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ASSESSING THE IMPACT OF IFRS 6 EXPLORATION AND EVALUATION OF ACCOUNTING RECOGNITION ON INVESTOR RETURNS IN AFRICAN FIRMS

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ABSTRACT

Background: *The impact of International Financial Reporting Standards (IFRS) on financial reporting quality and investor decision-making has been a subject of significant academic interest. Understanding the unique attributes and dynamics of these markets is crucial for optimizing investment strategies and achieving financial goals.*

Aim: *Considering this, this study assessed the impact of IFRS 6 on investors' returns by focusing on African firms engaged in exploration and evaluation activities.*

Methodology: *The study employed an ex-post facto research design, and data were collected from secondary sources, specifically the financial reports of the investigated firms. The study population included 76 African-listed extractive firms as of December 31, 2022. A purposive sampling technique was used to select 59 firms based on data availability. The study covered a period of 11 years spanning from 2012-2022. This period was chosen to ensure robust analysis. Secondary data collected from the annual reports of the investigated firms were analyzed using descriptive statistics and robust regression.*

Findings: *The findings revealed that IFRS 6 positively and significantly affected debt repayment but negatively impacted return on equity (ROE) and return on sales (ROS). The analysis also showed a positive but statistically insignificant relationship between IFRS 6 and the share price. Finally, IFRS 6 had a negative but statistically insignificant effect on equity capital raised.*

Contributions: *This study makes significant contributions to government regulations by providing empirical evidence on the impact of IFRS 6 on investor returns in African extractive firms. The findings can help policymakers tailor regulations to ensure that the application of IFRS 6 in the extractive sector promotes transparency, improves financial outcomes, and enhances debt repayment abilities. By understanding how IFRS 6 affects key financial metrics, regulatory bodies can better design policies to ensure that firms are held accountable for their exploration and evaluation activities, fostering a more stable and well-regulated investment environment. Secondly, the study offers insights into the practical effects of IFRS 6 on financial reporting and profitability metrics such as ROE and ROS.*

Recommendations

Regulators: *Regulatory bodies in Africa should revise or provide guidelines on IFRS 6 to ensure its implementation enhances financial performance and investor outcomes, potentially by incorporating measures to improve profitability recognition.*

Stakeholders: *Stakeholders, including investors and financial analysts, should be educated on IFRS 6 to better understand its impact on financial reporting and decision-making.*

Researchers: *Future studies should explore the underlying factors influencing the negative impact of IFRS 6 on ROE and ROS, as well as the insignificant effects on equity capital raised. Investigating other relevant financial standards and their interactions with IFRS 6 may yield deeper insights into financial performance in the extractive sector. Lastly, the regulatory bodies in Africa should consider revising or providing guidelines on the application of IFRS 6 to ensure that its implementation supports better financial performance and investor outcomes, potentially by including additional measures that enhance profitability recognition.*

Keywords: *Book value per share, Earnings per share, IFRS 6 exploration and evaluation of accounting recognition, Investor's return, Mineral Resources.*

INTRODUCTION

Investor returns, a crucial measure of investment profitability and performance, differ significantly between developed and developing nations due to varying levels of market maturity, economic stability, regulatory environments, and financial infrastructure (Al-Matari et al., 2020; Apergis et al., 2021; Ahunov & Yusupov, 2022). Understanding these differences is essential for optimizing investment strategies and fostering economic growth. In developed nations, investor returns are influenced by economic stability, robust regulatory frameworks, and high levels of market transparency and efficiency (Wickramasinghe & Fernando, 2021; Lee & Cho, 2023). These countries typically exhibit higher GDP per capita, lower corruption, and more reliable legal systems, leading to a more predictable investment environment (Merton, 1987; Czinkota et al., 2023). Furthermore, financial markets in this economy, such as stock exchanges and bond markets, are highly liquid, facilitating easy buying and selling of securities (Pagano, 1993; Ali et al., 2023; Lim & Fung, 2023). This liquidity lowers transaction costs and enables investors to swiftly adjust their portfolios in response to market changes, potentially enhancing returns (Mehta et al., 2021; Rossi et al., 2022). Additionally, the availability of sophisticated financial instruments and derivatives allows investors to manage risk more effectively (Naughton et al., 2023; Chopra et al., 2022). Developed nations also benefit from better access to information and advanced technological infrastructure, supporting more accurate and timely investment decisions (Zhou et al., 2023; Kim et al., 2023). The availability of comprehensive financial data, research reports, and real-time market information is believed to be pivotal in boosting investor confidence and decision-making (Stiglitz, 1985; Bhattacharya et al., 2021).

Contrastingly, developing nations with emerging or transitional economies present unique challenges and relative opportunities for investors (Tunji et al., 2022; Smith et al., 2023; Joshi & Singh, 2022). These economies often face higher economic volatility, political instability, and less developed financial markets, leading to higher risk and potentially higher returns (Harvey, 1995; Nguyen et al., 2023). Their financial markets are generally less liquid, with fewer participants and lower trading volumes, resulting in higher transaction costs and greater difficulty executing large trades without affecting market prices (Bekaert & Harvey, 2003; Aggarwal & Demirguc-Kunt, 2021). Despite these challenges, lower starting bases and rapid economic expansion offer substantial growth potential (La Porta et al., 1998; Varma & Jha, 2023). Regulatory environments in developing countries are typically less mature, with varying degrees of enforcement and transparency (Frynas, 2023; Chen et al., 2022). Consequently, this can create opportunities for arbitrage and higher returns but also increases the risk of fraud and market manipulation, necessitating careful due diligence by investors (Gupta et al., 2021; Clinebell et al., 2023). Developing nations frequently exhibit higher levels of market inefficiency, where asset prices do not always fully reflect available information, creating opportunities for astute investors to achieve abnormal returns (Fama, 1970; Errunza, 1977; Manohar et al., 2023).

IFRS 6, which governs the accounting for exploration and evaluation of mineral resources, has significant implications for investor returns, particularly in sectors such as mining and oil exploration. The standard allows for flexibility in asset recognition and measurement, which can affect the reported financial position of firms and influence investment decisions (Bonsu et al., 2023). While IFRS 6 provides some relief in terms of capitalization of exploration costs, its flexibility can also lead to concerns about the comparability and reliability of financial statements, potentially affecting investor confidence and market behavior (Jiang & Zhao, 2021). For investment strategies, understanding how IFRS 6 influences asset valuation and recognition can help investors assess the true financial health of firms, particularly in volatile sectors. Additionally, the standard's implications extend to regulatory frameworks, as regulators may need to balance flexibility with the need for consistency and transparency to prevent manipulation and ensure that financial reports accurately reflect the value of exploration assets (Kumari & Mishra, 2021). As such, IFRS 6's impact on investor returns highlights the ongoing need for regulatory oversight and robust financial reporting mechanisms to support informed investment decisions.

Meanwhile, the impact of International Financial Reporting Standards (IFRS) on financial reporting quality and investor decision-making has been a subject of significant academic interest. Specifically, IFRS 6, which addresses the accounting treatment of exploration and evaluation (E&E) expenditures, provides guidelines on the recognition and measurement of assets and liabilities for entities engaged in the exploration and evaluation of mineral resources (Owoeye, 2024; Deloitte, 2021; Rasouli et al., 2022). Expectedly, it is argued that the provisions of IFRS 6 influence value relevance, which can drive investors' decision-making patterns (Raza et al., 2023; Deloitte, 2021). This standard is particularly relevant for firms in resource-rich regions such as Africa, where mining and exploration activities are prevalent (Makola et al., 2022). The adoption of IFRS 6 in African firms presents an interesting context for examining its influence on investor returns. The standard permits companies to either capitalize or expense their exploration and evaluation costs, leading to variations in financial statements that could affect investor perception and decision-making.

While prior research confirms that IFRS enhances transparency and comparability, thereby boosting investor confidence and supporting efficient markets (Albu & Albu, 2023; Imane, 2022), the African context, particularly the specific effects of IFRS 6 on key investor metrics such as share price and return on equity, remains under-explored (Agyemang & Frimpong, 2023; Adamu & Kyeremeh, 2023). The adoption of IFRS is associated with improved market performance and investor decision-making due to enhanced information comparability and quality, though the impact of IFRS 6 on specific investor returns in emerging markets has not been exhaustively studied (Zakari & Momoh, 2023; Bolanle et al., 2023). Given the significant role of natural resource sectors in African economies, analyzing the implications of IFRS 6 on firms within these sectors can provide valuable insights into the broader effects of international accounting standards on emerging markets. Moreover, the flexibility inherent in IFRS 6 regarding the accounting treatment of E&E expenditures could lead to varying financial outcomes for firms, potentially influencing their market valuation and, subsequently, investor returns. As companies may choose different accounting policies under IFRS 6. This study aimed to assess the impact of IFRS 6 exploration and evaluation of accounting recognition on investor returns in African firms"

This study offers significant contributions to policymakers, accounting practices, and accounting theories. For policymakers, the research provides evidence-based insights on the effectiveness of IFRS 6 in enhancing transparency and consistency in financial reporting, aiding in the formulation of regulations that align with international accounting standards while addressing the unique challenges faced by African firms, particularly in the resource extraction sectors. In terms of accounting practices, the study highlights how IFRS 6's specific provisions on exploration and evaluation accounting influence the recognition of assets and liabilities, impacting financial statements, investment decisions, and market perceptions, thereby encouraging firms to adopt best practices for accurate reporting. From a theoretical perspective, the research contributes to the understanding of how accounting standards like IFRS 6 interact with financial performance, extending market efficiency theory by demonstrating how these accounting treatments affect investor returns in emerging markets, particularly in Africa, which is often underrepresented in global financial research.

The structure of the paper is organized as follows: Section 2 offers a comprehensive literature review, delving into previous studies and academic discussions surrounding IFRS 6, with a particular focus on its application in industries such as mining and oil exploration, where the flexibility in recognizing and measuring exploration and evaluation assets has significant implications. Section 3 outlines the research methodology employed in this study, while Section 4 presents the key findings and includes a discussion of the results. Finally, Section 5 concludes the paper with recommendations and proposes potential avenues for future research.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

In developing hypotheses, this section formulates specific, testable predictions based on insights gleaned from the literature. By grounding the hypotheses in established research, it sets the stage for empirical testing, guiding the methodology and analysis in subsequent sections of the study.

Investor's Returns

Investor's returns refer to the gains or losses earned from an investment over a specific period, typically expressed as a percentage of the initial investment. These returns include various components such as income from interest, dividends, and capital appreciation (or depreciation) of the investment's value (Reilly & Brown, 2011; Hassan & Romilly, 2020). Interest income as the major component of investor's returns is the earnings generated from investments in interest-bearing assets such as bonds, savings accounts, and certificates of deposit (CDs). This component of investor returns is particularly relevant for fixed-income investments, where the return is based on a fixed interest rate over the investment period (Barth et al., 2008). Interest income provides a predictable stream of earnings, which can be crucial for risk-averse investors seeking stable returns (Bodie et al., 2014). Dividends represent the distribution of a portion of a company's earnings to its shareholders. These payments are typically made by well-established companies with a history of profitability. Dividends can provide a regular income stream and are often a key component of the total return for equity investors. Dividend-paying stocks are especially attractive to income-focused investors and those seeking to reinvest dividends through dividend reinvestment plans (DRIPs) (Reilly & Brown, 2011).

Capital appreciation as the major component of investor's returns refers to the increase in the value of an investment over time. It is realized when an investor sells the asset for a higher price than the purchase price (Bodie et al., 2014). This component is critical for growth-oriented investments, such as stocks and real estate, where the primary goal is to achieve significant value increase over the investment horizon. Capital appreciation is influenced by factors such as market conditions, economic performance, and company-specific developments (Elton et al., 2014). Conversely, capital depreciation occurs when the value of an investment decreases over time, resulting in a loss when the asset is sold for less than the purchase price. Factors contributing to capital depreciation can include adverse market conditions, economic downturns, or poor company performance. Understanding the risk of capital depreciation is essential for investors, as it directly impacts the overall return on investment (Sharpe, 1966). Investor returns are typically expressed as a percentage of the initial investment to provide a standardised measure of performance. This expression allows for easy comparison across different investments and periods. The calculation of investor returns can be straightforward, such as in the case of simple interest or dividends, or more complex, involving compounded returns and total return calculations (Bodie, Kane, & Marcus, 2014). Succinctly, it is believed that primarily investors share common objectives of investment maximisation and risk minimization (Akinadewo et al., 2023). Thus, investors majorly take decisions to invest in more profitable firms that would give higher returns (Akinkoye & Akinadewo, 2018).

IFRS 6 Exploration and Evaluation of Accounting Recognition

IFRS 6 Exploration for and Evaluation of Mineral Resources provides guidelines for the recognition, measurement, and disclosure of exploration and evaluation (E&E) expenditures related to mineral resources (PwC, 2021). This standard is particularly relevant for entities engaged in the initial stages of exploring and evaluating mineral resources, such as mining companies. Under IFRS 6, exploration and evaluation expenditures can be capitalized or expensed based on certain criteria. Capitalization is permitted when expenditures meet specific requirements related to the nature of the costs incurred and the stage of exploration. These criteria include the demonstration of technical feasibility and the intention to develop the mineral resources into commercially viable assets (Deloitte, 2021).

IFRS 6 prescribes the accounting treatment for exploration and evaluation (E&E) expenditures related to mineral resources, allowing entities to capitalize costs that meet specific criteria indicating the intention to develop these resources into commercially viable assets" (Deloitte, 2021). Entities applying to IFRS 6 are required to disclose significant information about their E&E activities. This includes details on the nature and extent of their exploration activities, the accounting policies applied, and any significant uncertainties that could impact future development of the mineral resources (IFRS Foundation, 2021). IFRS 6 mandates comprehensive disclosure requirements regarding exploration and evaluation activities, aiming to provide stakeholders with transparency regarding the entity's mineral resource potential and associated risks" (IFRS Foundation, 2021).

Theoretical Framework

This study hinged on both market efficiency and decision usefulness theory.

Market Efficiency Theory

Market efficiency, primarily propounded by Eugene Fama in 1970, posits that asset prices fully reflect all available information at any given time, which serves as a foundational theory in financial economics (Fama, 1970). The Efficient Market Hypothesis (EMH) explains how financial markets process information to set asset prices, arguing that in an efficient market, it is impossible for investors to consistently outperform the market based solely on historical data (Andonov & Eichholtz, 2022). Fama's theory has had significant influence in shaping investment strategies, particularly suggesting that actively trying to "beat the market" through stock selection or market timing is unlikely to succeed over the long term (Fama, 2021; Kim et al., 2022). This concept underpins the development of passive investment strategies such as index funds, which are designed to replicate market returns rather than outperform them. Investors adhering to EMH typically prefer these strategies, as they align with the belief that markets efficiently price assets based on all available information (Bodie et al., 2014; Deloitte, 2022). Similarly, IFRS 6 influences investor returns by shaping how these costs are recognized, impacting the perceived risk and return profiles of investments in resource-based industries (KPMG, 2021; PwC, 2023) By promoting transparency and consistency in financial reporting, these specific standard aids market participants in assessing the economic viability of projects, thus supporting efficient capital allocation (KPMG, 2021). This helps regulators and policymakers in ensuring that market rules promote fairness and transparency, reducing information asymmetry and fostering market stability (Thaler, 2018; Barberis, 2021).

Behavioral finance, however, challenges the notion that all available information is fully always reflected in prices (Malkiel, 2003; Shiller, 2021). Empirical studies have shown instances of market anomalies and inefficiencies, such as stock price bubbles and predictable patterns in asset returns, which suggest that markets may not always be perfectly efficient (Shiller, 2003; Andonov & Eichholtz, 2022). IFRS 6 specifically addresses accounting practices in the extractive industries, its implications extend to broader financial theories such as market efficiency.

Decision Usefulness Theory

Decision Usefulness Theory, introduced by Paton in 1922, emphasizes that financial information should be useful for making informed economic decisions by users (Paton, 1922). The primary objective of this theory is to ensure that financial reporting provides information that assists users in making rational economic decisions. The theory has significantly influenced the development of accounting standards and practices globally, shaping the conceptual frameworks of accounting standards board's such as the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) in defining the qualitative characteristics of financial information (FASB, 2010; IASB, 2018; Barker & Teixeira, 2018; Ohlson, 2021).

Despite its utility, Decision Usefulness Theory faces several limitations. It assumes rational decision-making by users, which may not always reflect real-world behavior, as decisions can be influenced by biases and imperfect information (Schiller, 2008; Dechow et al., 2020). Achieving decision usefulness in practice requires balancing trade-offs between relevance and reliability, a challenge given the complexity of business transactions and financial instruments (Barker & McGeachin, 2015; Fülbier & Klein, 2021; Harrison & Horngren, 2015). Furthermore, it primarily focuses on financial reporting, often overlooking the growing importance of non-financial information, including environmental, social, and governance (ESG) factors in decision-making (Eccles et al., 2014; Christensen et al., 2021). Nevertheless, this theory remains a foundational principle in accounting theory and practice, aiming to ensure that financial reporting provides information that is relevant and useful for decision-making.

Empirical Review

To provide a comprehensive empirical review on the effect of exploration and evaluation (E&E) of accounting recognition on investor's returns, this study explores studies that examine the relationship between these variables.

IFRS 6 Exploration and Evaluation of Accounting Recognition and Share Price

Golubeva (2020) explored how the adoption of IFRS affects Foreign Direct Investments (FDIs) and the profitability of Multi-National Enterprises (MNEs). Using regression models on a dataset of Swedish companies' FDIs across 73 countries from 2007 to 2014, the research found that IFRS adoption significantly influences FDIs and earnings, especially in developed countries, contrasting with its effects in emerging markets. Abdo (2016) examined the impact of expenditures on exploration and evaluation (E&E) activities on stock returns in the extractive industries. By analyzing annual reports of 122 upstream oil and gas companies globally, the study assessed the role of IFRS 6 in standardizing accounting practices. Malaquias (2016) investigated the relationship between IFRS adoption, including IFRS 6, and stock returns in Brazilian companies. It analyzed stock returns around the publication dates using descriptive statistics and graphical analysis. The findings revealed that the stock market responds to accounting reports, which provide valuable information for investors. Post-accounting convergence, the companies' stock returns exhibited reduced volatility.

Wickramasinghe and Vidanage (2023) examined the impact of IFRS application on stock returns in Sri Lankan-listed manufacturing companies. It also considered government ownership, financial leverage, and firm size as additional factors. The research included all manufacturing firms listed on the Colombo Stock Exchange from 2017 to 2021. Regression analysis revealed a significant influence of IFRS application levels on stock returns. Tunji et al. (2022) investigated the impact of E&E expenditures on firm value and investor returns. Using secondary data from 66 manufacturing organizations, the research found that investments in E&E activities positively affected market valuations and investor returns. The analysis highlighted that lease finance, liquidity, and firm size positively influenced return on equity. Abdo (2016) underscores the partial success of IFRS 6 in standardizing E&E accounting practices, suggesting the need for further harmonization. Golubeva (2020) emphasizes the positive impact of IFRS adoption on FDIs and profitability, particularly in developed countries. Malaquias (2016) shows that clearer accounting guidelines improve investor confidence and reduce stock return volatility. Wickramasinghe and Vidanage (2023) and Tunji et al. (2022) provide empirical evidence from developing markets, highlighting the significant influence of IFRS application on stock returns and firm value. Based on the summaries and evaluations of the studies, the following research hypothesis was formulated:

H_1: Exploration and evaluation of accounting recognition observe higher share price.

IFRS 6 Exploration and Evaluation of Accounting Recognition and Return on Equity (ROE)

Wickramasinghe and Vidanage (2023) studied the impact of IFRS application levels on stock returns in Sri Lankan manufacturing companies. The research highlighted significant findings regarding how different levels of IFRS implementation affect investor perceptions and stock market outcomes. Abdo (2016) investigated how expenditures related to exploration and evaluation activities impact stock returns. The study analysed whether companies that invest more in E&E activities experience higher returns per share. The study found that expenditures related to exploration and evaluation activities significantly impact stock returns. Malaquias et al. (2016) conducted an empirical analysis in Brazil to explore the relationship between IFRS adoption and stock returns. The study provided insights into how clearer guidelines on E&E assets under IFRS affect investor confidence and market performance.

Golubeva (2020) examined whether the adoption of International Financial Reporting Standards (IFRS) influences Foreign Direct Investments (FDIs) and profitability from investments made by Multi-National Enterprises (MNEs). The study found significant impacts on FDIs and earnings, depending on the extent and level of IFRS implementation. Tunji et al. (2022) examined the impact of exploration and evaluation expenditures on firm value, focusing on whether these investments contribute to higher market valuations and investor returns. Their findings underscored the importance of E&E activities in influencing financial performance metrics such as return on equity. These studies provide a range of empirical evidence on how exploration and evaluation costs per share impact investor returns across different contexts and regions. It is therefore, hypothesized that:

H_2: Exploration and evaluation of accounting recognition impact return on equity.

IFRS 6 Exploration and Evaluation of Accounting Recognition and Dividend Payout

Owoeye (2024) investigated the relationship between board size and income smoothing, particularly focusing on the moderating effect of International Financial Reporting Standards (IFRS) within the Nigerian Financial Market from 2003 to 2023. The study utilized a systematic literature review (SLR) methodology, analyzing 100 research articles selected from a pool of 400 papers sourced from Scopus, Web of Science, Google Scholar, ABS journals, and other databases. The research highlighted the significant impact of IFRS on corporate governance and income smoothing. The review revealed substantial divergence and inconsistency in the findings, showing that corporate governance could have either a positive or negative relationship with income smoothing.

Wickramasinghe and Fernando (2021) assessed the impact of IFRS adoption on financial reporting and its implications for investor returns in emerging markets. The study found a significant and positive effect of IFRS adoption on financial reporting. Golubeva and Santos (2019) examined the association between IFRS adoption and investor returns in European markets, focusing on the role of accounting standards in enhancing transparency and reducing information asymmetry. The study revealed that IFRS adoption had a significant impact on investor returns. Al-Matari et al. (2020) studied the impact of IFRS adoption on stock returns and market performance in Gulf Cooperation Council (GCC) countries, including the influence of IFRS 6 on oil and gas companies. The study showed that IFRS adoption had a positive and significant effect on stock returns. It is, therefore, hypothesized that:

H_3: Exploration and evaluation of accounting recognition impact dividend payout.

IFRS 6 Exploration and Evaluation of Accounting Recognition and Debt Repayment

Devalle and Rizzato (2020) analyzed the impact of IFRS 6 on European extractive industries and investor returns. They found that harmonized impairment reporting led to increased market efficiency and investor trust. Bugeja and Loyeung (2020) investigated the effects of IFRS 6 on Australian mining companies. The study concluded that improved impairment disclosures positively influenced investor returns. Hassan and Romilly (2020) explored the impact of IFRS adoption on financial transparency and investor returns in African markets. The study found that better E&E impairment reporting under IFRS led to enhanced investor returns. Cortese et al. (2010) analyzed the role of IFRS 6 in standardizing accounting for E&E expenditures and its effect on market reactions. The study found that clearer reporting standards reduced information asymmetry, benefiting investors.

Golubeva (2020) investigated the broader impact of IFRS on financial reporting and investor returns, with a focus on E&E impairments. The findings indicated that standardized impairment reporting enhances investor confidence. Malaquias et al. (2016) examined the adoption of IFRS in Brazil and its impact on stock returns. The study highlighted that improved transparency in E&E impairment reporting positively influenced investor returns. Tunji et al. (2022) explored how E&E expenditures, including impairment, affect firm value and investor returns. The study showed that companies with clear impairment policies saw improved market valuations. Wickramasinghe and Vidanage (2023) studied the impact of IFRS application levels on stock returns in Sri Lankan manufacturing companies. The research found that better impairment reporting under IFRS 6 positively affected investor returns. It is therefore, hypothesized that:

H_4: Exploration and evaluation of accounting recognition impact debt repayment.

IFRS 6 Exploration and Evaluation of Accounting Recognition and Return on Sales

Golubeva (2020) investigated the broader impact of IFRS on financial reporting and investor returns, with a focus on E&E impairments. The findings indicated that standardized impairment reporting enhances investor confidence. Malaquias et al. (2016) examined the adoption of IFRS in Brazil and its impact on stock returns. The study highlighted that improved transparency in E&E impairment reporting positively influenced investor returns. Tunji et al. (2022) explored how E&E expenditures, including impairment, affect firm value and investor returns. The study showed that companies with clear impairment policies saw improved market valuations. Wickramasinghe and Vidanage (2023) studied the impact of IFRS application levels on stock returns in Sri Lankan manufacturing companies. The research found that better impairment reporting under IFRS 6 positively affected investor returns.

Devalle and Rizzato (2020) analyzed the impact of IFRS 6 on European extractive industries and investor returns. They found that harmonized impairment reporting led to increased market efficiency and investor trust. Bugeja and Loyeung (2020) investigated the effects of IFRS 6 on Australian mining companies. The study concluded that improved impairment disclosures positively influenced investor returns. Hassan and Romilly (2020) explored the impact of IFRS adoption on financial transparency and investor returns in African markets. They found that better E&E impairment reporting under IFRS led to enhanced investor returns. Cortese et al. (2010) analyzed the role of IFRS 6 in standardizing accounting for E&E expenditures and its effect on market reactions. The study found that clearer reporting standards reduced information asymmetry, benefiting investors. It is therefore, hypothesized that:

H_5: Exploration and evaluation of accounting recognition impact return on sales

IFRS 6 Exploration and Evaluation of Accounting Recognition and Debt Capital Raised

Al-Matari et al. (2020) examined the influence of IFRS on stock returns in GCC countries, focusing on the oil and gas sector. The study found that clear reporting of E&E impairments under IFRS improved market performance. Devalle and Rizzato (2020) analyzed the impact of IFRS 6 on European extractive industries and investor returns. They found that harmonized impairment reporting led to increased market efficiency and investor trust. Bugeja and Loyeung (2020) investigated the effects of IFRS 6 on Australian mining companies. The study concluded that improved impairment disclosures positively influenced investor returns. Hassan and Romilly (2020) explored the impact of IFRS adoption on financial transparency and investor returns in African markets. They found that better E&E impairment reporting under IFRS led to enhanced investor returns. Cortese et al. (2010) analyzed the role of IFRS 6 in standardizing accounting for E&E expenditures and its effect on market reactions. They found that clearer reporting standards reduced information asymmetry, benefiting investors.

Owoeye (2024) investigated the relationship between board size and income smoothing, particularly focusing on the moderating effect of International Financial Reporting Standards (IFRS) within the Nigerian Financial Market from 2003 to 2023. The study utilized a systematic literature review (SLR) methodology, analyzing 100 research articles selected from a pool of 400 papers sourced from Scopus, Web of Science, Google Scholar, ABS journals, and other databases. The research highlighted the significant impact of IFRS on corporate governance and income smoothing. The review revealed substantial divergence and inconsistency in the findings, showing that corporate governance could have either a positive or negative relationship with income smoothing. It is therefore, hypothesized that:

H_6: Exploration and evaluation of accounting recognition impact debt capital raised.

IFRS 6 Exploration and Evaluation of Accounting Recognition and Equity Capital Raised

Al-Matari et al. (2020) examined the influence of IFRS on stock returns in GCC countries, focusing on the oil and gas sector. The study found that clear reporting of E&E impairments under IFRS improved market performance. Devalle and Rizzato (2020) analyzed the impact of IFRS 6 on European extractive industries and investor returns. They found that harmonized impairment reporting led to increased market efficiency and investor trust. Bugeja and Loyeung (2020) investigated the effects of IFRS 6 on Australian mining companies. The study concluded that improved impairment disclosures positively influenced investor returns. Hassan and Romilly (2020) explored the impact of IFRS adoption on financial transparency and investor returns in African markets. The study found that better E&E impairment reporting under IFRS led to enhanced investor returns.

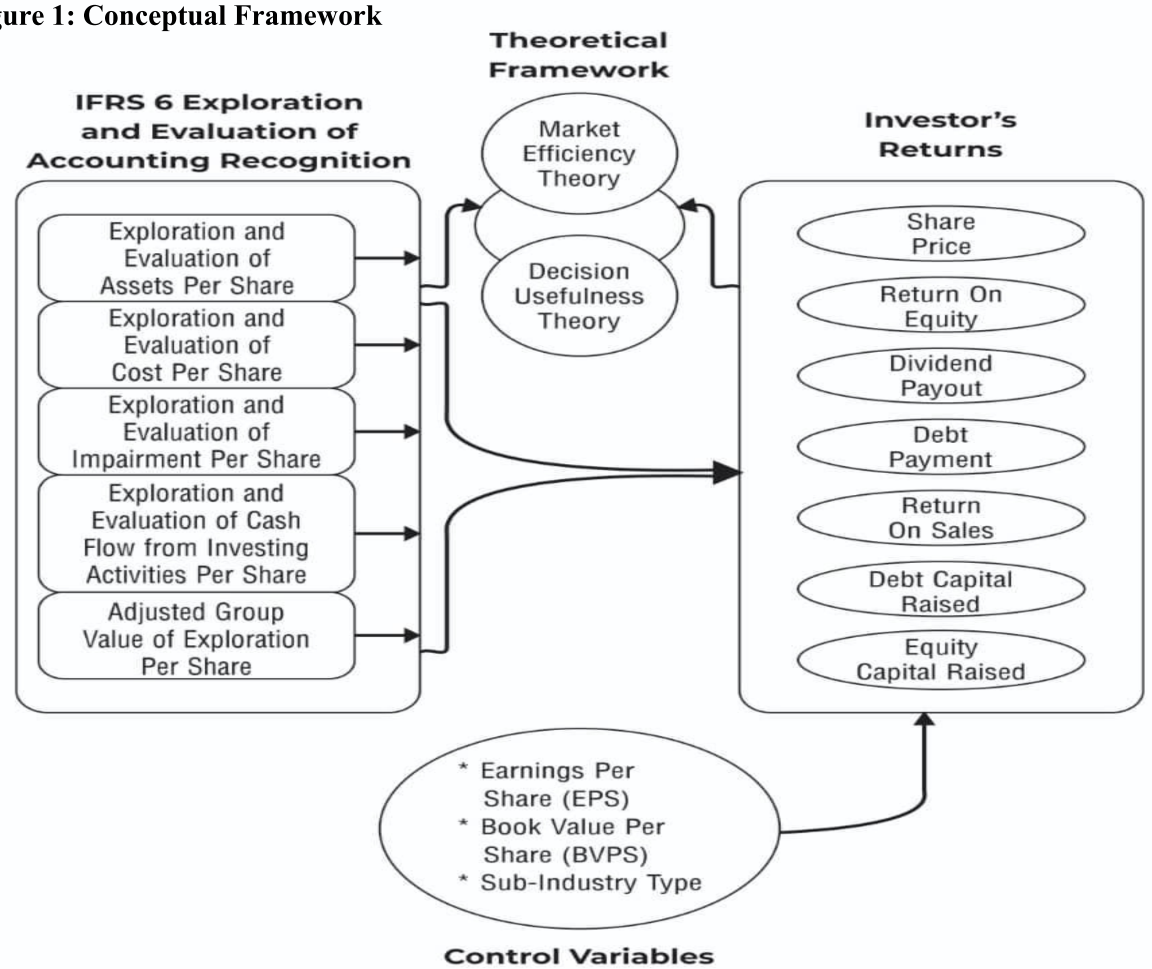
Abdo (2016) underscores the partial success of IFRS 6 in standardizing E&E accounting practices, suggesting the need for further harmonization. Golubeva (2020) emphasizes the positive impact of IFRS adoption on FDIs and profitability, particularly in developed countries. Malaquias (2016) shows that clearer accounting guidelines improve investor confidence and reduce stock return volatility. Wickramasinghe and Vidanage (2023) and Tunji et al. (2022) provide empirical evidence from developing markets, highlighting the significant influence of IFRS application on stock returns and firm value. Based on the summaries and evaluations of the studies, the following research hypothesis was formulated:

H_7: Exploration and evaluation of accounting recognition observe higher equity capital raised.

Conceptual Framework

Figure 1 shows the relationship between the independent variable (IFRS 6 Exploration and Evaluation of Accounting Recognition), dependent variable (Investor's Returns), and control variable (Earnings per share, Value per share, Sub-industry type).

Figure 1: Conceptual Framework



Source: Authors' Design (2024)

METHODOLOGY

The study employed an ex-post facto research design, and data were collected from secondary sources, specifically the financial reports of the investigated firms, as it allows for the analysis of existing data without manipulation or control over past events. Data were gathered from secondary sources, specifically the financial reports of the firms under investigation, providing reliable, publicly available information that reflects the real-world financial standing of the companies. The study population included 76 African-listed extractive firms as of December 31, 2022, which offers a broad scope of firms operating in relevant industries. A purposive sampling technique was used to select 59 firms based on data availability, which strengthens the validity of the findings. The study covered a period of 11 years (2012–2022) to allow for a comprehensive and robust analysis of long-term trends and the cumulative effects of IFRS 6 adoption on investor returns. This extended timeframe provides sufficient data points for meaningful insights. The collected data were analyzed using both descriptive statistics to summarize the data and robust regression analysis to assess the relationships between variables, ensuring the results are reliable and statistically significant. This methodological approach enables a thorough examination of the factors influencing investor returns in relation to IFRS 6 adoption in the African extractive sector.

3.1 Model Specification

The econometric models for this study outlined below are:

$IR = F(EEAR)$

Model 1

$$SP_{it} = \beta_0 + \beta_1 EEAPSh + \beta_2 EEC\_PSh + \beta_3 EEI\_PSh + \beta_4 EE\_CFIA\_PSh + \beta_5 AGV\_PSh + \beta_6 EPS + \beta_7 BVPS + \beta_8 SIT + \varepsilon it$$

Model 2

$$ROE_{it} = \beta_0 + \beta_1 EEAPSh + \beta_2 EEC\_PSh + \beta_3 EEI\_PSh + \beta_4 EE\_CFIA\_PSh + \beta_5 AGV\_PSh + \beta_6 EPS + \beta_7 BVPS + \beta_8 SIT + \varepsilon it$$

Model 3

$$DP_{it} = \beta_0 + \beta_1 EEAPSh + \beta_2 EEC\_PSh + \beta_3 EEI\_PSh + \beta_4 EE\_CFIA\_PSh + \beta_5 AGV\_PSh + \beta_6 EPS + \beta_7 BVPS + \beta_8 SIT + \varepsilon it$$

Model 4

$$DR_{it} = \beta_0 + \beta_1 EEAPSh + \beta_2 EEC\_PSh + \beta_3 EEI\_PSh + \beta_4 EE\_CFIA\_PSh + \beta_5 AGV\_PSh + \beta_6 EPS + \beta_7 BVPS + \beta_8 SIT + \varepsilon it$$

Model 5

$$ROS_{it} = \beta_0 + \beta_1 EEAPSh + \beta_2 EEC\_PSh + \beta_3 EEI\_PSh + \beta_4 EE\_CFIA\_PSh + \beta_5 AGV\_PSh + \beta_6 EPS + \beta_7 BVPS + \beta_8 SIT + \varepsilon it$$

Model 6

$$DCR_{it} = \beta_0 + \beta_1 EEAPSh + \beta_2 EEC\_PSh + \beta_3 EEI\_PSh + \beta_4 EE\_CFIA\_PSh + \beta_5 AGV\_PSh + \beta_6 EPS + \beta_7 BVPS + \beta_8 SIT + \varepsilon it$$

Model 7

$$ECR_{it} = \beta_0 + \beta_1 EEAPSh + \beta_2 EEC\_PSh + \beta_3 EEI\_PSh + \beta_4 EE\_CFIA\_PSh + \beta_5 AGV\_PSh + \beta_6 EPS + \beta_7 BVPS + \beta_8 SIT + \varepsilon it$$

Where IR = investors' return

EEAR = IFRS 6 Exploration and evaluation of accounting recognition

EEAPSh = Exploration and Evaluation of Assets Per Share

EEC_PSh = Exploration and evaluation of cost per share
EEI_PSh = exploration and evaluation impairment per share
EE_CFIA_PSh = exploration and evaluation of cashflow from investing activities per share
AGV_PSh = adjusted group value of exploration per share
EPS = earnings per share
BVPS = book value per share
SIT = Sub-industry type
ROE = return on equity
DP = Dividend payout
DR = Debt repayment
ROS = Return on sales
DCR = Debt capital raised
ECR = Equity capital raised

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$, and β_8 represent the coefficients of the independent variables.

ε = error term

The *a-priori* expectation = $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$, and $\beta_8 > 0$, this implies that the explanatory variables and the dependent variable should have a positive correlation.

3.2 Measurement and Description of Variables

Table 1 displays the operationalization, descriptions, and measurements of variables investigated in this study.

Table 1: Operationalization and measurement of variables

SN	Variables	Description	Measurement	Source
1	**Investor's Return**	Investor's return refers to the gain or loss generated from an investment over a specific period.	Typically expressed as a percentage of the investment's initial cost.	
1a	Share Price	Share price refers to the current market value of a company's individual stock, determined by supply and demand in the stock exchange.	Measured by dividing the company's market capitalization (total market value of its outstanding shares) by the total number of outstanding shares.	Kolawole et al. (2023); Lawal et al. (2024)
1b	Return on Equity (ROE)	Return on Equity (ROE) is a financial ratio that measures a company's profitability by calculating how effectively it generates profit from shareholders' equity.	Return on Equity (ROE) is calculated by dividing net income by average shareholders' equity, expressed as a percentage: ROE = (Net Income / Average Shareholders' Equity) × 100.	Dada et al. (2023); Dagunduro et al. (2023); Oluwagbade (et al., 2023).
1c	Dividend Payout	Dividend payout refers to the portion of a company's earnings distributed to its shareholders in the form of dividends.	The Dividend Payout Ratio is calculated by dividing the total dividends paid by the net income of the company, expressed as a percentage: Dividend Payout Ratio = (Dividends Paid / Net Income) × 100.	Boluwaji et al. (2024).
1d	Debt Repayment	Debt repayment refers to the process of paying back borrowed money, typically through regular installments, according to the terms agreed upon between the borrower and lender.	Expressed by subtracting the ending balance of the debt from the beginning balance for the period, accounting for any additional borrowings or repayments made during that time.	Devalle and Rizzato (2020).

1e	Return on Sales (ROS)	Return on Sales (ROS) is a financial metric that measures a company's operational efficiency.	Measured by calculating the percentage of profit generated from its total revenue, indicating how effectively a company converts sales into profits.	Aluko et al. (2022); Bugeja and Loyeung (2020)
1f	Debt Capital Raised	Debt capital raised refers to the funds a company secures by borrowing through loans, bonds, or other debt instruments, which must be repaid with interest over time.	Calculated by summing the total proceeds from issuing bonds, loans, and other debt instruments, minus any issuance costs or fees, as reported in the cash flow statement under financing activities.	Abdo (2016)
1g	Equity Capital Raised	Equity capital raised refers to the funds a company secures from investors by issuing shares in exchange for ownership stakes in the business, typically to finance growth or operations.	Calculated by subtracting the total liabilities from the total assets to find the shareholders' equity, and then consider any new equity issuances or capital contributions made during the reporting period.	Hassan and Romilly (2020)
2.	**IFRS 6 Exploration and Evaluation of Accounting Recognition**			
2a	Exploration and Evaluation of Assets Per Share	Exploration and Evaluation of Assets Per Share refers to a financial metric that assesses the value of a company's exploration and evaluation assets on a per-share basis, providing insight into the company's resource development potential relative to its outstanding shares.	Calculated by dividing the total value of exploration and evaluation assets by the number of outstanding shares, yielding the value attributed to each share based on those assets.	Abdo (2016)
2b	Exploration and Evaluation of Cost Per Share	Exploration and evaluation of cost per share involves analyzing the expenses incurred during a company's exploration activities, such as for natural resources, and determining how these costs impact the value of each share of stock.	Measured by dividing the total exploration and evaluation costs incurred by the company by the total number of outstanding shares.	Abdo (2016); Bugeja and Loyeung (2020).
2c	Exploration and Evaluation of Impairment Per Share	Exploration and Evaluation of Impairment Per Share involves analyzing the impact of asset impairment on a company's earnings per share (EPS) by assessing the value of impaired assets, thereby informing investors about potential risks to shareholder value.	Measured by dividing the total impairment loss related to exploration and evaluation assets by the number of outstanding shares.	Abdo (2016); Bugeja and Loyeung (2020).

2d	Exploration and Evaluation of Cash Flow from Investing Activities Per Share	Exploration and Evaluation of Cash Flow from Investing Activities Per Share involves analyzing the cash flows generated from investment activities on a per-share basis to assess the financial performance and investment effectiveness of a company.	Measured by dividing the cash outflows related to exploration and evaluation from the investing activities section of the cash flow statement by the total number of outstanding shares.	Abdo (2016); Bugeja and Loyeung (2020).
2e	Adjusted Group Value of Exploration Per Share	Adjusted Group Value of Exploration Per Share (AGV EPS) is a financial metric that reflects the estimated value of a company's exploration assets on a per-share basis, adjusted for various factors such as market conditions, operational costs, and the company's overall capital structure.	Measured by dividing the total adjusted group value of exploration assets by the number of outstanding shares.	Abdo (2016); Bugeja and Loyeung (2020).
3	**Control Variables**			
3a	Earnings Per Share (EPS)	Earnings Per Share (EPS) is a financial metric that indicates the portion of a company's profit allocated to each outstanding share of common stock.	Calculated by dividing net income by the number of outstanding shares.	Lawal et al. (2024)
3b	Book Value Per Share (BVPS)	Book Value Per Share (BVPS) is a financial metric that represents the equity available to common shareholders of a company.	Calculated by dividing the total book value of the company’s equity by the total number of outstanding shares.	Malaquias and Cardoso (2016)
3c	Sub-Industry Type	Sub-industry type refers to a specific category within a broader industry classification that defines a more specialized segment of businesses or economic activities, often based on unique products, services, or operational characteristics.		Pagano (1993); Tunji et al. (2022)

Authors’ Compilation (2024)

DATA ANALYSIS AND DISCUSSION OF FINDINGS

This section discusses the variables used, data analysis, and study findings. These statistics summarise the variable distribution.

Descriptive Statistics

Table 2 contains statistics for each variable, as well as details on their distribution and features across datasets. In this scenario, SP contains 598 observations. This reflects the number of data points or observations in the sample. The mean value of the spare price is 66.94, with a standard deviation of 171.13. This means that the sampled enterprises have moderately high share prices on average, subject to a very high fluctuation. Some firms' share prices were quite small, as seen by a minimum value of 0.001, but the largest firm has a share price equal to 1816.77, indicating a most valuable firm in terms of share price. Additionally, the average value of exploration and evaluation assets per share is 156.07. On average, each share of the companies in the sample has about 156.07 worth of exploration and evaluation assets. This suggests a high value of investment in exploration and evaluation assets attributable to each outstanding share. This, however, subjected to a standard deviation of 702.79. This implies a high variance in asset valuation among firms. While some firms have close to zero, suggesting minimal or no asset value for some firms, the highest EEAPSh of 7485.29 indicates certain firms with potentially high exploration and evaluation assets per share.

Firms, on the other hand, allocate a relatively small proportion of exploration and evaluation costs per share, with an average value of 1.12. This shows that the firms analysed have relatively low exploration and evaluation costs per share. The standard deviation of 7.07 suggests some high variance in EEC_PS, although most firms devote a small fraction of their income to this cost. The minimal EEC_PS is zero, indicating that some firms have zero cost. The greatest EEC_PS is 94.54, indicating that certain firms have substantial exploration and evaluation costs. Based on the average value of -0.44, firms encounter negative impairment on average. This shows the firms under investigation are facing impairment, but the magnitude is relatively low. The EEI_PSh standard deviation of 2.14 suggests some spread to the mean. The fact that the minimal EEI_PSh is -25.44 indicates that some businesses have significant impairment. The maximum EEI_PSh of 0.53 suggests that certain companies have low impairment losses.

According to the average value of -12.6, each share of the firms is associated with a negative cash flow of 12.60 from investing in exploration and evaluation activities. The standard deviation of 103 suggests that the range of values was large. Some businesses have severe negative cashflow as indicated by the minimal EE_CFIA_PSh of -2044.89. The maximum EE_CFIA_PSh of 16.46 indicates that some firms report positive cashflow. The EPS has a mean of 13.42 and a standard deviation of 90.80. This suggests that subject to some high spread, the sampled firms had significant earnings per share of 13.42. A minimal value of -164.23 indicates that certain firms reported a loss in earnings per share, whilst some firms in the dataset have 1906.08. However, the mean BVPS of 93.73 indicates that, on average, the book value per share is positive and that firms own more than they owe. A standard deviation of 489.03 signifies a significant spread from the mean value. Based on the minimal BVPS of -7.41, some firms have a negative book value, which indicates that their liabilities exceed their assets. The maximum BVPS of 5061.46, on the other hand, represents some firms with abnormally high equity per share.

For ROE, the average size across all firms is 133.92%. While this is quite high, this suggests that, on average, firms in the sample are generating profits significantly higher than their equity. A mean ROE above 100% typically implies that these firms are earning more than their total equity in profits, which might indicate highly profitable companies. The standard deviation is extremely high at 3343.66, indicating a large spread in ROE values across the firms. This large variability suggests that while some companies are highly profitable, others may be experiencing large losses or very low profitability. The minimum ROE of -5344.02% reflects that some firms are experiencing severe losses. In this case, the company’s losses are over 50 times its equity, suggesting extreme financial distress. The maximum ROE is 84,019.09%, an exceptionally high value, that shows an unusually high profit compared to its equity.

The DP average is 94.83. This shows that, in relation to their earnings, companies are generally paying out 94.83 units (maybe naira or a percentage) in dividends. A very wide variation in dividend distributions among the sample corporations is indicated by the standard deviation of 1840.54. DP must be at least -339.90. This suggests that certain companies pay out dividends at a negative rate. The maximum dividend payout percentage of 46,482 indicates that a minimum of one company in the sample distributed dividends that were too high in comparison to their earnings. Furthermore, the average DR value is 2.10. This implies that the sample's businesses can pay back 2.10 times their current debt on average. It suggests that, on average, businesses are only devoting a modest percentage of their resources to paying off debt. However, there is an 8.47 standard deviation attached to this. Although the spread is substantial, some firms have a negative debt repayment value, as indicated by the minimum DR of -20.85. With a maximum DR of 99.82, at least one company has paid off close to 100 units of debt.

Likewise, ROS has a mean value of 431.021. This implies that, for each period under investigation, firms have an operating profit of 431,021 units. This suggests that a large number of firms are turning a significant profit in relation to sales. Compared to the mean, the standard deviation of 8,856,336 is incredibly large. This suggests that ROS varies greatly throughout companies. The sample's minimal return on sales (ROS) of -771,600 suggests that certain businesses are losing money on operations and producing a negative ROS. The maximum ROS of 213,000,000 is incredibly high, meaning that for every unit of sales, at least one company is making a profit of 213 million units. Meanwhile, DCR has a mean size of 33.46. This suggests that, as a percentage of total assets, the sampled firms had raised 33.46 units of debt capital on average. The substantial variability in the amount of loan capital raised across the sample firms is indicated by the standard deviation, which is 274.85, which is much larger than the mean. The sample contains enterprises that have not raised any debt capital during the observed period, as indicated by the minimum DCR of 0. At least one company has raised over 4,944 units of debt capital, which is much more than the mean, according to the maximum DCR of 4,943.93.

The sampled firms have, on average, raised negative equity capital, according to the mean equity capital ratio of -1,451.47. The high standard deviation of 16,371.81 suggests significant variation in the amount of equity capital raised by different companies. The fact that at least one company has a very big negative equity capital raised is indicated by the minimum ECR of -320,360. The fact that at least one company has raised 15,548.17 units of equity capital is shown by the maximum ECR of 15,548.17.

Table 2: Descriptive statistics

Variable	Obs	Mean	Std. Dev	Min	Max
SP	596	66.94	171.13	0.001	1816.77
EEAP	621	156.07	702.79	0	7485.30
EEC_PSH	629	1.12	7.07	0	94.54
EEI_PSH	629	-0.44	2.14	-25.44	0.53
EE_CFIA_PSH	623	-12.60	103.00	-2044.90	16.49
EPS	624	13.42	90.80	-164.23	1906.08
BVPS	624	93.73	489.03	-7.41	5061.46
ROE	640	133.92	3343.66	-5344.02	84019.09
DP	639	94.83	1840.54	-339.90	46482
DR	303	2.10	8.47	-20.85	99.82
ROS	593	431021	8856336	-771600	213000000
DCR	546	33.46	274.85	0.00	4943.93
ECR	649	-1451.47	16371.81	-320360	15548.17

Source: Researchers' Computation (2024)

Correlation Analysis

Important details about the IFRS 6 exploration and evaluation of accounting recognition influence on investor returns is revealed by the correlation study. The association between EEAP and EEC_Psh is moderately positive. This suggests that EEC_Psh tends to rise when EEAP increases. EEAP and EEI_Psh have very little association (around zero). However, EEAP and EE_CFIA_PSh have a significant negative correlation. This suggests that a drop in EE_CFIA_PSh is linked to an increase in EEAP. There is a moderate positive connection between EEAP and EPS, indicating that an increase in EEAP is generally accompanied by an increase in EPS. EEAP and BVPS have a very significant positive correlation, which suggests that these two variables move close to one another.

Between EEC_Psh and EE_CFIA_PSh, there is a moderate negative correlation has been observed between these variables, indicating that EE_CFIA_PSh tends to decrease as EEC_Psh increases. A moderately favourable correlation suggests that there is a relationship between increased BVPS and higher EEC_Psh. The variables have a moderate negative connection, indicating that an increase in EE_CFIA_PSh is associated with a tendency for EPS to decline. The association between BVPS and EPS appears to be positive based on a moderately positive correlation. The very low correlations that EEI_Psh exhibits with other variables indicate that it has a minimal linear connection with the other variables in this dataset.

Table 3: Correlation matrix

Variable	EEAP	EEC_Psh	EEI_Psh	EE_CFIA_PSh	EPS	BVPS	VIF
EEAP	1.0000						16.46
EEC_Psh	0.4315	1.0000					1.68
EEI_Psh	0.0073	0.0062	1.0000				1.03
EE_CFIA_PSh	-0.6877	-0.3382	-0.0045	1.0000			1.93
EPS	0.4210	0.1302	0.0409	-0.3617	1.0000		1.03
BVPS	0.9835	0.3596	0.0059	-0.6725	0.4431	1.0000	17.07

Source: Researchers' Computation (2024)

IFRS 6 Exploration and Evaluation of Accounting Recognition and Investor's Return

This study used six variables to examine the impact of exploration and evaluation of assets per share on investors' return. Table 4 present multiple robust regression analysis conducted for the investigated variables. In this regard, from model 1, the coefficient of EEI_PSh (Exploration and Evaluation Impairment Per Share is 11.02 while the p-value is 0.022. This implies that EEI_PSh has a positive and significant effect. This suggests that impairments related to exploration are associated with higher stock prices in some cases. This may indicate that markets view impairments as a necessary adjustment that leads to future profitability or growth. The remaining variables were not insignificant. From model 2, The p-value of 0.6281 and the f-statistic of 0.237 shows that the model has no serial correlation. Based on the presence of multicollinearity and heteroskedasticity, robust regression analysis was performed. The t-statistics indicate the significance of these relationships. The coefficient of EEAP is 3.697 with a p-value of 0.002. This suggests that, in all scenarios, EEAP has a positive and considerable impact on ROE. This shows that more exploration and evaluation assets per share correlate with a higher return on equity. This suggests that corporations with more exploratory assets produce higher returns for their stockholders.

In contrast, the coefficient of EEC_Psh is 13.57, with a p-value of 0.256. While this is not considerable, it does indicate that exploration costs per share have no direct impact on a company's return on equity. EEI_PSh's coefficient is -99.65, and its p-value is 0.007. This suggests that EEI_PSh has a significant negative impact on ROE. This shows that exploration impairments lead to a worse return on equity. This suggests that writing down the value of exploratory assets has a detrimental impact on a company's profitability and shareholder returns. Similarly, the coefficient for EE_CFIA_PSh is 5.284, with a p-value of 0.000. The implication is that EE_CFIA_PSh has a substantial but positive correlation with ROE. This means that firms that generate more cash flow from exploration and evaluation activities have better returns on equity. This shows that effective investment in exploration operations might boost shareholder profits.

The coefficient of EPS is 40.82, and the p-value is 0.000. While EPS is important and favourable, it influences the link between ROE and EEAP, EEC_Psh, EEI_PSh, and EE_CFIA_PSh. As a result, a company with higher EPS is more likely to effectively convert exploratory assets or investments into shareholder returns. For example, the favourable effect of EEAP on ROE may be larger in firms with high EPS, as more profitable firms can better produce returns from their assets. Similarly, higher EPS may offset the negative impact of EEI_PSh since more profitable enterprises may have larger financial buffers to absorb losses. From model 3, robust regression analysis was conducted in the face of multicollinearity and heteroskedasticity. While the t-statistics show the significance of these correlations, the coefficient for BVPS, EEAP, EE_CFIA_PSh, EEC_Psh, and EEI_PSh together with p-values show insignificant statistics. The effects of the effect of BVPS, EEAP, EE_CFIA_PSh, EEC_Psh, and EEI_PSh on DP were not profound and therefore showed insignificant effects on DP.

Robust regression analysis was carried out for model 4 in response to the existence of heteroskedasticity, autocorrelation and multicollinearity. The significance of these correlations is shown by the t-statistics. Similarly, the coefficient for EE_CFIA_PSh is -0.0139, with a p-value of 0.000. This suggests a significant inverse relationship between EE_CFIA_PSh and DR (Debt Repayment). This implies that as the exploration and evaluation cash flow from investing activities per share increases (i.e., more cash is spent on exploration and evaluation activities), debt repayment tends to decrease. Therefore, for every unit increase in EE_CFIA_PSh, DR decreases by approximately 0.0139 units. This suggests that higher cash outflows related to exploration and evaluation activities reduce the amount of resources available for debt repayment. The remaining independent variables showed an insignificant relationship with DR.

From model 5, the presence of heteroskedasticity and multicollinearity prompted the use of robust regression analysis. The coefficient of EEAP is 9456.2 while the p-value is 0.003. The Return on Sales (ROS) appears to rise in tandem with a growth in EEAP, according to the positive and highly significant coefficients. An increase of one EEAP unit corresponds to a about 9456.2 unit rise in ROS. Conversely, the p-value is 0.259 and the coefficient of EEC_Psh is -34247.5. There is no significance to this relationship. Furthermore, EEI_PSh has a coefficient of -263785.1 and a p-value of 0.004. Lower ROS is a result of a larger impairment of exploration and evaluation assets, according to the negative and significant coefficients. This implies that businesses' sales profitability is adversely impacted when they depreciate (i.e., impair) these assets. Once more, the p-value of EE_CFIA_PSh is 0.000 and its coefficient is 13336.4. Higher ROS are a result of higher cash flows from exploration and evaluation investing activities, according to the positive and very significant coefficients. This implies that businesses with a positive cash flow from these endeavours have higher sales profitability.

In a similar vein, the p-value for EPS is 0.002 and its coefficient is 102673.9. This demonstrates that firms with higher earnings per share have better returns on sales. EPS plays a critical role in driving business performance since it has a significant impact on profitability from sales even when other variables are considered. Furthermore, the p-value for BVPS is 0.010 and its coefficient is -18878.2. This implies that firms with higher book value per share might have less profitable sales, maybe as a result of inefficient asset use. The assumption that businesses with high BVPS may find it difficult to convert their asset base into lucrative sales is reinforced by the negative association, which persists even after adjusting for other variables, such as EPS.

From model 6, the data distribution's autocorrelation was examined using the Wooldridge test. The presence of autocorrelation in the model is indicated by the p-value of 0.0000 and the f-statistic of 4.1213e+06. Robust regression analysis was carried out despite heteroskedasticity and multicollinearity. The correlations are substantial as indicated by the t-statistics; however, the p-values and coefficients for BVPS, EEAP, EE_CFIA_PSh, EEC_Psh, and EEI_PSh indicate statistically insignificant results. Due to their lack of profundity, the effects of BVPS, EEAP, EE_CFIA_PSh, EEC_Psh, and EEI_PSh on DP were not statistically significant.

Lastly, from model 7, the p-value for the test statistic, 4.0e+13, is 0.000. This suggests that there is heteroskedasticity in the data distribution. The Wooldridge test was used to look at the autocorrelation of the data distribution. The p-value of 0.0000 indicates the presence of autocorrelation. Notwithstanding multicollinearity, autocorrelation and heteroskedasticity, a robust regression analysis was performed. The t-statistics show that the correlations are significant, but the p-values and coefficients for EEAP, EE_CFIA_PSh, EEC_Psh, and EEI_PSh show statistically insignificant results. The effects of BVPS, EEAP, EE_CFIA_PSh, EEC_Psh, and EEI_PSh on ECR were not statistically significant.

Table 4: Multiple robust regression analysis

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
EEAP							
Coefficient	0.145	3.697	-.0054	-0.002	946.2	-0.014	0.0304
P-value	0.153	0.002	0.654	0.120	0.003	0.507	0.627
EEC_Psh							
Coefficient	-3.461	-13.570	-.0776	0.155	-343.5	-0.107	0.628
P-value	0.309	0.256	0.399	0.615	0.259	0.524	.0288
EEI_PSH							
Coefficient	11.020	-99.650	6.320	0.108	-264.1	-0.318	-6.71
P-value	0.022	0.007	0.442	0.690	0.004	0.859	0.094
EE_CFIA_PSH							
Coefficient	-.0118	5.284	-0.003	-0.014	1334.4	-0.017	0.048
P-value	0.455	0.000	0.969	0.000	0.000	0.069	0.188
EPS							
Coefficient	0.161	40.820	-0.090	-0.013	1027.9	-0.016	0.0976
P-value	0.398	0.000	0.389	0.002	0.002	0.310	0.107
BVPS							
Coefficient	0.823	-5.559	0.066	0.002	-143.4	0.010	-0.018
P-value	0.260	0.009	0.640	0.183	0.010	0.641	0.802
_con							
Coefficient	28.290	-431.100	105.400	2.349	-110.3	28.880	-13.92
P-value	0.156	0.000	0.213	0.000	0.000	0.165	0.749
f-statistic	42.210	27.020	36.060	839.640	24.330	28.070	25.380
p-value	0.000	0.000	0.000	0.000	0.000	0.000	0.000

Source: Authors' Computation (2024)

4.3 Discussion of Findings

The impact of International Financial Reporting Standards (IFRS) on financial reporting quality and investor decision-making has been a subject of significant academic interest. Understanding these markets' unique attributes and dynamics is crucial for optimizing investment strategies and achieving desired financial outcomes. considering this, this study assessed the impact of IFRS 6 on investors' returns by focusing on African firms engaged in exploration and evaluation activities. The regression analysis revealed that IFRS 6 exploration and evaluation of accounting recognition has positive and significant effect on debt repayment (investor's return) of listed African extractive firms. The analysis indicates that the adoption of IFRS 6 positively impacts debt repayment. This suggests that firms that follow IFRS 6 may be viewed more favorably by investors or creditors, leading to improved debt servicing capabilities, which can enhance overall investor returns. The positive and significant effect of IFRS 6 on debt repayment is consistent with previous research that suggests IFRS adoption enhances the transparency and credibility of financial statements, leading to improved access to debt financing. For example, studies by Wickramasinghe and Vidanage (2023) revealed significant findings regarding how different levels of IFRS implementation affect investor perceptions and stock market outcomes. Similarly, Ball et al. (2015) and Barth et al. (2008) found that IFRS implementation in different sectors improved creditor trust and financial reporting reliability, which, in turn, enhanced firms' ability to meet debt obligations. In the case of African extractive firms, this indicates that investors and creditors may perceive these firms as more financially sound due to IFRS 6 recognition, thereby positively influencing their debt servicing capacity.

Conversely, IFRS 6 appears to have a detrimental effect on both return on equity (ROE) and return on sales (ROS). This could imply that while the recognition of exploration and evaluation expenses may enhance perceived asset values, it might simultaneously reduce profitability metrics like ROE and ROS, potentially indicating that these firms are not generating adequate returns relative to their equity or sales. The study's findings that IFRS 6 negatively affects return on equity (ROE) and return on sales (ROS) contradict earlier research suggesting IFRS adoption boosts overall profitability. For example, studies like those by De George et al. (2016) observed that IFRS standards tend to improve operational efficiency and profitability due to better asset valuation. However, the negative effect seen in this study may reflect the unique challenges faced by firms in the exploration and evaluation stage, where significant costs are incurred upfront, thereby reducing immediate returns despite improved asset recognition.

The regression was further found to be a positive but statistically insignificant relationship between IFRS 6 and share price, dividend payout, and the amount of debt capital raised. This suggests that while there may be some positive correlation, it is not strong enough to be considered significant, indicating that investors may not be strongly influenced by IFRS 6 when making decisions regarding these financial metrics. The insignificant relationship between IFRS 6 and share price, dividend payout, and debt capital raised aligns with some studies that highlight mixed investor reactions to IFRS adoption. Research by Daske et al. (2008) noted that while IFRS enhances information quality, its direct impact on share prices and capital market outcomes may not always be significant, particularly in sectors like mining and exploration where asset valuations are inherently uncertain. This study's findings reinforce the notion that while IFRS 6 improves transparency, it may not immediately translate into investor confidence or enhanced market valuation in the extractive industries.

Finally, IFRS 6 has a negative but insignificant effect on equity capital raised. This could mean that the accounting recognition of exploration and evaluation expenses does not significantly deter or encourage firms from raising equity capital, suggesting that other factors might play a more critical role in influencing equity financing decisions. These findings highlight the complex role that IFRS 6 plays in shaping financial outcomes for investors in African extractive firms, with varying effects on different performance metrics. Finding that IFRS 6 has a negative but insignificant effect on equity capital raised aligns with studies that argue IFRS adoption does not always guarantee improved equity market performance. Research by Christensen et al. (2015) noted that the benefits of IFRS are often uneven across firms and sectors, and in capital-intensive industries like extractives, the impact on equity financing may be minimal due to other influencing factors such as market conditions, commodity prices, or firm-specific risks. This suggests that while IFRS 6 enhances reporting clarity, it does not necessarily improve firms' ability to raise equity capital.

CONCLUSION AND RECOMMENDATIONS

This study investigated the impact of International Financial Reporting Standards (IFRS) 6 on financial reporting quality and investor decision-making, specifically in African firms engaged in exploration and evaluation activities. The findings revealed that IFRS 6 positively and significantly affects debt repayment, suggesting that compliance with these standards enhances firms' ability to service their debts, which in turn improves investor returns. However, the study also highlighted a negative and significant impact of IFRS 6 on return on equity (ROE) and return on sales (ROS), indicating that while asset values may increase due to recognition of exploration and evaluation expenses, profitability metrics are adversely affected. Furthermore, the analysis showed a positive yet statistically insignificant relationship between IFRS 6 and share price, dividend payout, and debt capital raised, suggesting limited influence on these metrics. Finally, the effect of IFRS 6 on equity capital raised was negative but insignificant, implying that other factors may be more influential in equity financing decisions. The research underscores the complex interplay between IFRS 6, and various measures of investor returns in African extractive firms. While the standard enhances the perceived financial health of these firms through improved debt repayment capabilities, it simultaneously detracts from key profitability indicators like ROE and ROS. This dual effect emphasizes the necessity for investors to consider multiple financial metrics when evaluating firm performance under IFRS 6, as the implications for decision-making can be nuanced and varied.

In line with the findings of this study, it was recommended that firms should improve their communication strategies to clearly articulate the implications of IFRS 6 compliance on both asset values and profitability. Transparent reporting can help mitigate investor concerns regarding declining ROE and ROS. Additionally, stakeholders, including investors and financial analysts, should be educated on the implications of IFRS 6 to better understand its impact on financial reporting and decision-making. Workshops and seminars can be useful in bridging this knowledge gap. Future studies should explore the underlying factors influencing the negative impact of IFRS 6 on ROE and ROS, as well as the insignificant effects on equity capital raised. Investigating other relevant financial standards and their interactions with IFRS 6 may yield deeper insights into financial performance in the extractive sector. Lastly, the regulatory bodies in Africa should consider revising or providing guidelines on the application of IFRS 6 to ensure that its implementation supports better financial performance and investor outcomes, potentially by including additional measures that enhance profitability recognition.

This study makes significant contributions to government regulations by providing empirical evidence on the impact of IFRS 6 on investor returns in African extractive firms. The findings can help policymakers tailor regulations to ensure that the application of IFRS 6 in the extractive sector promotes transparency, improves financial outcomes, and enhances debt repayment abilities. By understanding how IFRS 6 affects key financial metrics, regulatory bodies can better design policies to ensure that firms are held accountable for their exploration and evaluation activities, fostering a more stable and well-regulated investment environment. Secondly, the study offers insights into the practical effects of IFRS 6 on financial reporting and profitability metrics such as ROE and ROS. It highlights the need for firms to carefully balance the recognition of exploration and evaluation assets with their operational performance. Accounting practitioners can use these findings to adjust their financial reporting strategies, ensuring that while asset values are enhanced, profitability indicators are not adversely affected. This can lead to more accurate financial statements that reflect both the potential and risks associated with exploration activities. Thirdly, the study adds a nuanced perspective on the relationship between financial reporting standards and firm performance. By demonstrating the mixed effects of IFRS 6 on various investor return metrics, it challenges the assumption that standardized accounting practices uniformly benefit all performance indicators. The findings suggest that the theoretical framework underlying financial reporting standards should consider the sector-specific dynamics of firms, particularly in the extractive industries, where exploration activities may introduce complexities in asset valuation and profitability measures. Lastly, the study makes an important contribution to academic literature by focusing on the under-researched area of IFRS 6's impact on African extractive firms. It provides valuable data that can be used in further studies to explore how international standards influence investor behavior in emerging markets. Additionally, the study's findings offer a foundation for future academic inquiries into how sector-specific regulations interact with global accounting standards, helping to build a more comprehensive understanding of financial reporting in diverse economic contexts.

This study has several limitations that should be considered. First, the research focuses solely on African-listed extractive firms, which may limit the generalizability of the findings to other regions or industries. The unique characteristics of the extractive sector, such as high capital intensity and significant upfront costs, may influence the results, making it difficult to apply the conclusions to other sectors. Additionally, the study relies on secondary data from financial reports, which may be subject to biases in reporting or data availability, especially in developing countries where accounting practices might vary. Another limitation is the relatively short time frame of 11 years, which may not fully capture the long-term effects of IFRS 6 on investor returns. Future studies could expand the scope to include firms from other regions or industries, allowing for a more comprehensive understanding of IFRS 6's impact. Moreover, researchers could explore the influence of other macroeconomic factors, such as commodity price fluctuations and market volatility, on the relationship between IFRS 6 and financial performance. Longitudinal studies that track the evolution of IFRS 6 implementation over longer periods could also provide deeper insights into its long-term effects on investor behavior and financial outcomes.

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