cross-sectional data obtained from 15 manufacturing firms listed on the Nigerian Stock Exchange between 2014 and 2020. The key variables examined were interest coverage ratio (ICR), debt servicing ratio (DSR), and return on assets (ROA). The findings indicated that ICR had an insignificant relationship with ROA, while DSR had a significant negative impact. The study concluded that excessive debt servicing burdens erode operational profitability, emphasizing the need for manufacturing firms to adopt sustainable leverage levels.

Musa, and Ayodele (2023) evaluated "Financial ratios and performance of listed manufacturing firms in Nigeria**.** Focusing on Nigerian listed manufacturers, the authors employ panel regression (and typical diagnostics) on firm-year observations drawn from published financial statements, specifying profitability (ROA/ROE) as the dependent variable and a set of accounting ratios—liquidity (current, quick), leverage (debt-to-equity), and efficiency/profitability indicators (asset turnover, net margin) as regressors, with controls for firm size and age. Liquidity ratios exhibit a positive and significant association with profitability, consistent with effective working-capital management; leverage (debt-to-equity) is negatively related to performance, suggesting debt overhang or high financing costs in the Nigerian context; efficiency metrics (e.g., asset turnover) strengthen the liquidity profitability channel by translating current assets into

sales and earnings. The study concludes that Nigerian manufacturers enhance performance by sustaining sound liquidity positions and moderating financial leverage while improving asset utilization.

Adelakun and Oladejo's (2022) study aimed to investigate the impact of financial ratios on the performance of Nigerian listed firms. To achieve this aim, the researchers collected data from the annual reports and financial statements of 60 listed firms in Nigeria for the period 2016-2020. The study used multiple regression analysis to examine the relationship between financial ratios and firms' performance. The results of the study indicated that liquidity, profitability, and solvency ratios had a significant positive effect on the performance of Nigerian listed firms. Specifically, the study found that firms with higher liquidity ratios tend to have better performance than firms with lower liquidity ratios. Additionally, the study found that firms with higher profitability ratios tend to have better performance than firms with lower profitability ratios. Moreover, the study found that firms with higher solvency ratios tend to have better performance than firms with lower solvency ratios.

Abdulrahman and Bello (2022) aimed to investigate the effect of financial ratios on the performance of Nigerian insurance companies. To achieve this, the researchers collected secondary data from the financial statements of selected insurance companies in Nigeria from 2015 to 2019. The data was analyzed using multiple regression analysis to test the relationship between financial ratios and performance. The study found that liquidity, profitability, and solvency ratios had a positive effect on insurance companies' performance. Specifically, the study found that liquidity ratios such as the current ratio and quick ratio had a positive and significant effect on performance. In addition, profitability ratios such as return on assets (ROA) and return on equity (ROE) were found to have a positive and significant effect on performance. Furthermore, the study found that solvency ratios such as debt to equity ratio (DER) and total debt to total assets ratio (TDTA) had a positive and significant effect on performance. This suggests that managing the risk exposure of insurance companies by maintaining a healthy solvency position is important for enhancing their performance.

Ajibade, Ogunlana, and Ogundipe (2022) conducted a study to investigate the effect of financial accounting ratios on the performance of small and medium-sized enterprises (SMEs) in Nigeria. The study aimed to identify the financial ratios that have the most significant impact on the financial performance of SMEs. The researchers collected data from a sample of 100 SMEs in Nigeria, and they analyzed the data using multiple regression analysis. The study examined several financial ratios, including debt-to-equity ratio, return on assets, and gross margin, and their impact on SMEs' financial performance. The results of the study showed that financial ratios such as debt-to-equity ratio, return on assets, and gross margin had a significant impact on SME performance. Specifically, the study found that an increase in the debt-to-equity ratio led to a decrease in SMEs' financial performance. On the other hand, an increase in return on assets and gross margin led to an improvement in SMEs' financial performance.

Adegbie (2022) conducted a study titled "Financial Ratio Analysis and Corporate Profitability: Evidence from Nigerian Listed Firms" to investigate the impact of financial ratios on the profitability of Nigerian listed firms. The study used data from 102 firms listed on the Nigerian Stock Exchange (NSE) from 2015 to 2019. The study utilized panel data regression analysis to investigate the relationship between financial ratios and corporate profitability. The financial ratios used in the analysis included liquidity ratio, debt to equity ratio, and return on equity (ROE). The study found that debt to equity ratio had a significant negative effect on the profitability of Nigerian listed firms.

Adeyemi and Adeyemi (2022) conducted a study on the relationship between financial ratios and the financial performance of Nigerian listed banks. The study aimed to determine the impact of liquidity, profitability, and solvency ratios on the financial performance of these banks. The researchers used a sample of 14 Nigerian listed banks, and data were collected from their financial reports over a five-year period, from 2016 to 2020. They employed a panel regression analysis to analyze the data and test the hypotheses of the study. The findings of the study revealed that liquidity ratio, profitability ratio, and solvency ratio have a significant positive impact on the financial performance of Nigerian listed banks. Specifically, return on asset (ROA), return on equity (ROE), and debt to equity ratio were found to have a significant positive effect on the banks' financial performance. The study also found that the asset turnover ratio and current ratio had no significant impact on the financial performance of Nigerian listed banks.

Al-Shattarat, Alsharairi, and Hussein (2021) examined "Liquidity, leverage and firm performance: Evidence from emerging markets. The authors examine listed firms across multiple emerging markets using panel-data techniques (fixed/random effects with robustness checks for heteroskedasticity and multicollinearity), modelling firm performance (e.g., ROA/ROE or market-based metrics like Tobin's Q) as a function of liquidity ratios (current and quick ratios) and leverage measures (debt-to-equity, total-debt-to-assets), with standard controls (firm size, growth, industry, and country effects). Liquidity is positively associated with firm performance up to a threshold, indicating benefits of prudent working-capital cushions, while higher leverage is generally linked to weaker performance, especially at elevated debt levels; the liquidity performance link is stronger in environments with tighter credit conditions, and the leverage penalty is more pronounced where interest costs and macro volatility are high. The study concludes that maintaining adequate liquidity while avoiding excessive leverage improves performance outcomes for firms in emerging markets; managers should target balanced working-capital policies and conservative capital structures, and regulators should foster disclosure practices that enhance comparability of liquidity and leverage risks.

Alhaji and Adewale (2021) examined the impact of financial ratios on the financial performance of listed manufacturing firms in Nigeria. The researchers collected financial data from the annual reports of 20 manufacturing firms listed on the Nigerian Stock Exchange for the period of 2014 to 2018. They used multiple regression analysis to analyze the data and test their hypotheses. The study found that debt to equity ratio had a significant positive relationship with the firms' financial performance, indicating that firms with a higher proportion of debt compared to equity had better financial performance.

Adeniji and Adeyemi (2021) conducted a study on the impact of financial accounting ratios on the financial performance of Nigerian listed firms. The study aimed to investigate the relationship between financial accounting ratios and the profitability of listed firms in Nigeria. The study used a quantitative research design and analyzed data from the financial statements of 50 listed firms on the Nigerian Stock Exchange over a five-year period (2015-2019). The researchers used regression analysis to test the relationship between financial accounting ratios (liquidity ratio, leverage ratio, profitability ratio, and activity ratio) and firms' profitability (measured by return on equity). The study found that liquidity ratio and leverage ratio had a significant effect on firms' profitability.

Okunuga and Arogundade (2021) conducted a study to investigate the effect of financial ratios on the performance of Nigerian manufacturing companies. The study used a sample of 50 manufacturing companies listed on the Nigerian Stock Exchange for the period between 2015 and 2019.The researchers used multiple regression analysis to examine the relationship between financial ratios, namely debt to equity ratio, liquidity ratio, return on assets, and return on equity, and the profitability of the manufacturing

companies. The results of the study revealed that debt to equity ratio had a significant negative effect on the profitability of Nigerian manufacturing companies.

Nwadike, Onyekachi Francis, Eze, Sunday Chukwuma, & Onyekwelu, Ugochukwu Henry (2021) examined the impact of financial ratios on the performance of Nigerian banks. The authors focused on the relationship between financial ratios and banks' profitability and specifically analyzed the relationship between return on equity (ROE) and debt-equity ratio. The study used a sample of 15 Nigerian banks listed on the Nigerian Stock Exchange and analyzed their financial statements for the period 2015 to 2019. The study utilized a regression analysis technique to test the relationship between the financial ratios and the banks' performance. The findings of the study revealed that there was a significant positive relationship between return on equity and debt-equity ratio.

Umar and Muhammad (2021) conducted a study to investigate the relationship between financial ratios and the performance of Nigerian listed firms. The study was carried out using a sample of 60 companies listed on the Nigerian Stock Exchange, and data was collected from their financial statements for the period of 2014 to 2018. The researchers used Pearson correlation and multiple regression analysis to analyze the data and examine the relationship between financial ratios and firms' profitability. The financial ratios used in the study include liquidity ratio, profitability ratio, leverage ratio, and activity ratio. The study found that liquidity ratio and return on assets (ROA) had a significant positive relationship with firms' profitability.

Adetunji and Adebisi (2020) conducted a study to examine the effect of financial accounting ratios on corporate performance in Nigerian listed banks. The authors aimed to investigate whether financial accounting ratios had a significant impact on the performance of Nigerian banks. They specifically examined the relationship between liquidity ratio and return on asset (ROA) in the selected banks. The study employed a descriptive research design, and data were collected from the financial statements of seven Nigerian listed banks for a period of six years (2012 to 2017). The authors used regression analysis to test the hypotheses of the study.The findings of the study revealed that there was a significant positive relationship between liquidity ratio and return on asset (ROA) in the Nigerian listed banks.

Adeusi, Ayodele, and Nwachukwu (2020) investigated the impact of financial ratios on the performance of Nigerian banks. The study aimed to examine the relationship between financial ratios and banks' profitability in Nigeria. The authors used a sample of 10 Nigerian banks for the period of 2014 to 2018. The study employed multiple regression analysis to analyze the relationship between financial ratios and banks' profitability. The study used return on asset (ROA) and return on equity (ROE) as measures of banks' profitability. The financial ratios examined in the study included liquidity ratio, debt-equity ratio, total assets turnover, and net profit margin. The findings of the study revealed that liquidity ratio and debt-equity ratio had a significant effect on banks' profitability. Specifically, the study found that liquidity ratio had a positive and significant effect on banks' ROA and ROE.

Gap in literature

Despite the wealth of empirical studies examining the relationship between financial ratios and firm performance in Nigeria across various sectors including manufacturing, consumer goods, SMEs, and banking a noticeable gap exists in the comprehensive and sector-wide exploration of how multiple categories of financial accounting ratios (liquidity, profitability, solvency, and efficiency) jointly predict or explain overall firm performance using up-to-date post-COVID economic data. Most prior studies, isolate specific ratios, or utilize outdated data sets spanning 2014–2020, thus limiting generalizability and relevance

in Nigeria's evolving economic landscape. Furthermore, few studies integrate financial ratio analysis with broader corporate strategy signals.

This study therefore seeks to fill this empirical gap by providing a more holistic, and updated analysis of the relationship between financial accounting ratios and firm performance from 2015–2024, capturing recent market disruptions and post-pandemic recovery dynamics.

METHODOLOGY

Research Design

Research design refers to the development of strategies for finding out something. In other words, research design refers to the overall strategy that you choose to integrate the different component of the study in a coherent and logical manner thereby ensuring that the research problem is effectively addressed. The ex-post facto research design was adopted in the study.

Sources of Data

The study utilized secondary data in its development, and it was sourced from the financial statement of the bank in question (First bank Nigeria plc) for the period of 10 years spanning from (2015 - 2024). The quantitative data collected covered the various proxies for independent and dependent variables of the study namely, current ratio, quick ratio, debt to equity ratio, and return on equity.

Method of Data Analysis

The findings are products of the analysis carried out. The data collected in the course of the research are analyzed using some statistical tools. The statistical tools adopted by the researcher depends on the design of the study which is based on the nature of the study's problem and objectives. Towards achieving the research's earlier objective, a multiple regression model was specified which guide the analysis of the data collected on the key variables of the study. The study utilized the ordinary least square (OLS). The ordinary least square technique was adopted due to the properties of BLUE (Best, Linear and Unbiased Estimators). T-statistics is employed in establishing the individual relationship of each of the exogenous variable on the identified endogenous variable while F-statistics establishes the combine effect or relationship of the three exogenous variables on the endogenous variable.5% level of significance is utilized in the study.

Model specification

The model is thus:
ROE = F (CR, QR, DER)

Where:

ROE = Return on equity
CR= Current ratio
QR= Quick ratio
DER= Debt /equity ratio

This functional relationship was adapted from prior empirical studies on financial performance and accounting ratios (e.g., Al-Shattarat et al., 2021; Musa & Ayodele, 2023). Previous studies have often modeled firm performance (proxied by ROE or ROA) as a function of liquidity and leverage ratios. However, for the purpose of this study, the model has been moderated to specifically include *current ratio, quick ratio, and debt-to-equity ratio*, which are considered the most relevant indicators of financial

accounting ratio in the Nigerian corporate context, where access to external financing is limited and firms largely depend on internally generated funds.

Thus, while the structure of the model was adopted from existing literature, the specific choice of variables (CR, QR, DER) was adapted and streamlined to suit the objectives of this research, particularly in examining how liquidity and leverage jointly influence shareholders' return (ROE) among Nigerian firms.

The model is specified econometrically as:

$ROE=a_0+ \alpha_1 CR+ \alpha_2 QR + \alpha_3 DER + ei$

Where:

a_0 = The constant or intercept of the model
α_1= Coefficient of the first independent variable (CR)
α_2 = Coefficient of the second independent variable (QR)
α_3 = Coefficient of the Third independent variable (DER)
ei = Error term

Econometric test
This test involves detecting the validity or possible violations of the classical linear regression assumptions based on which the OLS technique is applied. The test includes among others – multicollinearity test, autocorrelation test.

Autocorrelation test
Egbulonu (2005) stated that autocorrelation is a correlation between successive values of the same variable, with respect to regression model, it is assumed that there is autocorrelation in the error term U. The durbin Watson test is adopted to find first order serial autocorrelation.

Decision Rule
If d is around 2- there is no autocorrelation, if d is closer to 0 – there is evidence of positive autocorrelation, if d is closer to 4- there is evidence of negative autocorrelation.

Multicollinearity test
Multicollinearity according to Gujarati and porter (2009) refers to the presence of linear or near linear relationship among the exogenous variables of a model. To test for possible extent of multicollinearity among current ratio, quick ratio and debt/equity ratio the researcher adopts the variance inflation factor (VIF) and condition index (CI). The variance inflation factor runs an auxiliary regression on the exogenous variable as each of them appears an endogenous variable.

Decision Rule
VIF < 10 here is no significant multicollinearity, VIF> or= 10 there is severe Multicollinearity. For condition index CI < OR = 30 there is no significant multicollinearity, CI > 30 there is severe multicollinearity.

Decision rule

This study utilizes 5% level of significance using F-statistics for the hypotheses test, the decision to accept or reject the null hypothesis is made based on the following rules; if the statistic from the test result falls within the significant region of 0.00-0.05, it indicates a significant relationship between the dependent and independent variable. Thus, the null hypothesis will be rejected, and the alternative accepted. Conversely if the f-statistic shows a result that falls outside the significances region of 0.00 -0.05, it will indicate a case of no significance in which case the null hypothesis will be accepted, and the alternative rejected.

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

Data presentation

This section places emphasis on the need to estimate, analyze and interpret the model already formulated. In addition, the hypotheses are also tested. Data collected on the proxies of the dependent and the independent variable. The current ratio (CR), Quick ratio (QR) and Debt/equity ratio (DER) are independent variables while the Return on equity are proxies for corporate performance which is the dependent variable.

Table 1 Data of Current ratio (CR), Quick ratio (QR), Debt/equity ratio (DER) and return on equity (ROE) and return on asset (ROA) for 2015 to 2024

YEAR	CURRENT ASSET ₦MILLION	CURRENT LIABILITIES ₦MILLION	INVENTORY ₦MILLION	TOTAL LIABILITIES ₦MILLION	SHAREHOLDERS EQUITY ₦MILLION	PROFIT AFTER TAX ₦MILLION
2015	112,586	140,586	38,369	375,996	710,297	178,280
2016	193,601	403,772	55,850	594,210	881,231	306,251
2017	426,869	343,956	62,259	620,070	991,017	254,630
2018	441,026	284,759	59,820	428,426	1,293,548	481,456
2019	418,990	410,575	67,736	541,735	1,282,249	261,349
2020	554,048	538,613	54,545	763,683	1,352,377	352,609
2021	887,862	837,858	88,421	1,120,826	1,461,472	381,100
2022	930,049	775,840	132,704	1,166,928	1,491,535	402,857
2023	1,215,878	1,127,236	187,799	1,467,504	1,602,964	490,323
2024	1,515,107	1,746,596	322,792	3,067,198	2,127,616	1,027,217

Source: Dangote PLC annual report (2015-2024)

Year	Current Ratio	Quick Ratio	Debt/Equity	Return on Equity
2015	0.87	0.68	1.44	0.48
2016	1.08	0.91	0.92	0.31
2017	1.20	1.03	0.78	0.27
2018	1.06	0.95	0.77	0.26
2019	1.03	0.93	0.56	0.26
2020	1.02	0.86	0.42	0.20
2021	1.55	1.34	0.33	0.37
2022	1.24	1.06	0.63	0.26
2023	0.48	0.34	0.67	0.35
2024	0.80	0.53	0.53	0.25

Source: Computations from data

Data Analysis and interpretation

The table below shows the summarized result of linear regression analysis of our data for the study.

Results of regression analysis

The Linear regression models of this study as stated in section 3 were analyzed using the ordinary least square (OLS) regressions. The results of the analysis are detailed in the appendix but have been summarized in table 2.

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Table 2 Results of the Regression Analysis

@ 5% level of significance	MODEL (ROE)
(Constant)b_0	0.095
(CR)b_1	0.326
(QR)b_2	-0.300
(DER)b_3	0.181
Durbin Watson stat	2.093

Source: *Extracts from Appendix*

Table 2 shows that the intercept (b_0) of the regression model is positive at 0.095, the result shows that when the proxies for independent variables in the model are zero, the dependent variable (ROE) will be Positive. Results from the table 4.2 also indicate that the coefficient of the first (CR) independent variable in the model is positive in the models as shown in the value (0.326). This indicated that the first independent variable has a positive relationship with the dependent variable (ROE).

On the other hand, the second (QR) independent variable shows also a negative relationship with the dependent variables (ROE) in the model as indicated in the values (-0.300). This means a unit increase reduces ROE by 30%**,** ceteris paribus.

The third (DER) independent variable poses positive relationship with the dependent variable (ROE) (0.181) in the model. This means that specifically, a unit increase in DER raises ROE by 18.1%.

The Durbin Watson result for the model confirms that the data used in the analysis is free from autocorrelation or serial correlation shown in the value (2.093) since it's close to 2, which further indicates that the data used in the analysis is valid.

Test for significance and decisions on the hypotheses of the study

The test for significance results using t-statistics is detailed in the appendix; however, a summary of the significance results which aids the decision for the three hypotheses of the study are summarized on table 3.

Table 3 Test for significance results (Test of hypotheses)

@ 5% level of significance	**MODEL 1 (ROE)**		
	HYP 1 (CR)	**HYP 2 (QR)**	**HYP 3 (DER)**
P-Value	0.526	0.558	0.066
Remarks	**INSIG**	**INSIG**	**INSIG**

Source: *Extracts from appendix*

Hypotheses

H_{01}: There is no significant relationship between current ratio and return on equity of firms.

From table 3, P > 0.05 for hypothesis 1 with the P-value being 0.526. This indicates that there is no significant relationship between current ratio and return on equity of firms in Nigeria. The null hypothesis which states that there is no significant relationship between current ratio and return on equity of firms in Nigeria is accepted while the alternative hypothesis is rejected.

H_{02}: Quick ratio has no significant relationship with return on equity of firms.

Table 3 shows that P-value in respect of the second hypothesis is 0. 558 which implies that P > 0.05. With this, there is an indication of insignificant relationship between quick ratio and return on equity of firms in Nigeria. Therefore, we accept the null hypothesis and reject the alternative hypothesis and conclude that Quick ratio has no significant relationship with return on equity of firms in Nigeria.

H_{03}: There is no significant relationship between debt/equity ratio and return on equity of firms.

The hypothesis test table above further reveals that the P–value in respect of the third hypothesis is 0.066 (P > 0.05) which suggests an insignificant relationship between the independent variable (DER) and the dependent variable (ROE). The study therefore accepts the null hypothesis and rejects the alternative hypothesis and conclude that there is no significant relationship between debt/equity ratio and return on equity of firms in Nigeria.

Discussion of Findings

The findings of this study, based on the regression results and hypothesis testing, reveal important insights into the relationship between financial accounting ratios and firm performance as measured by return on equity (ROE).

First, the regression coefficient for Current Ratio (CR) (β = 0.326) suggests a positive relationship between CR and return on equity. This implies that firms with higher levels of current assets relative to current liabilities are more likely to report better equity returns. However, the test of significance (p-value = 0.526 > 0.05) indicates that this relationship is statistically insignificant. In practical terms, while it may improve operational flexibility, it does not significantly explain variations in ROE within the sampled firms. This aligns with some prior studies (e.g., Owolabi & Obida, 2012; Oladipupo & Okafor, 2013) that reported insignificant links between liquidity ratios and profitability, suggesting that the mere possession of liquid assets without efficient utilization may not translate into shareholder value creation.

Second, the Quick Ratio (QR) recorded a negative regression coefficient (β = -0.300), indicating an inverse relationship with ROE. This implies that firms with high quick assets (excluding inventories) tend to exhibit lower profitability. Although the result was statistically insignificant (p-value = 0.558 > 0.05), it provides evidence that excessive holdings of idle liquid assets could constrain firms from engaging in profitable investment opportunities. This finding supports the "idle asset hypothesis" where excessive liquidity may depress returns due to underutilization of financial resources (Bolek & Wilinski, 2012).

Third, the Debt-to-Equity Ratio (DER) yielded a positive coefficient (β = 0.181), suggesting that firms with higher leverage ratios experience improved ROE. This indicates that debt financing can potentially enhance shareholders' returns through financial leverage effects. Nevertheless, the relationship was statistically insignificant (p-value = 0.066 > 0.05), though marginally close to the threshold. This result implies that while leverage may contribute positively to firm performance, the effect is not strong enough to be generalized across the sampled firms. This finding corroborates studies such as Abor (2005) and disagrees with others (e.g., Ebaid, 2009), thereby adding to the ongoing debate about the optimal capital structure for maximizing shareholder value.

Additionally, the Durbin-Watson statistic of 2.093 suggests that the regression model does not suffer from autocorrelation problems, thereby affirming the reliability of the OLS results.

Overall, the discussion highlights that although financial accounting ratios showed directional influences on ROE, none of the variables were statistically significant at the 5% level. This suggests that factors other than liquidity and leverage such as firm size, managerial efficiency, macroeconomic conditions, or industry-specific dynamics may play more dominant roles in explaining firm profitability. The results provide mixed evidence when compared with previous empirical studies, indicating the context-specific nature of financial performance determinants in the sampled firms.

The F-statistics results do support this exertion also as the independent variables is not jointly significant to the dependent variables in the model as indicated in the value (0.252).

CONCLUDING REMARKS

Summary of Findings

The overall results of the analysis in the preceding chapter of this study provide the following findings:

1. There is positive and insignificant relationship between current ratio and return on equity of Firms in Nigeria
2. There is negative but insignificant relationship between Quick ratio and return on equity of firms in Nigeria.
3. There is positive and insignificant relationship between Debt/equity and return on equity of firms in Nigeria.

Conclusion

Based on the major findings, the following conclusions were made:

Financial accounting ratios have positive and insignificant relationship with corporate performance of firms in Nigeria. Thus, accounting ratios are statistically insignificant in determining firm's performance in Nigeria.

Recommendations

In line with the findings and conclusion, the following recommendations are made:

1. **Balanced use of liquidity indicators:** Since the current ratio had a positive but insignificant effect on ROE, firms should avoid relying solely on liquidity management as a performance driver. Managers should ensure that working capital is managed efficiently while focusing on other strategic drivers of profitability such as cost reduction, revenue diversification, and innovation.
2. **Avoid overemphasis on quick assets:** The negative but insignificant impact of the quick ratio suggests that holding too many liquid assets without optimal utilization may not enhance returns. Firms should therefore strike a balance between liquidity and investment in productive assets that yield higher returns.
3. **Prudent capital structure management:** The positive but insignificant relationship between debt-to-equity ratio and ROE indicates that leverage, while useful, does not automatically translate to better performance. Firms should adopt a cautious approach to borrowing, ensuring that debt is used mainly to finance investments with strong return prospects.

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APPENDIX

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REGRESSION
  /MISSING LISTWISE
  /STATISTICS COEFF OUTS R ANOVA COLLIN TOL
  /CRITERIA=PIN(.05) POUT(.10)
  /NOORIGIN
  /DEPENDENT ROE
  /METHOD=ENTER CR QR DER
  /RESIDUALS DURBIN.
```

Regression

[DataSet0]

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	DER, QR, CR[b]	.	Enter

a. Dependent Variable: ROE
b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.686[a]	.470	.205	.07180	2.093

a. Predictors: (Constant), DER, QR, CR
b. Dependent Variable: ROE

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.027	3	.009	1.775	.252[b]
	Residual	.031	6	.005		
	Total	.058	9			

a. Dependent Variable: ROE
b. Predictors: (Constant), DER, QR, CR

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	.095	.148		.642	.545		
	CR	.326	.485	1.152	.673	.526	.030	33.223
	QR	-.300	.483	-1.056	-.620	.558	.030	32.813
	DER	.181	.081	.702	2.240	.066	.899	1.113

a. Dependent Variable: ROE

Collinearity Diagnostics[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions (Constant)	CR	QR	DER
1	1	3.778	1.000	.00	.00	.00	.01
	2	.192	4.434	.00	.00	.00	.46
	3	.029	11.423	.59	.00	.01	.51
	4	.001	58.299	.41	1.00	.98	.02

a. Dependent Variable: ROE

Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.2481	.4349	.3012	.05523	10
Residual	-.04990	.11305	.00000	.05863	10
Std. Predicted Value	-.961	2.422	.000	1.000	10
Std. Residual	-.695	1.574	.000	.816	10

a. Dependent Variable: ROE