DOES THE ACCOUNTING PRESENTATION CHOICE IN IFRS 6 (EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES) IMPACT INVESTOR RETURN IN AFRICA OIL AND GAS FIRMS?

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ABSTRACT

Background: This study addressed the critical intersection of accounting standards and investor returns within Africa's oil and gas sector. Specifically, it investigated how diverse accounting treatments under International Financial Reporting Standards 6 (IFRS 6) for exploration and evaluation costs, including capitalization, depreciation methods, and disclosure, affect investor returns. Utilizing panel data and regression analysis, this study examined the nuanced impact of these accounting choices on key financial performance indicators, offering insights into the complex relationship between IFRS 6 implementation and investor confidence in the African context.

Aim: This study examined the impact of International Financial Reporting Standards 6 (IFRS 6) exploration and evaluation accounting choices on investor returns in African firms.

Methodology: This study examined the impact of IFRS 6 accounting choices on investor returns in African oil and gas firms. This study used an ex post facto design and purposive sampling; panel data from 9 listed companies was analyzed using panel regression techniques. The regression techniques investigated the relationship between IFRS 6 accounting choices (capitalization, depreciation, disclosure, and impairment) and investor return measures such as share price, Tobin's Q, return on equity, and return on sales. The sample consists of 9 oil and gas companies listed on stock exchanges within Africa, with representation from key oil-producing nations such as Nigeria, Ghana, and others.

Findings: The findings revealed that IFRS 6 positively and significantly affects debt service capacity, highlighting that compliance with the standard enhances financial credibility and enables firms to meet their debt obligations more effectively, a critical factor for improving investor confidence. However, the study also identified a negative and significant relationship between IFRS 6 and profitability metrics such as return on equity (ROE) and return on sales (ROS). While the recognition of exploration and evaluation expenses enhances perceived asset values, it simultaneously reduces profitability metrics, suggesting the high upfront costs associated with these activities weigh heavily on short-term returns. Furthermore, the findings showed positive but statistically insignificant relationships between IFRS 6 and share price, dividend payout, and debt capital raised, as well as a negative but insignificant effect on equity capital raised. These results emphasize the complex interplay between IFRS 6 adoption and financial performance, indicating that while transparency improves, profitability and market outcomes do not uniformly benefit from the standard's implementation.

Contributions: This study contributes to the existing literature by providing empirical evidence on the impact of IFRS 6 exploration and evaluation accounting choices on investor returns in the African context. The findings challenge some prevailing assumptions, particularly regarding the positive relationship between capitalized exploration costs and investor return. By demonstrating the nuanced and sometimes contradictory effects of different IFRS 6 accounting choices on various financial metrics, this research provides valuable insights for academics, practitioners, and policymakers.

Recommendations: It is recommended that African firms in the extractive sector enhance their communication strategies to effectively convey the long-term benefits of exploration activities to investors. Transparent and comprehensive disclosure of exploration and evaluation activities, aligned with IFRS 6 requirements, is crucial for building investor confidence and mitigating concerns related to declining short-term profitability. Furthermore, regulators should consider promoting best practices in IFRS 6 implementation and encourage firms to adopt robust internal controls for exploration and evaluation activities.

Implications for Africa: This study has several significant implications. Theoretically, it contributes to the literature on the impact of accounting standards on investor behavior and market outcomes. By examining the specific case of IFRS 6 in the African context, the study challenges some prevailing assumptions about the relationship between accounting choices and investor returns. Practically, the findings highlight the importance of effective communication strategies for African oil and gas companies to convey the long-term value of exploration and evaluation activities to investors. These insights can inform corporate decision-making regarding exploration and evaluation strategies and accounting policies. For policymakers, the study emphasized the need for clear and consistent implementation of IFRS 6 within the African context, along with supportive regulatory frameworks to encourage best practices in financial reporting.

Researchers: Further researchers should explore the impact of IFRS 6 on investor returns in other African sub-regions or countries, considering factors like economic development, regulatory environment, and investor sophistication. Investigating the long-term impact of IFRS 6 on investor behavior and market outcomes would also be valuable. Additionally, exploring the role of corporate governance, disclosure quality, and analyst coverage in mediating the relationship between IFRS 6 and investor returns could provide deeper insights.

Keywords: Investment returns, Exploration and evaluation, Share price, Return on equity, Capitalized cost, Expensed cost

JEL Classification: M41, M48

1. Introduction

Return on investment (ROI) is a fundamental metric in global accounting and finance, crucial for evaluating the profitability and efficiency of investments (Chepkorir, 2019). Businesses across sectors utilize ROI to assess the effectiveness of projects and resource allocation, while investors rely on it to gauge the financial viability of their decisions. Although ROI offers valuable insights into financial gains, it's essential to recognize that some investments also yield intangible benefits, such as enhanced brand reputation and employee morale (Phillips et al., 2020). Therefore, a comprehensive evaluation encompassing both quantitative and qualitative factors is paramount for informed financial decision-making. Africa presents a dynamic yet complex investment landscape. The continent's burgeoning economies and youthful population offer revealing potential (Rotberg, 2020). However, investors must navigate challenges such as political instability in certain regions, currency fluctuations, and infrastructure limitations, all of which can impede investment returns (Odulaja et al., 2023). Furthermore, the heterogeneity in data availability and accounting standards across African nations poses a challenge to accurate performance comparison and ROI assessment (Ardila et al., 2019). Recognizing these complexities is essential for understanding the nuances of investment in Africa.

Prior research has explored the application and compliance with IFRS 6, the International Financial Reporting Standard for Exploration for and Evaluation of Mineral Resources. For instance, Dhanraj and Pragati (2021) assessed IFRS 6 compliance in Indian and global oil and gas companies, revealing instances of non-compliance. Miguel (2021) analyzed the accounting treatment of exploration and evaluation activities under IFRS 6, focusing on the standard's dictates. Similarly, Hani and Ammar (2019) investigated the applicability of IFRS 6 to Iraqi crude oil production companies, highlighting the need for adoption to enhance financial reporting. Notably, studies such as Warrens et al. (2023) examined IFRS 6's impact on the financial performance of Nigerian oil and gas companies, seeking to understand how the accounting standard affects their financial outcomes. Ifeoluwa and Ayobami (2017) investigated the relationship between accounting quality and the performance of manufacturing firms in Nigeria, exploring whether higher accounting quality leads to improved firm performance. Ofoegbu and Ndubuisi (2018) analyzed how corporate governance influences the quality of financial reporting among listed firms in Nigeria, addressing concerns about the effectiveness of governance practices in ensuring reliable financial information. These studies have also contributed to the discourse on accounting practices in the Nigerian context, albeit with varying scopes.

While existing studies, including those conducted in Nigeria, have examined IFRS 6 compliance and accounting treatments, a gap remains in the comprehensive analysis of how specific accounting presentation choices under IFRS 6 directly impact investor returns within the African oil and gas sector. This study seeks to bridge this gap by investigating the relationship between IFRS 6 accounting choices (capitalization, depreciation methods, and disclosure) and investor return measures. By focusing on African oil and gas firms, this research aims to provide nuanced insights into the financial implications of IFRS 6 implementation in this specific context.

The overarching aim of this study is to examine the impact of IFRS 6 accounting presentation choices on investor returns in African oil and gas firms. To achieve this, the study's specific goals are to analyze the implementation of IFRS 6 in African firms, assess the different accounting presentation options available under IFRS 6, and determine the effect of these accounting choices on investor returns. The subsequent sections of this study will detail the methodology employed, present the findings, discuss the implications, and offer recommendations for stakeholders, including policymakers, regulators, investors, and industry practitioners.

2. Literature Review

2.1 Conceptual Review

This section outlines the theories and the relationship between the variables, acting as a roadmap for the research design, data collection, and analysis.

2.1.1 Investor Return

Investor returns (IR) measure investment performance, considering price changes and income (Siegel, 2021). Investors use returns to compare investments, aiming for optimal growth, while acknowledging higher returns may entail higher risks and are time-dependent (Tyson, 2020). Investor return reflects the opportunity cost of investment, comparing potential gains against alternative investments (Tyson, 2020). Kang (2020) captures the difference between initial investment and final value, including income like dividends. This study proxy the dependent variable with share price, Tobin's Q, return on equity, dividend payout, and earnings per share. These proxies will be used to comprehensively analyze investor return, rather than being treated as separate.

2.1.2 IFRS 6 Explorations and Evaluation of Accounting Presentation Choice (EEAPC)

IFRS 6 allows flexibility in accounting for exploration and evaluation (E&E) costs, offering companies the choice between immediate expensing or capitalization (Nobes & Stadler, 2021). While IFRS 6 focuses on recognition and measurement, it provides limited guidance on financial statement presentation (Nobes & Stadler, 2021). Companies have discretion in presenting these costs, following IAS 8 for accounting policy selection. Common presentation options include separate line items, disclosure notes, and inclusion in other line items. The optimal choice depends on factors like materiality, company policy, and industry practice. Regardless of the chosen format, companies must disclose their exploration and evaluation cost accounting policy (Palepu et al., 2020). This study examines how these accounting method choices impact investors and captures the two IFRS options implemented by firms as proxies for the independent variable.

2.2 Theoretical Review

This study is grounded in the Efficient Market Hypothesis (EMH) and Decision Usefulness Theory, providing the theoretical foundation for its investigation. This study applied and extended these theories to the specific context of IFRS 6 Exploration and Evaluation Accounting Presentation Choice (EEAPC) and its impact on investor returns. This study does not claim original theoretical contributions but rather a nuanced application of these theories to this specific empirical setting.

2.2.1 Market Efficiency and Decision Usefulness Theory

The Efficient Market Hypothesis (EMH), building upon the concept of market efficiency, suggests that asset prices reflect all available information (Martin & Nagel, 2022). Proponents argue it's difficult to consistently outperform the market due to rapid information incorporation. In the context of this study, we hypothesize that if the accounting presentation choices under IFRS 6 (EEAPC) provide relevant information, they should be reflected in investor returns.

Decision Usefulness Theory emphasizes the relevance and quality of financial information for investor decision-making (Kimmel et al., 2020). This study aligns with these theories, focusing on the information relevance of IFRS 6 EEAPC for investor decisions. We hypothesize that firms providing transparent and useful information through their IFRS 6 accounting presentation choices will exhibit higher investor returns. This study applies these theories to understand how the choice of accounting presentation under IFRS 6 influences investor returns, examining whether market efficiency incorporates this information and if this information is indeed useful for investor decisions.

2.3 Empirical Review

This section examines pertinent literature on IFRS 6 exploration and evaluation accounting presentation choices and investor returns, aligning with the study's objectives and hypotheses. It is organized around the core concept of investor returns, rather than separate accounting costs, to maintain thematic coherence.

Exploration and Evaluation of Capitalized Costs and Investor Returns

Dargenidou et al. (2021) examined the impact of mandatory R&D capitalization on stock price informativeness in the UK, finding that pre-IFRS capitalization improved stock price prediction of future earnings, but post-IFRS, this effect diminished. Nobes and Stadler (2021) highlighted the lack of comparability due to varied E&E accounting policies under IFRS 6 in Australia, noting that disclosures are often unclear. Ferguson et al. (2020) investigated the value-relevance of capitalized exploration and evaluation expenditures under IFRS 6. However, these studies did not specifically focus on the direct impact of the choice between expensing and capitalizing E&E costs on comprehensive investor returns. Therefore, hypothesize:

H_1: There is a positive relationship between capitalized costs and investor returns.

Exploration and Evaluation of Depreciation Costs and Investor Returns

Mazurina et al. (2020) studied the impact of depreciation policy on innovation in Russia, noting a decline in investment. Wubshet (2020) found that IFRS adoption in Ethiopia did not significantly improve capital access or economic adaptability. Aiyabei (2021) showed a positive relationship between EPS, DPS, and idiosyncratic volatility in Kenya. These studies provide insights into financial reporting and investor behavior but do not directly address the influence of depreciation cost presentation under IFRS 6 on overall investor returns. Therefore, hypothesize:

H_2: There is a negative relationship between exploration and evaluation of depreciation costs and investor returns.

Transparency with Disclosure of Exploration and Evaluation Assets and Investor Returns

Osho et al. (2021) found that IFRS disclosure compliance positively impacts financial performance in Nigeria. Amal-Yamani and Adel (2019) examined factors affecting IFRS adoption in Saudi Arabia. While these studies highlighted the importance of disclosure, they do

not specifically analyze the impact of transparency in IFRS 6 E&E asset disclosure on investor returns. Therefore, hypothesize:

H3: There is a positive relationship between transparency in the disclosure of exploration and evaluation assets and investor returns.

Impairment Testing for Exploration and Evaluation Assets and Investor Returns
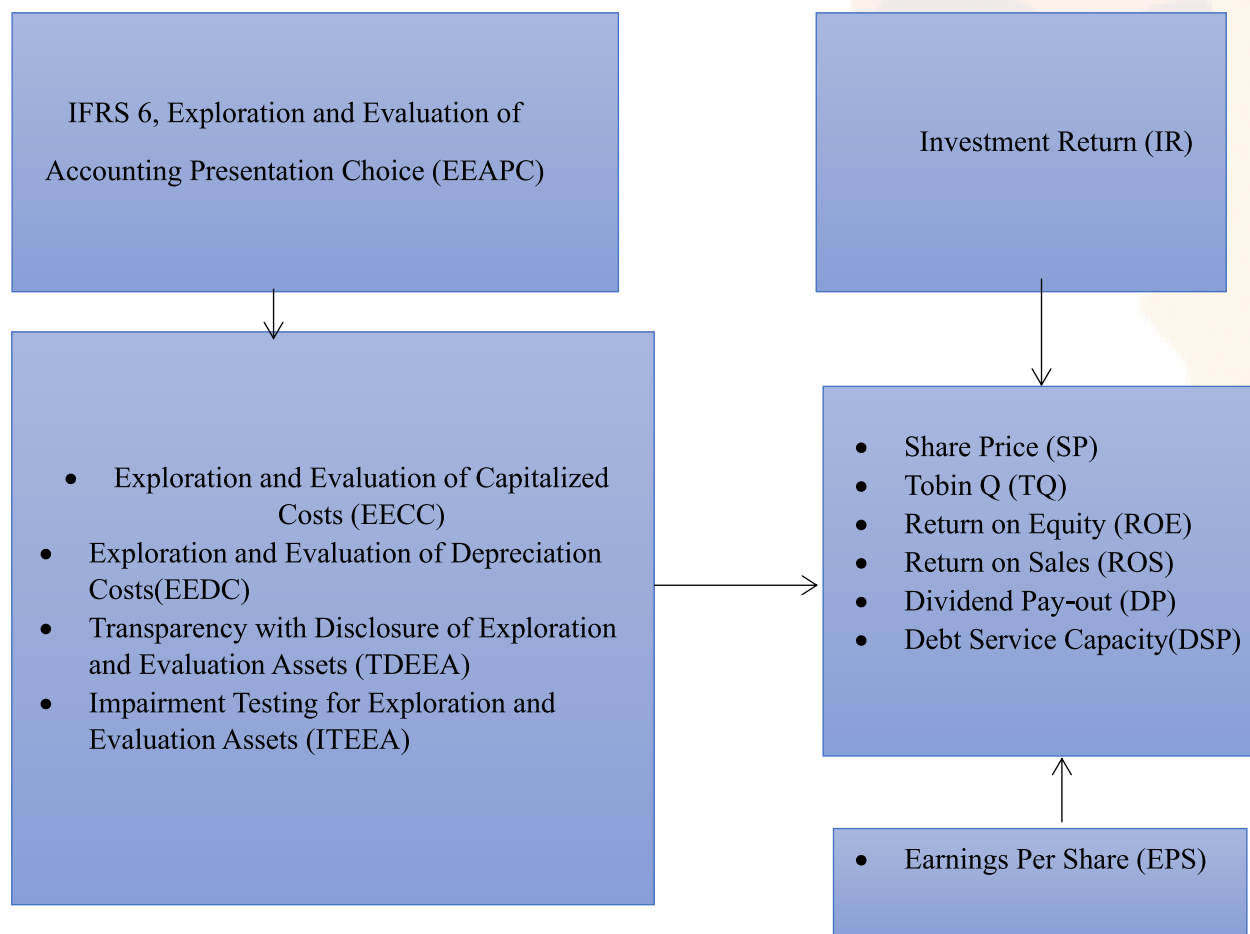
Kabir et al. (2020) examined firm life cycle and goodwill impairment disclosure in Australia. Han et al. (2021) studied goodwill impairment and analyst transparency in China. He et al. (2021) assessed the impact of goodwill impairments on audit opinions in China. These studies provided insights into impairment testing but do not focus on the direct link between IFRS 6 E&E asset impairment testing and investor returns. Therefore, hypothesize:

H4: There is a positive relationship between impairment testing for exploration and evaluation assets and investor returns.

2.4   Conceptual Framework

In this conceptual framework, it shows the interactions between the independent variables (IFRS 6, Exploration and evaluation accounting presentation choice), the dependent variables (Investor's return) and control variables (Earnings per share and Sub- Industry type).

Figure 2.4:

IFRS 6, Exploration and Evaluation of Accounting Presentation Choice (EEAPC)

Investment Return (IR)

- Exploration and Evaluation of Capitalized Costs (EECC)
- Exploration and Evaluation of Depreciation Costs(EEDC)
- Transparency with Disclosure of Exploration and Evaluation Assets (TDEEA)
- Impairment Testing for Exploration and Evaluation Assets (ITEEA)

- Share Price (SP)
- Tobin Q (TQ)
- Return on Equity (ROE)
- Return on Sales (ROS)
- Dividend Pay-out (DP)
- Debt Service Capacity(DSP)

- Earnings Per Share (EPS)

Source: Authors' Concept (2025)

3. Methodology

This research quantified the relationship between IFRS 6 application, exploration and evaluation of accounting choices, and investor returns in African firms. A quantitative approach was employed, utilizing data from the annual reports and financial statements of 9 listed oil and gas firms in Africa for the period 2012-2022. These firms were selected using purposive sampling to ensure a full and balanced panel regression analysis. The population of listed oil and gas firms in Africa was 25. The sample of 9 firms represents a selection of firms with consistent and complete data for the period of the study. The following table provides the list of the companies and their respective countries.

Data included details on exploration and evaluation activities related to IFRS 6, involving coding financial statement disclosures. Coding involved assigning numerical values to qualitative disclosures based on predefined criteria. Depreciation methods were coded based on the type of depreciation used (straight-line, units of production, etc.). Asset transparency was coded based on the level of detail provided in the disclosures. Impairment testing was coded as a binary variable (1 if tested, 0 if not). Investor return data was sourced from financial databases and relevant stock exchange websites. The study adapted the model used by Nobes and Stadler (2021) and Palepu et al. (2020) to analyze the relationship between independent, dependent, and control variables.

Table 1: Firm Sample and Countries

Firm Name	Country
Seplat Energy PLC	Nigeria
Total Energies Marketing Nigeria PLC	Nigeria
EOG Resources Inc	Egypt
Dana Gas PJSC	Egypt
Tullow Oil PLC	Ghana
Vivo Energy Ghana PLC	Ghana
Sasol Limited	South Africa
Engen Limited	South Africa
National Petroleum Corporation of Namibia	Namibia

Source: Authors' Compilation (2025)

Model:
IR = f(EEPAC)
Model 1

$$SP_{it} = \beta_0 + \beta_1 EECC + \beta_2 EEDC + \beta_3 TDEEA + \beta_4 ITEEA + \beta_5 EPS + \varepsilon_{it}$$

Model 2

$$TQ_{it} = \beta_0 + \beta_1 EECC + \beta_2 EEDC + \beta_3 TDEEA + \beta_4 ITEEA + \beta_5 EPS + \varepsilon_{it}$$

Model 3

$$ROE_{it} = \beta_0 + \beta_1 EECC + \beta_2 EEDC + \beta_3 TDEEA + \beta_4 ITEEA + \beta_5 EPS + \varepsilon_{it}$$

Model 4

$$\text{ROS}_{it} = \beta_0 + \beta_1\text{EECC} + \beta_2\text{EEDC} + \beta_3\text{TDEEA} + \beta_4\ \text{ITEEA} + \beta_5\ \text{EPS} + \varepsilon_{it}$$

Model 5

$$\text{DP}_{it} = \beta_0 + \beta_1\text{EECC} + \beta_2\text{EEDC} + \beta_3\text{TDEEA} + \beta_4\ \text{ITEEA} + \beta_5\ \text{EPS} + \varepsilon_{it}$$

Model 6

$$\text{DSC}_{it} = \beta_0 + \beta_1\text{EECC} + \beta_2\text{EEDC} + \beta_3\text{TDEEA} + \beta_4\ \text{ITEEA} + \beta_5\ \text{EPS} + \varepsilon_{it}$$

Where:

IR: Investment Return

EEPAC: IFRS 6, Exploration and Evaluation of Accounting Presentation Choice

β_0: This is the intercept

β_1 to β_5: These are the coefficients represents the independent variables and control variables.

EECC: Exploration and Evaluation of Capitalized Costs

EEDC: Exploration and Evaluation of Depreciation Costs

TDEEA: Transparency with Disclosure of Exploration and Evaluation Assets

ITEEA: Impairment Testing for Exploration and Evaluation Assets

EPS: Earnings Per Share

SP: Share Price

TQ: Tobin Q

ROE: Return on Equity

ROS: Return on Sales

DP: Dividend Pay-out

DSC: Debt Service Capacity.

ε: Error term

3.1 Measurement of Variables

The dependent variable is Investors Return, and the independent variable is Exploration and Evaluation Presentation Choice, while the control variables are Earnings per share, Gross Domestic Product, and Inflation rate. These variables and their proxies are shown in the table below.

Table 2: Measurement of Variables

VARIABLE	DESCRIPTION	MEASUREMENT	SOURCES
EEAPC	This is the independent variable that represents the impact of the accounting method on Investor.	EECC, EEDC, TDEEA & ITEEA EECC: Total capitalized Exploration and evaluation cost. EEDC: Total Depreciation cost from Exploration and evaluation assets. TDEEA: Index of the level of disclosure of E&E assets. ITEEA: Binary (1, 0) if impairment test was carried out.	Nobes and Stadler (2021), and (Palepu et al., 2020)
IR	This represents the value realized by investors on their investment.	Share Price (SP),Tobin Q (TQ),Return on Equity (ROE),Return on Sales (ROS),Dividend Pay-out (DP), Debt Service Capacity (DSC). DSC: The ratio of EBITDA to total debt service.	(Siegel, 2021) and (Tyson, 2020)
EPS	This represents the control variable.	Net income divided by the weighted average number of outstanding shares	(Agrawal & Bansal, 2021)

Source: Authors' Compilation (2025)

4. Data Analysis and Discussion of Findings

This section discusses the variables used, data analysis, and study findings. These statistics summarize the variable distribution. All currency values were converted to USD using the average exchange rate for the studied year to manage currency differences.

Descriptive Statistics

Table 3 presents the descriptive statistics for variables used in the study, offering insights into their distribution and characteristics. The dependent variable, Share Price (SP), has 596 observations with a mean of 75.91 and a standard deviation of 181.48. It indicates that while the average share price is moderate, there is significant variability among firms, as shown by the range from a minimum of 0.001 to a maximum of 1,816.77. The widespread reflects firms with very low and exceptionally high market values.

Exploration and evaluation costs, measured through various independent variables, reveal distinct patterns. Capitalizing exploration costs (EECC) has a mean of 5.98 and a standard deviation of 16.52, indicating that most firms allocate modest amounts to capitalized exploration costs, but some incur substantial costs up to 91.41. The depreciation method used (EEDC) shows a slightly higher mean of 11.14 and greater variability (standard deviation of 20.73), with some firms reporting as high as 114.73. Disclosure extent (TDEEA) exhibits substantial variability with a mean of 14.03 and a striking standard deviation of 108.22, highlighting significant disparities among firms, with values reaching up to 1,259.83.

The probability of impairment testing on exploration and evaluation assets (ITTEA) is relatively low on average (0.024) with a minimal standard deviation (0.153), suggesting uniformity across firms. Earnings Per Share (EPS), a control variable, has an average of 15.34 but exhibits considerable spread (standard deviation of 96.57), ranging from -164.23 to 1,906.08. These highlights are both highly profitable firms and those experiencing losses.

Financial ratios provide additional insights. Tobin's Q (TQ), reflecting market valuation, averages 665.97 but displays extraordinary variability (standard deviation of 8,242.61), with some firms reaching values as high as 157,656.2. Return on Equity (ROE) averages 155.44%, indicating strong profitability, but the high standard deviation of 3,466.22 suggests significant outliers, as values range from -2,594.96 to an exceptional 84,019.09. Similarly, Return on Sales (ROS) averages 468,124.1 with an enormous standard deviation of 9,229,376, indicating that while most firms achieve high sales-related profits, some report significant losses, and others demonstrate extraordinarily high profitability (up to 213 million units).

Dividend Pay-out (DP) averages 99.96 with a substantial standard deviation of 1,910.38, reflecting diverse dividend policies across firms. While some firms exhibit negative payouts (-339.90), others pay dividends as high as 46,482, indicating exceptional distributions relative to earnings. Debt Service Capacity (DSC) averages 2.28, with a broad range from -20.85 to 99.82, demonstrating varying debt management strategies.

Overall, the data highlights significant heterogeneity across firms in financial performance, exploration costs, and capital allocation. The variability underscores differences in strategies and market conditions influencing firm behavior and outcomes, providing a robust basis for further analysis.

Table 3: Descriptive Statistics

Variable	Obs	Mean	Std. Dev	Min	Max
SP	596	75.91	181.48	0.001	1816.77
EECC	602	5.98	16.52	0	91.41
EEDC	602	11.14	20.73	0	114.73
TDEEA	555	14.03	108.22	0	1259.83
ITTEA	628	.024	.153		1
EPS	550	15.34	96.57	-164.23	1906.08
TQ	508	665.97	8242.61	.00057	157656.2
ROE	593	155.44	3466.22	-2594.96	84019.09
ROS	546	468124.1	9229376	-771600	2.13e+08
DP	593	99.96	1910.378	-339.9038	46482
DSC	273	2.28	8.936816	-20.84892	99.81982

Source: Researchers' Computation (2025)

Correlation Statistics

Table 4 highlights the correlation coefficients among the study's variables, providing insight into their relationships. The dependent variable, Share Price (SP), demonstrates a moderate positive relationship with Total Disclosure of Exploration and Evaluation Assets (TDEEA) (0.3784), indicating that higher disclosure levels are associated with higher share

prices. These suggest that transparency in reporting exploration and evaluation assets can positively impact investor confidence and firm valuation. Additionally, SP has a weak positive correlation with Earnings Per Share (EPS) (0.1869), which aligns with the expectation that firms with higher profitability per share tend to have higher stock prices. However, a weak negative relationship exists between SP and ITEEA (-0.0528), suggesting that the probability of performing impairment testing has a minimal inverse influence on share prices.

Looking at Tobin's Q (TQ), the correlations with other variables are generally weak. TQ shows negligible negative relationships with most variables, such as EECC (-0.0313) and EEDC (-0.0455). This suggests that market valuation, as reflected in TQ, is not significantly driven by these exploration and evaluation metrics.

Profitability indicators exhibit significant internal consistency. For instance, EPS shows strong positive correlations with Return on Equity (ROE) (0.8399) and Return on Sales (ROS) (0.8364). These findings imply that firms with strong profitability metrics also report higher earnings per share. Similarly, ROE and ROS exhibit a close relationship, indicating that higher sales profitability is generally accompanied by higher equity returns. However, EPS has negligible relationships with most exploration and evaluation cost variables, such as EECC (-0.0365) and EEDC (-0.0673), highlighting a weak link between profitability and these cost metrics.

Dividend Payout (DP) has a positive, albeit weak, correlation with EEDC (0.1004), suggesting that certain depreciation methods may slightly influence dividend policies. However, DP's relationship with other variables, such as SP and EPS, is minimal, indicating limited impact on broader financial indicators.

Exploration and evaluation cost variables reveal some notable trends. EECC shows a moderate positive correlation with TDEEA (0.2997), suggesting that firms investing more in capitalized exploration costs are likely to disclose more information about their assets. Conversely, the correlation between EECC and EEDC is weak and negative (-0.0755), indicating minimal alignment between these two cost categories. Similarly, EEDC demonstrates weak associations with most other variables, including profitability measures and share price, underscoring its limited direct influence.

Debt-related variables, such as Debt Service Capacity (DSC), show weak positive correlations with ITEEA (0.1400), indicating a slight association between debt services practices and impairment testing probabilities. However, DSC relationships with other variables, such as SP and EPS, are negligible, suggesting their impact on broader financial metrics is limited.

Overall, the table highlights key relationships among profitability measures, share price, and disclosure levels. While profitability indicators like EPS, ROE, and ROS show strong internal consistency, their connections to exploration and evaluation costs are weak. Additionally, transparency in exploration asset disclosure appears to play a meaningful role in shaping share prices, as seen in the correlation between SP and TDEEA. These findings offer a foundation for understanding the interconnected influences of the study's variables and their implications for firm performance and valuation.

Table 4: Correlation Statistics

	SP	TQ	ROE	ROS	DP	DSC	EECC	EEDC	TDEEA	ITEEA	EPS
SP	1.0000						0.0124	0.0010	0.3784	-0.0528	0.1869
TQ		1.0000					-0.0313	-0.0455	-0.0110	-0.0141	-0.0092
ROE			1.0000				-0.0206	-0.0250	-0.0059	-0.0089	0.8399
ROS				1.0000			-0.0183	-0.0276	-0.0072	-0.0085	0.8364
DP					1.0000		-0.0186	0.1004	-0.0056	-0.0107	-0.0061
DSC						1.0000	-0.0425	-0.0170	-0.0215	0.1400	0.0188
EECC	0.0124	-0.0313	-0.0206	-0.0183	-0.0186	-0.0425	1.0000	-0.0755	0.2997	0.0923	-0.0365
EEDC	0.0010	-0.0455	-0.0250	-0.0276	0.1004	-0.0170	-0.0755	1.0000	-0.0638	0.0036	-0.0673
TDEEA	0.3784	-0.0110	-0.0059	-0.0072	-0.0056	-0.0215	0.2997	-0.0638	1.0000	-0.0197	0.0453
ITEEA	-0.0528	-0.0141	-0.0089	-0.0085	-0.0107	0.1400	0.0923	0.0036	-0.0197	1.0000	-0.0291
EPS	0.1869	-0.0092	0.8399	0.8364	-0.0061	0.0188	-0.0365	-0.0673	0.0453	-0.0291	1.0000

Source: Researchers' Computation (2025)

Regression Analysis: IFRS 6 Exploration and Evaluation of Accounting Presentation Choice Impact on Investor's Return

The multiple robust regression analysis presented in Table 5 examines the relationships between independent variables and dependent variables across six models. In Model 1, where Share Price (SP) is the dependent variable, the results indicate that capitalized exploration costs (EECC) have a statistically significant negative relationship with SP (coefficient = -0.628, p = 0.019). Similarly, the depreciation method used (EEDC) shows a significant negative association with SP (coefficient = -0.701, p = 0.024). Disclosure extent (TDEEA), however, has a strong

positive and significant relationship with SP (coefficient = 0.592, p < 0.001), suggesting that greater transparency boosts share price. Impairment testing probability (ITEEA) and earnings per share (EPS) do not exhibit statistically significant relationships with SP. The constant term (_con) is significant (coefficient = 74.34, p < 0.001), indicating a positive baseline value for SP.

In Model 2, Tobin's Q (TQ) is the dependent variable, reflecting a firm's market valuation relative to its replacement cost. None of the independent variables, including EECC, EEDC, TDEEA, ITEEA, or EPS, show statistically significant relationships with TQ, as all p-values are above 0.05. However, the constant term (_con) is significant (coefficient = 1041.00, p = 0.02), establishing a baseline for TQ.

Model 3 focuses on Return on Equity (ROE) as the dependent variable. Disclosure extent (TDEEA) has a significant positive relationship with ROE (coefficient = 0.64, p < 0.001), indicating that greater transparency correlates with higher equity returns. EPS is also a significant and strong positive predictor of ROE (coefficient = 39.90, p < 0.001), emphasizing the role of profitability in driving equity returns. Other variables, including EECC, EEDC, and ITEEA, do not demonstrate significant relationships with ROE. The constant term (_con) is significant but negative (coefficient = -551.26, p < 0.001), representing a baseline equity return when predictors are zero.

For Model 4, with Return on Sales (ROS) as the dependent variable, impairment testing probability (ITEEA) exhibits a highly significant positive relationship with ROS (coefficient = 754654, p < 0.001). Similarly, EPS shows a strong and significant positive association with ROS (coefficient = 100239, p < 0.001), suggesting that profitability strongly impacts sales-related returns. Other variables, including EECC, EEDC, and TDEEA, do not significantly influence ROS. The constant term (_con) is significant and negative (coefficient = -1448055, p < 0.001), representing a baseline ROS value.

In Model 5, where Dividend Payout (DP) is the dependent variable, the depreciation method (EEDC) is the only significant predictor, with a positive relationship (coefficient = 9.20, p = 0.02). Other variables, including EECC, TDEEA, ITEEA, and EPS, do not exhibit significant relationships with DP. The constant term (_con) is not significant, indicating no substantial baseline for DP in this model.

Finally, Model 6 examines Debt Service Capacity (DSC) as the dependent variable. Impairment testing probability (ITEEA) has a significant positive relationship with DSC (coefficient = 9.35, p < 0.001), suggesting that firms conducting impairment tests may improve their debt services capabilities. Other variables, including EECC, EEDC, TDEEA, and EPS, do not show significant relationships with DSC. The constant term (_con) is significant and positive (coefficient = 2.55, p = 0.007), indicating a baseline level of debt repayment.

In summary, the regression analysis highlights the varying effects of exploration and evaluation costs, disclosure practices, impairment testing, and profitability on key financial metrics. Notably, TDEEA positively influences share price and ROE, while ITEEA strongly impacts ROS and DSC. EPS consistently predicts profitability measures, emphasizing its critical role in financial performance. These findings underscore the nuanced relationships between the variables and their implications for firm valuation and operations.

Table 5: Multiple Robust Regression Analysis

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
EECC (Coefficient)	-0.628	-16.08	1.58	7133.20	-1.28	-0.02
EECC (P-value)	0.019	0.47	0.66	0.53	0.81	0.155
EEDC (Coefficient)	-0.701	-19.66	6.41	15166	9.20	-0.01
EEDC(P-value)	0.024	0.27	0.14	0.18	0.02	0.57
TDEEA (Coefficient)	0.592	-0.25	0.64	1634.67	0.07	-0.00
TDEEA (P-value)	0.000	0.94	0.00	0.26	0.93	0.44
ITEEA Coefficient	-28.87	564.2	228.09	754654	-122.44	9.35
ITEEA (P-value)	0.217	0.80	0.39	0.000	0.815	0.00
EPS (Coefficient)	0.22	-1.10	39.90	100239	-0.009	0.00
EPS (P-value)	0.42	0.80	0.00	0.000	0.992	0.64
_con (Coefficient)	74.34	1041.00	-551.26	-1448055	8.89	2.55
_con (P-value)	0.00	0.02	0.00	0.000	0.93	0.007

Source: Researchers' Computation (2025)

Test of Hypotheses

The multiple robust regression analysis provides a basis for testing the stated hypotheses. The relationships between the independent variables and investor returns, measured by Share Price (SP), Tobin's Q (TQ), Return on Equity (ROE), and Return on Sales (ROS), are examined to determine the validity of each hypothesis. Below is a detailed test of the hypotheses:

H_1: There is a positive relationship between capitalized costs and investor returns. Firms that capitalize more costs will have higher investor returns.

The results for EECC in Model 1 (SP) show a coefficient of -0.628 (p = 0.019), indicating a statistically significant negative relationship between capitalized costs and share price. This suggests that higher capitalized exploration costs lead to lower investor returns in terms of share price. In other models, such as TQ, ROE, and ROS, the relationship between EECC and investor returns is not significant (p > 0.05). Therefore, H_1 is rejected as the data does not support a positive relationship between capitalized costs and investor returns.

H_2: There is a negative relationship between depreciation costs and investor returns.

The results for EEDC in Model 1 (SP) show a coefficient of -0.701 (p = 0.024), indicating a statistically significant negative relationship between depreciation costs and share price. This finding aligns with the hypothesis that higher depreciation costs are associated with lower investor returns. In other models, such as ROE and ROS, the relationship between EEDC and investor returns is not significant (p > 0.05). However, the significant negative relationship in Model 1 supports $H0_2$, and the hypothesis is accepted.

H_3: There is a positive relationship between transparency with disclosure of exploration and evaluation assets and investor's returns. Increased transparency through disclosure of exploration and evaluation (E&E) assets leads to higher investor returns.

The results for TDEEA in Model 1 (SP) show a coefficient of 0.592 (p < 0.001), indicating a statistically significant positive relationship between disclosure extent and share price. Similarly, in Model 3 (ROE), TDEEA exhibits a positive and significant relationship (coefficient = 0.64, p < 0.001). These findings strongly support the hypothesis that increased transparency through disclosure leads to higher investor returns. Therefore, H_{03} is accepted.

H_4: There is a positive relationship between impairment testing for exploration and evaluation of assets and investors return. Stricter impairment testing for exploration and evaluation (E&E) assets leads to higher investor returns.

The results for ITEEA show mixed findings. In Model 4 (ROS), ITEEA has a significant positive relationship with return on sales (coefficient = 754654, p < 0.001), suggesting that stricter impairment testing enhances profitability relative to sales. Similarly, in Model 6 (DR), ITEEA shows a significant positive relationship with debt repayment (coefficient = 9.35, p < 0.001), indicating improved financial health. However, in Model 1 (SP) and Model 3 (ROE), the relationships between ITEEA and investor returns are not significant (p > 0.05). Although the results are significant in some models, the lack of consistent significance across all models limits full acceptance of H_{04}. Therefore, H_{04} is partially accepted, as stricter impairment testing positively affects certain measures of investor returns.

Table 6: Summary Table Linking Hypotheses, Findings and Discussion

Hypotheses	Description	Independent Variable	Dependent Variable	Coefficient (P-value)	Significance	Effect Size(Approx.)	Practical Implications
H_1	Positive relationship between capitalized costs and investor returns.	EECC	SP	-0.628 (0.019)	Rejected	Medium (-0.628)	Indicates that capitalizing exploration costs may negatively impact investor perceptions reflected in share price. Firms should consider the trade-offs between capitalizing costs and market reactions.
H_2	Negative relationship between depreciation costs and investor returns.	EEDC	SP	-0.701 (0.024)	Accepted	Medium (-0.701)	Higher depreciation costs may signal reduced profitability or aging assets. Companies should demonstrate efficient asset management and strategies for reinvestment or asset renewal.
H_3	Positive relationship between transparency with disclosure of exploration and evaluation assets and investor's returns.	TDEEA	SP, ROE	SP: 0.592 (<0.001) ROE: 0.64 (<0.001)	Accepted	SP: 0.592 ROE: 0.64	Transparent reporting practices are crucial in the E&E sector. Increased disclosure can reduce information asymmetry, enhance investor confidence, and lead to more favorable market valuations.
H_4	Positive relationship between impairment testing for exploration	ITEEA	ROS, DSC	ROS: 754654 ($p < 0.001$) DSC: 9.35 ($p <$	Partially Accepted	ROS: 754654 DSC: 9.35	Stricter impairment testing improves operational efficiency and financial health.

and evaluation of assets and investors return.	0.001)	Companies should recognize the benefits of rigorous impairment practices in internal financial management and long-term sustainability.

Source: Researchers' Computation (2025)

5. Discussion of Findings

This study explores the impact of IFRS 6 exploration and evaluation accounting presentation choices on investor returns in African firms, focusing on measures such as share price (SP), return on equity (ROE), return on sales (ROS), and debt service capacity (DSC). The analysis, derived from hypothesis testing, provides insights into the role of IFRS 6 in shaping investor perceptions and financial outcomes.

Contrary to initial expectations, capitalized exploration costs (EECC) demonstrated a significant negative relationship with share price (SP). This finding suggests that capitalizing more costs may reduce short-term profitability, thereby adversely affecting market valuation. This aligns with Ferguson et al. (2021), who observed that capitalized costs can reduce immediate profitability. Similarly, Ardila et al. (2019) argued that while capitalized costs improve asset valuations, they can be perceived by investors as indicative of constrained cash flow, leading to lower confidence and returns. This implies African firms should carefully balance capitalized costs to manage investor sentiment.

The study confirmed a significant negative relationship between depreciation costs (EEDC) and share price, consistent with Mazurina et al. (2020), who highlighted the detrimental effects of high depreciation costs on firm value. This underscores the importance of cost management in maintaining investor confidence. However, the lack of a significant relationship between EEDC and ROE and ROS suggests that the impact of depreciation costs is more pronounced in market-based metrics than operational performance.

The findings strongly support the hypothesis that increased transparency through disclosure of exploration and evaluation assets (TDEEA) enhances investor returns. TDEEA exhibited a significant positive relationship with both share price and ROE, emphasizing the critical role of transparency in attracting investors and boosting firm valuation. This aligns with Blankespoor et al. (2020), who argued that improved financial disclosures under IFRS increase investor confidence and decision-making efficiency. Nobes and Stadler (2021) also observed that transparency mitigates the uncertainties in the extractive sector, supporting the positive impact of disclosure on investor returns.

Stricter impairment testing (ITEEA) showed a significant positive relationship with return on sales (ROS) and debt service capacity (DSC), indicating its role in enhancing operational efficiency and financial stability. These findings resonate with Han et al. (2021), who emphasized the importance of impairment testing in improving financial statement reliability and creditor trust. The significant impact on debt service capacity suggests that investors and creditors view firms conducting impairment testing as more financially sound, enhancing their ability to meet debt obligations. However, the insignificant relationship between ITEEA and

share price implies that the market may not immediately reward firms for implementing stricter impairment measures.

The study observed positive but statistically insignificant relationships between IFRS 6 and share price, dividend payout, and measures of equity capital. This aligns with Nobes and Stadler (2021), who noted that while IFRS adoption enhances reporting quality, its immediate impact on market-based metrics is often limited in the extractive industry due to the sector's inherent uncertainties. Similarly, Blankespoor et al. (2020) argued that investors in capital-intensive sectors may prioritize external factors like commodity prices over IFRS compliance.

Conclusion and Recommendations

This study investigated the impact of IFRS 6 Exploration and Evaluation Accounting Presentation Choices on investor returns in African firms within the extractive sector. The findings revealed that IFRS 6 positively and significantly affects debt service capacity, indicating that compliance enhances financial credibility. However, the study also identified a negative and significant relationship between IFRS 6 and profitability metrics such as ROE and ROS, suggesting high upfront costs associated with exploration activities. Furthermore, the findings showed positive but statistically insignificant relationships between IFRS 6 and share price, dividend payout, and equity capital measures. These results emphasize the complex interplay between IFRS 6 adoption and financial performance.

In light of these findings, firms are encouraged to improve their communication strategies to provide investors with a clearer understanding of how IFRS 6 compliance affects both asset values and profitability. Transparent reporting can help mitigate investor concerns by focusing on the long-term benefits of exploration activities. Stakeholders should be educated on the implications of IFRS 6 to better comprehend its influence on financial performance and decision-making.

Regulatory bodies in Africa should consider developing sector-specific guidelines for implementing IFRS 6, tailored to the unique challenges faced by firms in exploration and evaluation activities. These guidelines could address the misalignment between asset recognition and profitability metrics, providing additional measures to balance these aspects. Accounting practitioners are advised to adopt innovative reporting practices that integrate forward-looking disclosures, offering a comprehensive view of how current exploration activities contribute to future profitability.

Future research should explore the factors underlying the negative impact of IFRS 6 on profitability metrics and its insignificant effects on share price and equity measures. Comparative studies across industries and regions could further elucidate the sector-specific dynamics that influence the relationship between IFRS 6 adoption and financial performance. Investigating the interaction between IFRS 6 and other financial reporting standards could also yield more profound insights.

This study makes a significant contribution to accounting practices by highlighting the practical effects of IFRS 6 on financial reporting and profitability. It offers a roadmap for firms to balance asset recognition with operational performance. For accounting theory, the study challenges the assumption that standardized practices uniformly benefit all financial metrics. Moreover, the findings provide empirical evidence to guide regulatory frameworks, ensuring that IFRS 6 enhances transparency while addressing the unique challenges of the sector. This study contributes to academic literature by focusing on the under-researched area of IFRS 6's impact on African extractive firms, offering a foundation for further research.

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