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Exchange Rate Movements and The Reliability of Financial Ratios: A Study of Nigerian Listed Firms

Aruoture, Eniwo Efezino

Assistant Director of Finance and Treasury, Warri South Local Government Area of Delta State, Nigeria

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ABSTRACT

This study investigates the impact of exchange rate volatility on the applicability of financial ratios of Nigerian listed companies. Under an unstable macroeconomic environment characterized by recurrent currency devaluations and exchange rate misalignments, financial ratios, which heretofore have been commonly used by investors, creditors, and analysts to analyze firm performance, may be skewed or deceptive. The study uses a conceptual framework drawn from existing literature, theoretical models, and market evidence that is available in Nigeria to explore the influence of movements in exchange rates on the consistency, comparability, and interpretability of financial measures such as return on assets (ROA), current ratio, debt-to-equity ratio, and interest coverage ratio.

Evidence suggests that during periods of high exchange rate volatility, firms with high foreign-denominated exposure or transactions report deflated or inflated figures in naira, which undermines the validity of their ratios. The distortions create challenges for users of financial statements relying on ratios to make decisions. Moreover, the effects are more pronounced in industries with significant import exposure, foreign borrowings, or export receipts, where differences in exchange distort profitability, leverage, and liquidity ratios.

The study underscores the need for higher disclosure, inflation-adjusted reporting, and sophisticated ratio interpretation in the midst of distortions brought about by exchange. It underlines the role played by financial reporting standards, for instance, IAS 21 and IAS 29, in improving the reliability of ratios in foreign exchange-sensitive regimes. Its implications are far-reaching for emerging economies like Nigeria, where there remains exchange rate volatility. The article offers guidance to regulators, financial statement preparers, and users who wish to rely on financial ratios more in macroeconomic distress.

Keywords: Volatility of foreign exchange rates, financial ratios, Nigerian listed firms, credibility of financial reporting, devaluation of currency, IAS 21, macroeconomic instability, foreign exchange exposure, analysis of ratios

INTRODUCTION

Financial ratios are important instruments used by investors, analysts, regulators, and managers to assess the financial health, operational efficiency, and profitability of companies. They are a summary and relative image of financial performance derived from corporate accounting reports. But their usefulness depends a lot on the purity and consistency of the base financial data. In volatile macroeconomic environments like that of Nigeria, where exchange rates are constantly fluctuating and large, financial ratios cease to be useful, especially for firms with foreign currency exposure.

Nigeria's exchange rate volatility has grown over the last ten years, echoing the economy's structural vulnerabilities, excessive dependence on oil exportation, and pressure from monetary and fiscal policy misalignments. The Central Bank of Nigeria (CBN) has pursued different foreign exchange systems, from managed pegs to multiple exchange rates, and more recently a more flexible exchange rate system (CBN, 2023). These shifts in policy have resulted in occasional devaluations of the naira, which have a direct implication on the translation of foreign-currency-denominated transactions, assets, and liabilities to naira terms. Consequently, firms with broad import or export operations, foreign borrowings, or multinational affiliations frequently experience exchange rate gains or losses that can substantially affect their financial statements (Akinlo & Iredele, 2014).

International Financial Reporting Standards (IFRS) under IAS 21 call for foreign currency transactions to be translated at the spot rate of exchange at the date of transaction and revalued at period-end exchange rates for reporting (IFRS Foundation, 2023). While this standard of consistency improves similarity in reporting, it entails financial performance volatility that could not reflect underlying business performance. For example, an enterprise may report excessive revenues or earnings due to beneficial exchange gains, even though its intrinsic operations remain stagnant. Conversely, negative currency movements may clip profitability and inflate liabilities, thus leading to manipulated financial ratios such as the current ratio, debt-equity ratio, or return on equity (Onalo et al., 2014).

The application of financial ratios, therefore, becomes questionable when exchange rate movements create non-operating distortions. This is particularly difficult within developing economies like Nigeria, whose inflation rate is high, hedging tools are limited, and capital markets are thin, thereby heightening the effect of currency volatility. To add, the lack of robust financial disclosures and transparency further complicates the ability to analyze financial ratios, particularly for foreign investors or analysts unfamiliar with the domestic environment (Owolabi & Ajao, 2013). Therefore, the consistency of ratio analysis under such conditions is limited, and decision-makers can be misled if they do not adjust for anomalies caused by exchange rates.

Empirical studies have noted the impact of exchange rate volatility on firm value and profitability in Nigeria (Adeniran et al., 2014; Ogege & Mojekwu, 2012), with few studies investigating its theoretical impact on the use of financial ratios in measuring performance. This study bridges that gap by adopting a doctrinal and theoretical approach to assess the effect of exchange rate fluctuations on the validity, comparability, and utility of financial ratios for listed Nigerian firms. It will consider pertinent accounting rules, regulatory provisions, and existing literature to determine whether financial ratios remain relevant tools for firm performance analysis in a highly unstable exchange rate scenario.

Finally, the paper concludes that while financial ratios are still valuable analytical tools, under exchange rate volatility, they lose much credibility. This necessitates cautious use of financial ratios, more emphasis on currency-adjusted measures, and the creation of localized benchmarks or complementary disclosures that reflect the Nigerian economic landscape.

LITERATURE REVIEW

Financial ratios have traditionally been key cornerstones of a business's financial performance measurement, financial well-being, and investment attractiveness. These ratios, stretching from profitability, liquidity, leverage to efficiency measures, are usually calculated from past financial data presented in firms' financial statements. But their usefulness depends on the stability and soundness of the original data. In exchange rate unstable economies such as Nigeria's, the validity of financial ratios as effective indicators of performance is questioned increasingly (Onalo et al., 2014).

The Nigerian economy has experienced grave exchange rate volatility, particularly with the opening up of the foreign exchange market and the decline of the fixed exchange rate regime. According to the Central Bank of Nigeria (CBN, 2023), the country has experienced various foreign exchange regimes, including a managed float as well as a multiple exchange rate system, culminating in the transition to a less restrictive exchange rate system in 2023. All these shifts have had effects of periodic devaluations of the naira, which, by themselves, affect the balance sheet, income statement, as well as their financial ratios of companies.

Empirical studies have extensively examined the impact of exchange rate volatility on macroeconomic indicators such as inflation, interest rate, and economic growth (Ogege & Mojekwu, 2012; Adeniran et al., 2014). Less precise studies have, however, explored the micro impacts for firms, particularly those listed on the Nigerian Stock Exchange (NSE). For example, Owolabi and Ajao (2013) established that Nigerian manufacturing companies face substantial foreign exchange risk exposure that impacts their profitability and efficiency in operations. The risks are particularly extreme in companies with foreign-denominated revenues or debt, which results in distortion of earnings and other essential measures.

The accounting standards, the International Financial Reporting Standards (IFRS), address the exchange rate impacts under IAS 21: The Effects of Changes in Foreign Exchange Rates. It requires foreign currency transactions to be translated into the functional currency at the exchange rate prevailing at the date of the transaction and later changes to be accounted for as exchange differences (IFRS Foundation, 2023). While this is a premise for consistent reporting, it does not eradicate the impact of exchange rate volatility on reported figures. Hence, even if firms adhere to IFRS stipulations, the changes in the value of money continue to generate distortions in calculated financial ratios (Akinlo & Iredele, 2014).

There have been several empirical study works that sought to quantify the impact of exchange rate change on firm performance in Nigeria. Okonkwo et al. (2015) proved that finance firms in the manufacturing and financial industries are highly sensitive to exchange rate changes, which most likely results in inaccurate financial reports if these movements are not disclosed or accounted for. Similarly, Onalo et al. (2014) observed that return on equity (ROE), debt-to-equity, and current ratio are less accurate when there is greater volatility in currency.

Other than empirical support, conceptual arguments regarding the implications of exchange rate movements on the validity of financial ratios are limited. While it is the majority of studies' belief that exchange rate movements introduce accounting distortions, few have linked these distortions to the broader implications for financial decision-making, investment analysis, and corporate governance. For example, investors who employ financial ratios to approximate the value of companies can be deceived if the ratios do not take into account exchange rate-induced shifts in earnings, assets, or liabilities (Uche & Ehikioya, 2020).

Additionally, in Nigeria, structural issues such as financial illiteracy, lack of consistent implementation of accounting standards, and lack of adequate transparency in corporate reporting further compound the challenges associated with using financial ratios during exchange rate uncertainty. According to Omankhanlen (2011), in the absence of suitable supplementary disclosures or inflation-adjusted reporting, the usefulness of financial statements is significantly eroded.

In general, while there is a common consensus in literature that exchange rate volatility affects firm-level financial performance, the fact that this volatility decreases the usefulness of financial ratios is not given sufficient attention. Since most parties involved—e.g., creditors, investors, regulators—depend on such ratios to make their vital decisions, the fact that the usefulness is decreasing becomes a matter of concern. This article

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tries to fill that gap by conceptually exploring the manner in which exchange rate movements distort the validity of financial ratios and tracing avenues towards minimizing such distortions in the Nigerian setting.

Conceptual Analysis

Exchange rate fluctuations have a profound influence on the efficacy of financial ratios, particularly in emerging economies like Nigeria where currency fluctuation is the order of the day. The volatility introduces distortions in the financial records of quoted companies, and especially those companies that have high foreign transaction exposure, import dependency, or foreign-currency-denominated borrowings. As such, conventional financial ratios used to gauge profitability, liquidity, solvency, and operating efficiency are less effective as measurements of business health in periods of unprecedented currency movements.

Return on assets (ROA) and return on equity (ROE) profitability ratios are implicitly impacted by exchange rate movements. Depreciation of the naira increases costs in terms of local currency for firms that have liabilities denominated in foreign currency, reducing net income, and, as a result, decreasing profitability measures. Conversely, firms that have revenues denominated in foreign currency will report increased earnings if presented in naira though their underlying operating performance has not altered. This results in an artificial boost in profitabilm

Ppity measures that mislead investors about true firm performance (Okolie, 2014). Moreover, if asset bases are still valued on historical cost and not deflated for inflation or changes in currency, ROA becomes a biased measure of managerial effectiveness.

Liquidity ratios such as the current ratio and quick ratio are also vulnerable to being manipulated under pressure of exchange rates. Firms having foreign liabilities witness their current liabilities expanding disproportionately when converted to naira, adversely affecting these ratios. Concomitantly, in the event of current assets such as receivables being denominated in foreign currency and not translated at proper or timely exchange rates, the amount obtained can fail to reflect the true liquidity position of the firm (Ezeagba & Ohakwe, 2017). In Nigeria, the existence of multiple exchange rates—e.g., the official rate, the Investors and Exporters (I&E) window rate, and the parallel market rate—makes exact measurement and reporting even more challenging. Leverage and solvency ratios are particularly sensitive to exchange rate fluctuations. Debt-to-equity ratios can spuriously rise when foreign loans are revalued upwards due to depreciation of the naira but not at all a corresponding revaluation of equity. This is a sign of spurious increase in financial risk and can affect the ability of a firm to raise more financing or service covenants. Interest coverage ratios are also affected as interest on foreign loans increases with exchange depreciation, which reduces the ratio even though operating income is unchanged. The greater volatility of these ratios complicates investment-making decisions and disrupts stakeholders' ability to assess creditworthiness (Owolabi & Adegbite, 2012).

Efficiency metrics such as asset turnover are engineered when revenues are artificially enhanced by translating foreign exchange earnings at a depreciated naira exchange rate while assets still remain at their original local values. The difference may inappropriately indicate enhanced operating efficiency. For import-intensive companies, greater exchange rate volatilities may diminish margins and impact performance metrics. These distortions may not necessarily be apparent, especially where firms do not give explicit currency exposure.

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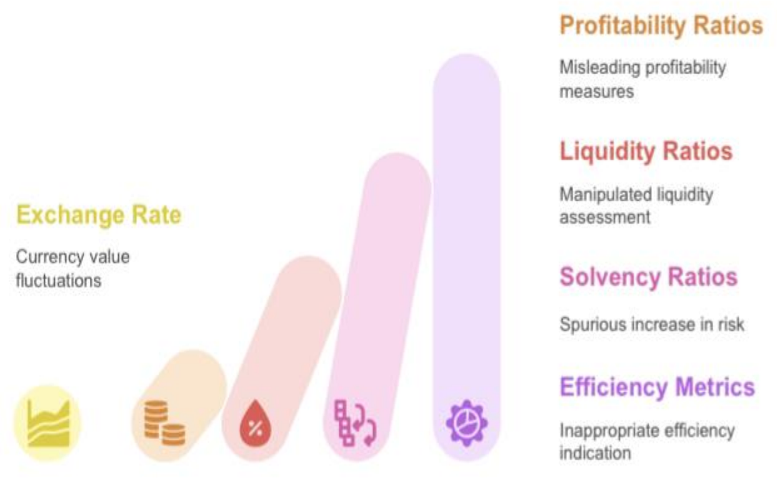

The accounting framework provided by IAS 21 (The Effects of Changes in Foreign Exchange Rates) requires monetary items to be translated using the closing rate of exchange and non-monetary items at historical cost. However, inconsistent application of this standard in Nigeria, largely due to poor enforcement and insufficient technical expertise, has been a cause of poor comparability of financial reports among companies and between periods (IFRS Foundation, 2021). The lack of access to a standard and transparent exchange rate for reporting purposes creates immense disparity in the financial ratios, even across companies belonging to the same industry.

In summary, exchange rate volatility significantly erodes the reliability of financial ratios used by investors, regulators, and analysts to examine Nigerian listed companies. While ratios remain very important tools for analysis, their accuracy under volatile exchange rate conditions is curtailed by the lack of uniform accounting treatment, consistent application of IAS 21, and full disclosure of currency exposure. This necessitates extreme caution in applying financial statements in the macroeconomic environment of Nigeria.

Listed Nigerian firm

Dangote Cement Plc

Dangote Cement, as Nigeria's biggest cement producer with significant cross-border operations, has faced difficulty in financial reporting in light of persistent exchange rate instability. The naira depreciated significantly

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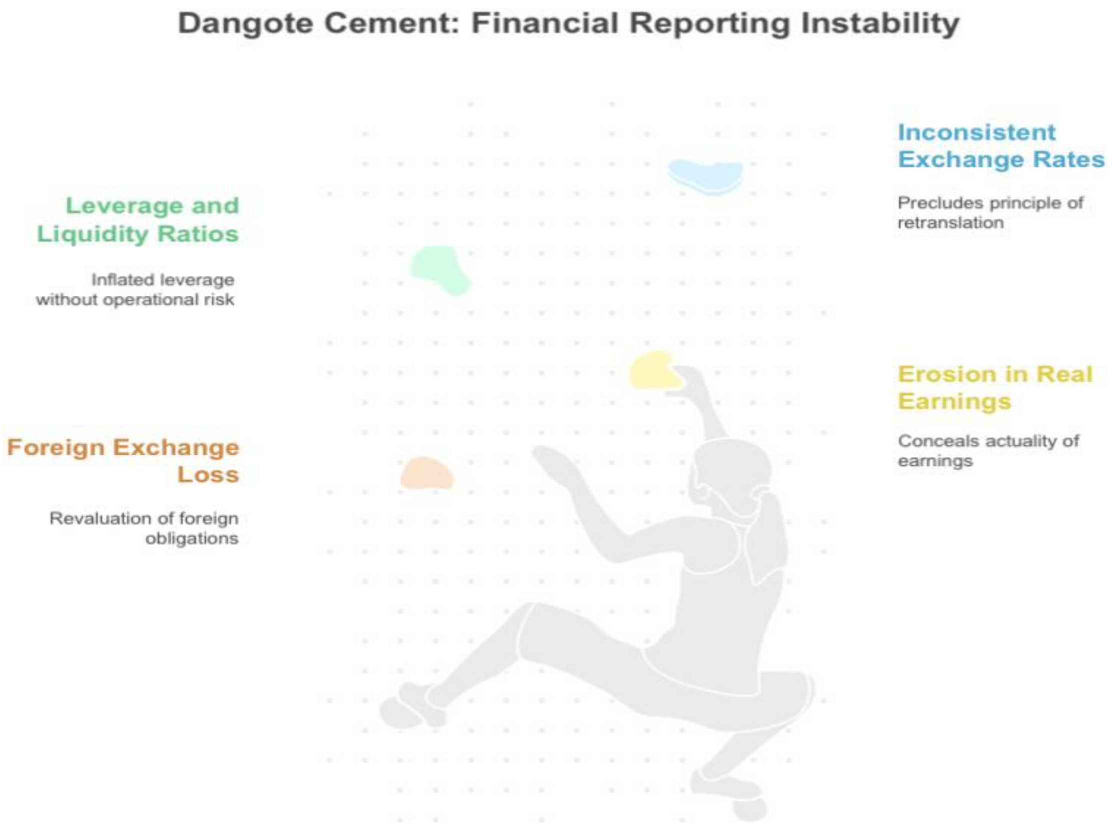
in 2023 following the Central Bank of Nigeria's convergence of exchange rates. This led to dramatic volatility in the foreign-currency denominated items valuation in Dangote's financial statements. Though it made a profit after tax of ₦455.6 billion, the company also made a significant foreign exchange loss of ₦164 billion, arising from revaluation of foreign costs and obligations (Nairametrics, 2024).

This was then directly manifested in the profitability margins of the business. Return on Equity (ROE) and Return on Assets (ROA) may appear reasonably stable, if not better, based on artificially driven naira-denominated revenue amounts on exchange of foreign operations, without accounting for exchange losses. However, this conceals the actuality of erosion in real earnings capacity. The volatility also makes year-to-year comparability questionable, especially where one year uses a different official rate than another.



The impact also reaches leverage and liquidity ratios. With foreign payables and loans ballooning in naira terms, Dangote's debt coverage ratios and debt-to-equity ratio become biased. Such ratios applied in measuring solvency and financial health can reflect inflated leverage without necessarily isolating operational risk. For example, a naira-denominated foreign liability growth worsens the debt ratio without fresh debt issuance. Without adjustment for exchange effect, these measures are a false representation of financial deterioration.

IAS 21, which dictates accounting treatment of foreign exchange fluctuations, does provide for retranslation of monetary items at closing rate, but not always so for non-monetary assets, which may still be at historic cost. In Nigeria, however, inconsistent use of exchange rates — sometimes between the official and the NAFEM/parallel markets — precludes this principle. Dangote's 2023 reporting did not revalue all non-monetary items, thereby the crucial efficiency ratios like asset turnover were overestimated due to currency depreciation. increasing revenue without compensating the denominator of assets. It is even more difficult to analyze performance (IFRS Foundation, 2023).

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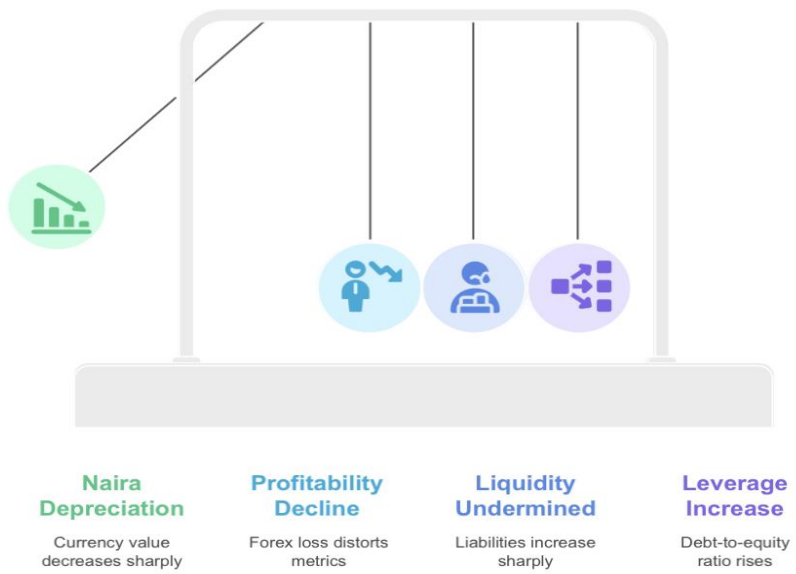
MTN Nigeria Communications Plc

MTN Nigeria is a big telecommunication business with considerable exposure to foreign currency obligations that experienced one of the most tangible impacts of naira depreciation. The firm reported a foreign exchange loss of ₦740.4 billion in its 2023 annual statement, which is a jaw-dropping turnaround from 2022's profit of ₦348.7 billion to 2023's ₦137 billion loss (TheCable, 2024; Reuters, 2024). The foreign exchange loss woefully distorted profitability metrics. Operating performance tracked an uptick with a 22% revenue increase, but exchange losses negated the gains. Investors who solely depended on ROA or ROE would misjudge this decline as weakening business fundamentals, rather than a currency adjustment. Furthermore, such measures become unreliable if companies like MTN change the basis of exchange rates during mid-year — which happened when the company changed to the NAFEM rate towards the end of 2023.



Liquidity ratios were also undermined. Telecom tower rental payments, which are denominated in dollars but paid in naira, surged after devaluation, leading to a sharp increase in current liabilities. This punched holes in

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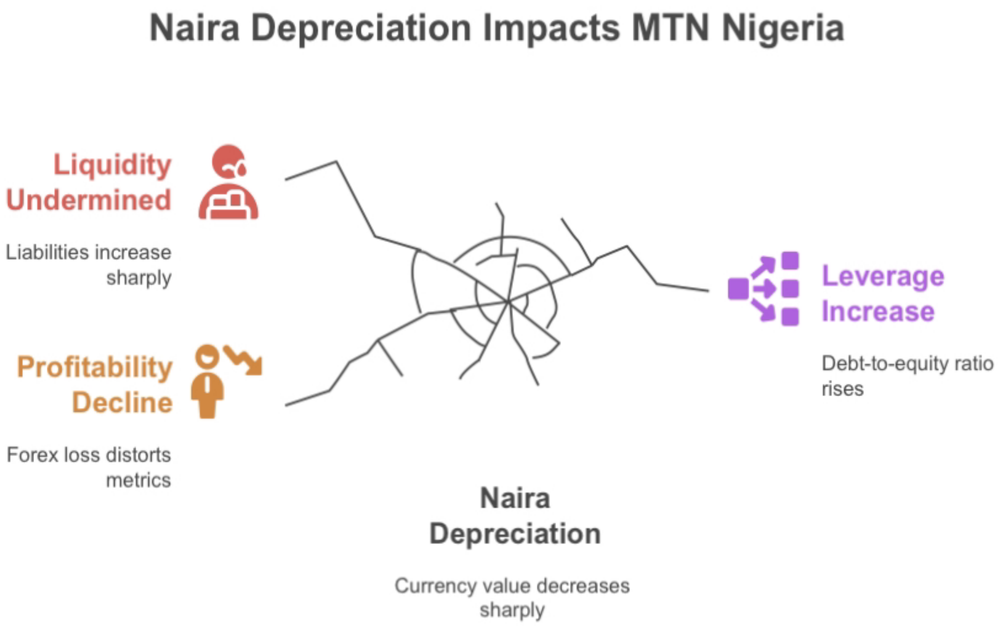
current and quick ratios, which reflected deteriorating short-term solvency although the company's operating cash flow remained relatively stable. Leverage-wise, dollar-indexed liabilities in naira terms increased sharply, bulking up MTN's debt-to-equity ratio. The interest coverage ratio went into the negative, not as a result of rising interest rates or falling operations but merely as a result of exchange losses. Unadjusted, these ratios provide a misleading view of incurring unmanageable financial risk. The problem of comparability appears here as well. Investors comparing MTN's 2022 and 2023 results or comparing its performance with local peers with fewer foreign liabilities will be prone to making wrong assumptions based on unadjusted exchange impacts (Marketscreener, 2023).



Regulatory and Accounting Standards Context

Reliability of financial ratios under the context of Nigeria's exchange rate fluctuations is directly related to the quality of regulatory oversight and compliance with the application of international accounting standards. The Financial Reporting Council of Nigeria (FRCN) is the regulatory peak entity responsible for imposing financial reporting standards, corporate governance codes, and requiring disclosure of transparent and credible financial information by listed companies. However, the persistent exchange rate volatilities of the naira against major foreign currencies have exposed Nigeria's regulatory and accounting system incapacity to capture the true impacts of exchange rate volatilities on financial reporting.

The FRCN's implementation of International Financial Reporting Standards (IFRS) in 2012 was a significant move towards converging Nigeria's reporting to international standards. IFRS requires comparability, consistency, and transparency in financial statements. One of the significant standards in this area is IAS 21 – The Effects of Changes in Foreign Exchange Rates, which mandates monetary assets and liabilities in a foreign currency to be translated into the currency of reporting at the closing exchange rate on the balance sheet date (IFRS Foundation, 2023). Non-monetary items, nonetheless, ought to be accounted for at historical rates. While in theory, this advice is fine, it has not been effectively implemented in Nigeria due to various exchange rate regimes and in the absence of a harmonized market-determined rate until mid-2023.

Before harmonizing exchange rates through the Nigerian Autonomous Foreign Exchange Market (NAFEM) in 2023, firms could report using either of the official Central Bank of Nigeria (CBN) rate, the Investors and Exporters (I&E) window rate, or even parallel market rates. The lack of consistency, therefore, led to great inconsistency in financial reporting among firms, even in the same industry. Some companies took advantage of

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the lower rate of CBN to lower the foreign liability value of naira and thereby artificially inflate solvency and leverage ratios, while others took more conservative estimates (PwC Nigeria, 2022). The lack of clear instructions from the FRCN on which rate to use further undermined comparability and credibility of major financial ratios.

Foreign currency risk disclosure rules continue to be another point of vulnerability. While IFRS 7 requires entities to disclose currency risk exposure by nature and extent, including sensitivity analysis and risk management techniques, the majority of Nigerian listed companies merely give generic statement in their annual report alone. These are often unquantifiable or scenario-driven modeling, thereby rendering investors unable to ascertain the actual impact of exchange rate changes on financial ratios like debt to equity or interest coverage. The inability to measure currency risk accurately further diminishes the usefulness of liquidity and solvency ratios, which are extremely exchange rate-sensitive in import-dependent firms.

Corporate governance systems also represent a vital check on how businesses respond to currency-linked financial distress. Conformist boards or audit committees can enable management to conceal operational inefficiencies using exchange rate uncertainty by means of earnings management or aggressive accounting treatments. Governance failure in FX exposure tracking can result in poor hedging, with resulting sudden financial ratio shocks when exchange rates reverse against them. For example, businesses that fail to hedge dollar-denominated borrowings may double their naira-denominated liabilities after a devaluation, severely distorting leverage and liquidity ratios without any change in effective borrowing patterns (Uwuigbe et al., 2021).

The intersection of loose regulatory oversight, vague accounting standard guidance, and imperfect governance controls is such that Nigeria financial ratios often do not reflect economic reality in times of currency volatility. In theory, the IFRS framework and FRCN mandate should include sufficient controls to ensure consistent and trustworthy FX disclosure. In practice, however, lax enforcement and limited corporate disclosure continue to dilute the effectiveness of these tools. To make financial ratios more reliable in reflecting firm performance under the uncertainty of exchange rate fluctuations, the FRCN would have to release guidance that is contextualized specifically to FX translation, impose stricter disclosure mandates, and promote better practices of governance over currency risk.

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DISCUSSION AND IMPLICATIONS

The findings and conceptual reasoning on exchange rate volatility and the validity of financial ratios have significant strategic implications for all parties in Nigeria's financial landscape. For accountants, investors, and financial analysts, the underlying hypothesis that financial ratios are a good and valid platform upon which firm performance can be evaluated comes into question under conditions of persistent currency volatility. The accuracy of ratios such as Return on Assets (ROA), Current Ratio, and Debt-to-Equity is seriously impaired when firms operate under exchange rate volatility regimes and uneven application of foreign currency translation guidelines.

Investors highly rely on profitability, liquidity, leverage, and efficiency ratios when it comes to making equity and debt security decisions. However, in the volatile currency market in Nigeria, these numbers will tend to reflect currency effects rather than operating performances. For instance, a firm with foreign currency-denominated revenue streams will appear more profitable following a devaluation of the naira, whereas a firm whose operations are domestic in nature will have its profitability ratios collapse, even when its operating effectiveness remains unchanged. This creates distorted performance judgments and introduces biases that can deceive investment decisions (Agyei-Mensah, 2017). Similarly, liquidity ratios can be artificially improved if companies postpone translating foreign liabilities or take advantage of positive exchange rates that are not reflective of their genuine solvency condition.

Auditors, who are under a duty to examine for fairness and accuracy of financial reports, are increasingly having a hard time determining if foreign exchange assumptions used in financial reporting are reasonable. Without a coordinated exchange rate regime until 2023 and within the framework of discretionary reporting practices, auditors are left to decide on the appropriateness of rate selection based on their own professional judgment in the absence of proper regulatory guidance. This increases audit risk and can result in underreporting of currency exposure or overstated assets and revenues. The insufficiency of proper and consistent foreign currency risk disclosure under IFRS 7, being experienced by the majority of Nigerian firms, also makes it more difficult for external auditors (Ofoegbu & Okaro, 2018).

To counteract currency volatility, Nigerian listed firms have undertaken various tactical measures to reduce the effects of exchange rate changes. Some have diversified their revenue streams, accessing foreign exchange from export operations or local subsidiaries and thus creating natural hedges. Others have diversified to local inputs and input substitution in a bid to reduce the exposure to dollars. Some firms, such as Nestlé Nigeria and Dangote Cement, report segments of their revenues in foreign currency or have foreign-currency-denominated subsidiaries to enhance balance sheet strength (PwC Nigeria, 2022). These methods aim to smooth the volatility which otherwise would distort primary financial measures. However, smoothing is accompanied by increased costs and involved operational reorganisations, which are not necessarily captured in full by traditional financial ratios.

Given these distortions, analysis of financial ratios for Nigeria's economic context has to use very caution. Analysts and investors must move past the surface-level ratios and assess underlying presumptions, notably the exchange rate conversion-related assumptions. A detailed examination must consider the exposure of the firm to foreign-denominated assets and liabilities, the source of revenue streams, and stability of applications of the exchange rate between reporting periods. Sensitivity analysis and scenario modeling should be included in financial analysis, especially for import-oriented businesses or those with significant offshore borrowings.

Policy and regulatory matters also come into the picture. The Financial Reporting Council of Nigeria should issue more detailed guidelines on exchange rate selection and enforce stricter compliance with IAS 21 to provide consistent financial reporting from listed companies. In addition, additional corporate disclosures like detailed sensitivity analyses and foreign exchange hedging practices need to be mandated. Such reforms not only provide more credibility to financial ratios but also restore investor confidence in the accuracy of financial reporting within Nigeria's emerging capital market. Generally, though financial ratios may continue to be a useful tool for evaluating firm performance, their validity in the face of exchange rate pressure must be challenged and supplemented with qualitative observation and judicious regulatory control.

CONCLUSION

The paper has weighed the effect of exchange rate movement on the validity of financial ratios for Nigerian listed companies. Applying a conceptual and doctrinal research framework, the study revealed that exchange rate volatility heavily distorts principal financial ratios including profitability, liquidity, leverage, and efficiency measures. Illustrations from firms such as Nestlé Nigeria and Dangote Cement reveal the manner in which foreign currency earnings or exposure to liabilities can mitigate or exacerbate financial performance upon translation under volatile FX rates. While traditionally these ratios have been seen as objective financial well-being measures, this study highlights their vulnerability in exchange rate unstable economies as well as low regulatory harmonization.

This research's doctrinal and theoretical methodology is beneficial in bringing out the normative and strategic firm actions but is not without limitations. Above all, limited empirical evidence prevents the research from quantifying the size of ratio distortions or statistically confirming causality. Second, dependence on published accounting statements and secondary sources may be insensitive to sophisticated in-house exchange rate risk management techniques employed by companies. The analysis may be complemented in future studies with econometric tools, panel data, or case studies for stronger confirmation of the results.

In light of this, this paper recommends the setting up of FX-sensitive financial analysis frameworks to inform experts, analysts, and auditors. These regulatory authorities such as the Financial Reporting Council of Nigeria must mandate comprehensive disclosure requirements for foreign currency risk, based on IFRS 7 and IAS 21. FX assumptions and translation policies should be clearly shown in the financial statements, and users of financial ratio must be careful by putting the figures in perspective within the larger macroeconomic and currency environment. The validity and applicability of financial ratios can only then be ensured in Nigeria's increasingly complex financial reporting landscape.

RECOMMENDATIONS

In order to make financial ratios more credible during exchange rate volatility in Nigeria, a multi-stakeholder strategy is imperative. Regulators such as the Financial Reporting Council of Nigeria (FRCN), Central Bank of Nigeria (CBN), and the Securities and Exchange Commission (SEC) need to intensify controls that ensure uniform compliance with International Accounting Standards, particularly IAS 21 (The Effects of Changes in Foreign Exchange Rates). Compelled revelations of cross-border currency exposure, including breaking out foreign-denominated assets, liabilities, and revenues, must be mandated to enable financial statement users properly to evaluate exchange rate impacts on key ratios.

Voluntary adoption of good internal risk management systems by corporate companies to track and manage exchange rate exposure should be encouraged. These include hedging methods, natural offsetting, and scenario testing, which can help to produce less volatile and more informative financial data. Such companies should also report exchange rate-adjusted ratios, at least provide contextual commentary in notes to the financial statements, to better clarify for users. This is especially necessary for companies with significant import, export, or external debt exposures, where fluctuations in exchange rates can significantly affect reported numbers.

In addition, accounting professional bodies must publish guidance on best practice in interpreting financial ratios in inflationary or currency-unstable environments. Capacity building and awareness programs for CFOs, auditors, and financial analysts will increase ability to recognize and account for exchange-related distortions in financial statements.

Investors and financial analysts ought to be cautious by adopting multi-period tests or trend analysis when conducting financial ratio analysis. This helps to minimize the effects of exchange rate shocks on the short term when conducting performance measurement. Analysts can supplement the ratio analysis with qualitative estimates of the company's foreign exchange exposure, industry volatility, and macroeconomic environment.

Finally, auditors play a pertinent role and must alter their audit procedures to identify the materiality of exchange rate fluctuation. This entails verifying the management assumptions, validating foreign exchange adjustments, and appropriate classification and disclosure. Through synchronization of practice by preparers, regulators, and users, Nigeria can improve the integrity and decision-usefulness of financial ratios with unstable exchange rate volatility.

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