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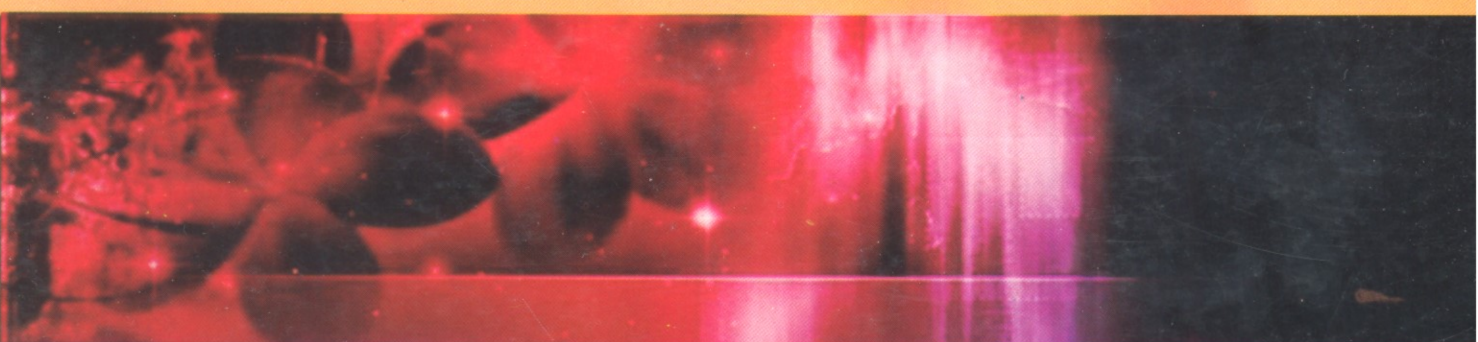

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PROCEEDINGS OF THE INTERNATIONAL CONFERENCE ON DEVELOPMENT STUDIES

Volume 5. Number 12. April 13-16. 2010. Indoor Theatre. University of Abuja. F.C.T. Nigeria

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THE RELEVANCE OF ACCOUNTING INFORMATION SYSTEM IN MERGER AND ACQUISITION DECISION IN NIGERIA

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ABSTRACT

Accounting information system is very useful to the survival and growth of any organization. Sound decisions are made only with accurate information. This is because financial information about a business enterprise can only be provided if accounting reports are available. The objective of this paper is to examine relevance of accounting information system in merger and acquisition decision in the banking sector. The paper was carried out to examine if organization keep records of all their transaction; if they prepare accounting reports; and if they use accounting information in their decision making. The study is based on the information gathered and collected from both primary and secondary sources. The sample for the study is made from the selected banks in Lagos metropolis. Data analysis for the study was done using frequencies, percentage and chi-square via SPSS- Statistical Package for Social Sciences. Findings of the study revealed that accounting information system have been playing a dominant role in the merger and acquisition and business decision makings of the banking institutions. Therefore, the continued existence of any organization will depend on its ability to record and prepare adequate accounting reports.

INTRODUCTION

Over the years corporate environment has witnessed fluctuations in businesses. Many big companies have been strangulated while other smaller ones arc equally joining the league. It therefore behoves corporate managers and expert in business analysis to fashion a medium through which badly managed companies can still rear their heads rather than total winding-up as the ultimate end. The idea of corporate mergers and acquisition have become latest development and decisions among those probable solutions that corporate manager would proffer to avoid sudden demise of badly managed companies. Merger and Acquisition offer *a* situation where bigger company with greater competitive strength may deem it fit to acquire a smaller company with high standard, and resources but with little growth owing to stiff competition. It must be noted that, it is not only when company is inefficiently managed that suggestion of merger and acquisition will become applicable. It is equally useful in area where business would want to make an aggressive growth, but consider acquiring or merging with other competitive firms in the same industry as the only solution to deter the possibility of equal movement (stiff competition) among these others corporate bodies.

Accounting information is therefore, very useful for decision making, not only in the business world but in governmental, and personal affairs. The need for accounting information cannot be overemphasized. One of the problems of businesses is lack of adequate records of business transactions. Recent research into the cause of bankruptcy among small firms showed that of the factors that occurred most frequently in the history of failures absence of reliable records dominates (Donleary, 2004).

Baumback , Lawyer and Kelly (2004) opined that majority of businesses fail to see and use accounting as a management tool. Some of the reasons for this failure have been identified as:

1. The believe that record keeping takes more time than it is worth
2. Dislikes for figures
3. Feeling that other duties are of greater importance and,
4. Lack of knowledge as to the type of information needed and how to collect them.

Others regard accounting not as a management tool for the day to day use but as accumulation of data for eventual use in auditing and preparation of balance sheet (Walter, 2000). These uses are valid and important but they are of little help to the manager in securing efficiency and profitability. The first step towards profitability management of business is good record. There can be no wiser expenditure than money spent to keep accurate and complete records because no businessman can said to be in control of his business unless he is in control of his business records. Many businesses in Nigeria keep records that are not up to standard. Substandard records make it impossible for the manager to know how the enterprises are functioning and before he knows it, the effect becomes uncontrollable. Keeping of sub-standard records will yield the same quality of accounting information which signifies that accounting system is faulty. According to Gillespie

(1998), accounting information of many firms are not provided up to date particularly small and medium scale firms. Information are not provided at the right time when they are most useful. Information that is provided after its usefulness has elapsed is not prompt. Unavailability of information at the right time can lead management to make wrong decision. For example, where management is faced with the decision of whether to make or buy a line of product and the costing data on which to base the decision is not available, management may enter into ruinous contracts or close down operations of otherwise profitable line of business information must be current if waste and inefficiency are to be avoided in business decision making. An accounting system is important for the existence and achievement of the objective of an organization. Merger and acquisitions is another important managerial decision to safeguard underperforming businesses and limit competition among other reasons. Accounting system can be used for control and planning purposes. Sound decisions are made only with accurate information. Osisioma (1998) posits that financial information about a business enterprise can only be provided if tracks of the daily business activities are kept and summarized results in form of accounting reports are available. It is very important that such information is readily available for various business enterprises. Accounting information system is a vital weapon in decision making. The basic need of the system is that it provides for the orderly assembly of accounting information to make for easy and ready availability of relevant information when needed. The problem definition of this paper is to probe the relevance of accounting information system in merger and acquisitions decision makings. Merger and acquisitions have become latest development among those probable solutions that corporate manager proffered to avoid sudden demise of badly managed companies. Many business failures in Nigeria have attendant bad management and the incentives to merge or acquire could also be due to managerial behaviour. Therefore, any effort toward advancing proper planning and controlling the companies through preservation and maintenance of flow of data is considered in the right direction.

OBJECTIVES OF THE STUDY ARE:

i. To ascertain if merged or acquired company keep record of their transactions.
ii. To assess the impact of accounting information system on merger and acquisition decisions.
iii To examine if banks/organizations use the information contained in their balanced sheet and other accounting reports in their various decision making exercise

LITERATURE REVIEW

Concept of Merger and Acquisitions

In many literature or text, various terminologies are used for merger, amalgamation and acquisition thereby causing confusion in the minds of observers. Mergers & acquisitions (M&A), in the broad sense, may imply a number of different transactions ranging from the purchase and sales of undertakings, concentration between undertakings, alliances, cooperation and joint ventures to the formation of companies, corporate succession ensuring the independence of businesses, management buy-out and buy-in, change of legal form, initial public offerings and even restructuring (Picot, 2002). Nakamura (2005) however explains that using a broad definition of M&A could lead to confusion and misunderstanding as it entails everything from pure mergers to strategic alliance. Therefore, this paper adopts the definition of M&A in a narrower sense as clarified below.

- **Merger** is the combination of two or more companies in creation of a new entity or formation of a holding company.
- **Acquisition** is the purchase of shares or assets on another company to achieve a managerial influence, not necessarily by mutual agreement.

Weinberg (1997) also defined merger as an arrangement whereby the assets of two companies become vested in or under the control of one company which has as its shareholders all or substantially all the shareholders of the two companies. A merger is effected by the shareholders of one of the merging companies exchanging their shares for the shares in the other company. Stuart (1989) emphasized that the companies involved in a merger arrangement, regardless of the number and sizes do so basically on equal terms. In a merger the assets and liabilities of all the companies are brought under the umbrella of one of the merging companies. The choice of company to be retained is usually influenced by a variety of factors which could include the popularity, market size, and performance record and product line. The term merger implies the willing cooperation of each party and avoids any implication that one company is dominant. The Companies and Allied Matters Act (CAMA) of 1990 described merger as any amalgamation of the undertakings or any part of the undertaking of one or more companies and one or more bodies corporate. In effect, in any merger, the interests, assets and liabilities of one company are assumed by the other.

The purpose of a merger is to enjoy synergies. There are four types of synergies that may be identified:
i. Sales synergy
ii. Operating synergy
iii. Management synergy
iv. Investment synergy

NATURE AND FUNCTIONS OF ACCOUNTING SYSTEM

In understanding the nature of accounting system, a review of the different definitions given by different authors will be of great importance. More and Steffler (1993), define accounting system as a means by which the management of an entity accomplishes the collecting, processing, and reporting of the essential data that reflect the results of the operations carried out under its direction and supervision. Smith and Ashburne (1990) opined that the accountant should be concerned with only those economic data which will illuminate the financial position of an enterprise of the financial results of its operations. Anthony (1994) defines accounting system as a means of collecting, summarizing, analyzing, and reporting in monetary terms information about the business. The components of an accounting system consists the simple journals, ledgers and work sheet together with the rules for using them. An accounting system is important for the existence and achievement of the objectives of an organization. This is because it is profit oriented. Baily (1994) stated that it is a means of organizing, accumulating and summarizing statistical information about a business so that proper control may be exercised. This definition connotes that for proper control to be exercised an accounting system is indispensable. An accounting system can again be described as the whole framework of accounting, all its functions and methods designed and installed for performance of desired functions and achieving set objectives. These will include:
i. The financial Accounting,
ii. The costing process(es),
iii. The use of audit and internal control,
iv. Tax accounting.

Onwualu (1998), said that accounting system performs three functions:
1 Collecting essential financial data.
2 Processing the data collected, and
3 Reporting of the processed data.

As a result of the fundamental importance of an accounting system as accounting process or systems should be designed in such a that the end product which is a set of reports called financial statements will be able to satisfy all the interested groups (Onwualu, 1998). Where the information needs of the interested parties are not adequately supplied, a wrong decision can be taken which may not be the benefits of the organization.

NATURE AND CLASSIFICATION OF MERGER

From perspective of the value chain, M&A can be classified as *horizontal, vertical or conglomerate* (Chunlai and Findlay, 2003). In **horizontal M&A**, the acquiring and the target companies are competing firms in the same industry. The merger of US$76 billion transaction value between the two giant pharmaceutical companies, Glaxo and SmithKline Beecham, is an example of M&A under this category (MANDA, 2007).

Vertical M&A are combinations of firms in client-supplier or buyer-seller relationships. The firms involved here seek to reduce uncertainty and transaction costs by upstream and downstream linkages in the value chain and to benefit from economies of scope (Chunlai and Findlay, 2003). Merger and acquisition could be either ***domestic or cross-border*** with regards to where the companies involved base and operate. A cross-border M&As transaction involves two firms located in different economies, or two firms operating within one economy but belonging to two different countries (Chunlai and Findlay, 2003). Accordingly, in domestic M&A transactions, the firms involved originate from one country and operate in that economy-country. Walter (2000) identifies four different types of acquisitions namely: *horizontal, vertical, concentric,* and *conglomeratic* acquisitions. The degree of similarity or non-similarity between the business activities in the acquiring company and the company being acquired decides the type of acquisition. The first and second categories of merger identified by Walter (2000) are discussed earlier.

***Concentric* mergers and acquisitions** means that the companies involved are very similar concerning production and distribution technology. Concentric acquisitions are similar to horizontal acquisitions. The difference lies in the fact that concentric acquisitions do not involve integration of the companies' physical parts, instead aspects like common trademarks and company symbols are integrated (Walter, 2000).

***Conglomeratic* acquisitions** involve companies which do not have similar products, distribution technology, or production technology. Also there exists no buyer-seller relationship between the involved parties.

PRACTICE IN NIGERIA

Nigeria Economy witnessed most merger/acquisition syndrome in 1980's. Most merger/ acquisition that have taken place in Nigeria have been between companies that have the same foreign affiliated. Such merger cut across different sectors of the economy. The classification of companies also indicated that there were merger/ acquisition between public and public companies, private and private companies' then, public and private companies. Another latest development in the history of merger/acquisition is that the merger that took place between some accounting firm in the country. Most of the mergers were failed to be consummated in 1982(that is, the acquisition by the United Nigeria Insurance Co Ltd or united Nigeria Life Co Ltd) was however successfully consummated in 1984. Before a merger/ acquisition arrangement can be consummated, the board of directors of the companies involved will meet to discuss the issue. The companies to be affected will then apply to the court (the federal high court) that will order separate meeting of the companies to be summoned in such a manner as it may direct. If a majority representing not less than three quarters in values of the shares of the members, being present and voting either in person or by proxy at each of the separate meetings, agree to the scheme, the scheme will be referred to the SEC for approval (see 5.591(1), (2) of CAMD 1990.

Various regulatory bodies are usually involved in merger/ acquisition arrangement, they include:

1. The Securities And Exchange Commission
2. The Federal High Court.
3. The Nigerian Stock Exchange.
4. The Federal Board of Inland Revenue.
5. The Corporate Affairs Commission.
6. The Federal Ministry of Finance and Economic Development.

FINDINGS AND DISCUSSIONS

Methodology: A population is made up of all conceivable elements, subjects or observations relating to a particular phenomenon of interest to the researcher (Asika, 1991). The population of this research study is all the 25 banks making the banking sector. The research area is Lagos State. In this study the merged *United Bank for Africa Plc* (which comprises STB Limited, United Bank for Africa plc, and Continental Trust Bank Limited) and on three of the un – merged banks that came out of the consolidation exercise in Nigeria, *First Bank of Nigeria (FBN), Union Bank of Nigeria (UBN),* and *Guaranty Trust Bank Plc.,* were sampled by way of judgmental sampling technique, given the researchers clear knowledge of the population. Data was collected from the banks under consideration. Information about their existing accounting system was collected through questions. The questionnaires contain information on document used, books and journals maintained; Ledger Accounts prepared; financial statements prepared; assessment of performance by the use of various ratios and auditing of Accounts. Data collected were analyzed with the use of simple percentage to make comparison of data easy using SPSS software.

ANALYSIS AND DISCUSSIONS

Data analysis revealed that majority of the respondents were male (59.26%) and 40.74 of them were females. From table II, it is observed that 35 – 39 age brackets of the respondents were 36.74% which is the highest percentage, followed by 25 – 29 age bracket with 30.615, and 30 – 34 years age bracket with 9.26%. The research also revealed that about 72.22 percent of the respondents have spent about 10 – 14 years, while 25.3% have spent between 5 – 9 years with their banks, and about 42.7%have spent 5 years below. From table I, all the banks keep necessary records required for preparing accounting statements. These documents are very important for collection of financial data for final preparation of financial reports and statements. However without these documents, some mistakes and wrong calculations are bound to occur because management would find it very difficult to perform effectively with only verbal information. Table 2 reveals that all the banks record all transactions and prepare all the accounting reports necessary for decision making. Table 3 discloses that all the banks prepare budget, adhere strictly to it and use accounting ratios to analyze their results. However, 100%of them showed interest in knowing about them and how to use them. Budgetary controls are necessary for decision making, the actual work done should be compared with expected to determine if there is an achievement or failure, and if failure, to determine how to rectify it before it is too late. Table 3 reveals that all the Banks studied utilized management accounting information. All use accounting ratios, maintain Asset, Register audit their accounts and make capital allowance. These accounting informations are very vital in taking various business decisions. Hongren (1998) stated that accounting information system is a formal means of gathering data to aid collective decision making in the light of overall goals of an organization. All the banks make use of this information. The result of 'SPSS' using Chi square statistical test at 0.05 level of significance with 6 degree of freedom is 57.7 while the critical value is 12.6. We reject the hypothesis which specified that there is favorable impact of accounting information system in the business decision makings in banking sector/ industry. This indicates that a business decision making in organization is dependent on adequate accounting system.

CONCLUSION AND RECOMMENDATIONS

It is completely obvious that the position of corporate manager to determine various problems that could be encountered when making investment/financial decision using a corporate tool called accounting information is yet to be completely occupied. Various authors have discussed merger/acquisition arrangement. They have stated the inherent gains and demerits of the serious types of involved in this arrangement. They have left to identify problems that could be encountered before, during and after the arrangement. They are yet to identify the relevance of accounting information in their decision of mergers and acquisition. This however prompted the intention to discuss the relevance accounting information in merger and acquisition decision in businesses After a thorough analysis of data collected from the four banks under consideration, some findings were made. All the Banks studied kept accurate accounting records necessary for smooth running of their banking business. They used books of original entries to record their transactions, prepared financial statement through ledger accounts. The Banks have qualified Accountants, audit their accounts and use the services of professionals. Furthermore, they keep all necessary records for decision making and often use such information in taking business decision such as decisions for recent Merger and Acquisition. Furthermore, the banks prepare budgets adhere strictly to these budgets and use accounting ratios to analyze their results. They also prepared final accounts and depends on records for their daily business operations. They use these well kept records to assess their performance. It is obvious that the Banks operate effectively utilizing all the necessary accounting information for business decision making but increasing corporate creates numerous managerial difficulties. The managers can not know all the details of the transactions and must rely upon reports of subordinates. Hence, the need for qualified staff to handle various accounting information reports for decision making. Based on the fact that some associated problems may be encountered during merger/ acquisition, may delay companies or management of company from undertaking merger/ acquisition. Corporate Managers are advised that they carried proper feasibility study through accounting information system before proffering solution of merging with them.

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APPENDIX

Table 1: Bank Cross Tabulation and Response on the use of Accounting System in their decision making

Financial Accounting Information	UBA Yes	UBA No	GTB Yes	GTB No	FBN Yes	FBN No	UBN Yes	UBN No
I. Do you record all Transactions	75	0	75	0	75	0	75	0
II. Do you have separate book for Transactions/Operations	69	6	70	5	68	7	75	0
III. Do you post them to ledger	67	8	70	5	63	12	75	0
IV. Do you prepare Trading Profit, and Loss Account	75	0	75	0	75	0	75	0
V. Do you have adequate record for all your transactions	69	0	75	0	75	0	75	0
VI. Forecasting	58	17	62	13	65	10	67	8

Table 2: Budgetary Control

Questions	UBA Yes	UBA No	GTB Yes	GTB No	FBN Yes	FBN No	UBN Yes	UBN No
1. Do you prepare budgets?	75	0	75	0	75	0	75	0
2. Are they strictly adhered to?	61	14	63	12	75	0	71	4
3. Do you use Accounting Ratios?	75	0	75	0	75	0	72	3
4. If you don't know it would you like it know it?	75	0	72	3	71	4	73	2

Table 3: Time entries are made in the books

Alternative Responses	*Number of Times*							
	UBA Yes	UBA No	GTB Yes	GTB No	FBN Yes	FBN No	UBN Yes	UBN No
I. Immediately after each Transaction	75	0	75	0	75	0	75	0
2. Any time later	9	66	70	5	0	75	0	75
3. No books kept	0	75	1	74	0	75	0	75

Table 4: Management Accounting Information.
Alternative Responses

Questions	UBA Yes	UBA No	GTB Yes	GTB No	FBN Yes	FBN No	UBN Yes	UBN No
1. Do you use accounting ratio in decision making?	73	2	75	0	75	0	75	0
2. Do you maintain Asset register?	70	5	68	7	75	0	75	0
3. Do you audit your accounts at all?	75	0	75	0	75	0	75	0
4. Do you know about capital allowance?	69	6	75	0	67	8	71	4
5. Have you heard of feasibility study?	71	4	75	0	75	0	66	9
6. Do you use them in decision making?	75	0	75	0	75	0	75	0

Table 5: Responses from table 4

VALUE	FREQUENCY	PERCENTAGE
1	14	16.1
2	14	16.1
3	17	19.6
4	19	21.8
5	11	12.6
6	12	13.8
Total	87	100

Source: Research Survey, 2010

Table 6: Chi-Square NPar
Test Statistics

	Relevance of Accounting Information
Chi-Square(a)	57.714
df	6
Asymp. Sig.	.000

a 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 14.5.