European Journal of Accounting Auditing and Finance Research

Vol.1, No.4, pp.60-66, December 2013

Published by European Centre for Research Training and Development UK (www.ea-journals.org)

THE IMPACT OF INFORMATION DISCLOSURE ON GOODWILL IMPAIRMENT IN MERGER AND ACQUISITION DECISION IN NIGERIAN BANKS

[1]Okoh Umale, [2]* Muhamad Yusuf Alkali [3]Azeez Yisa
[1]Federal University Kashere, Gombe State
[2]Waziri Umaru Federal Polytechnic Birnin Kebbi, Kebbi State
[3]First Bank of Nigeria Plc

ASTRACT: *The need for quality accounting information is to bring investors' in an economy. Investors require financial position of business asset to be prepared in line with the international accounting standards. Investment decision really on the quality of information received on the business. Assets and liabilities porting is part of good accounting reporting. Therefore, Goodwill as an asset requires quality reporting in accordance to the Nigerian GAAP. Recognition of Goodwill in accounting reporting has been a major challenging issue even though its recognition has been provided in the accounting regulations. Provision of goodwill impairment in Nigerian banks has been provided on SAS26 for Financial information. Weakness of the NGAAP as identified by World Bank in 2009 has raised many questions on the quality of accounting information in Nigeria. The 2008/2009 financial crisis in the Nigeria has call for the review of NGAAP to adopt IFRS in line with global standards. Questionnaires were administered to the bank staff and preparers of financial statements for banks. 10 banks were selected for the study. Chi-square was used as a statistical tool from the data analysis. Form the study it was found that financial reporting in Nigerian universal banks recognized goodwill impairment in a low term for merger and acquisitions. The quality of accounting information disclosure in respect of goodwill has been low. Nigerian universal banks should ensure there is enough information in respect of goodwill impairment before taking merger and acquisition decision as this will foster quality decision. Also Nigerian universal banks should providing adequate and accurate information in foot notes of financial statement in respect of goodwill impairment.*

KEYWORDS: Goodwill impairment, Information, SAS 26, Financial Statement, Nigerian GAAP

INTRODUCTION

Accounting information is required for financial decisions by both the investors and owners of businesses. The major role of accounting information is to permit inform judgments and decision making by the users of such information (Zimmerman and Wats 1986). Accounting regulations provide a guide on the preparation of quality financial statements. Quality of accounting information on goodwill has been a subject of debates among the scholars and regulators (IASB). Several disputes have aroused regarding accounting treatment on goodwill especially on amortization or impairment (Shinan, 2012), several ways may be more useful to accounting treatment of goodwill (Dennis, 2007).

Goodwill impairment is the reduction in value of goodwill asset. Goodwill attracts customers thereby increases both revenue and profit (Zare, Mohsen, Ghamsem, 2012). Statement of

Accounting Standard (SAS) 26 regulates goodwill asset in Nigeria, and one of the provisions is that goodwill should be tested for impairment annually or more frequently. It also requires disclosure of information that enables users of an entity's financial statements to evaluate changes when there are changes in the carrying amount of goodwill in a particular period. For banks to make effective, accurate and qualitative decision on merger and acquisition, adequate information on goodwill impairment is required (Appah & Sphia 2011).

However, the brand coefficient is only a small fraction of what would be expected if markets did not impute any value to brands before firms recognized them. Few previous value-relevance studies have examined intangible assets recognized in financial statements, and none have examined the effects of contracting incentives on the reliability of the reported values of intangible assets.

Financial crisis of 2004 in the banking sector leads to series of merger and acquisition in the industry in 2005. About 52 banks were reduced to 25 banks. Capital base of the banks was raised from USD50 Million to USD250Milllion. Those banks that cannot meet the capital base either merged or acquired by other banks. The objective of this study is to investigate into adequate disclosure of information on goodwill impairment that permit inform judgment and decision making on merger and acquisition in Nigerian universal banks.

In Nigeria, very few studies were conducted on the value of assets in quality accounting information, ignoring the consequences of none recognition of goodwill impairment on merger and acquisitions. Therefore, this study will examine the relevance of good will impairment on the merger and acquisitions for quality accounting reporting.

The study is structured into five sections. Section one is introduction, section two reviews related literature on meaning and component of impairment losses , goodwill and its accountability for merger and acquisition, section three explore methodology, section four shows results and discussion of data, and section five dwell on conclusion and recommendations.

LITERATURE REVIEW

Meaning and Component of Impairment Losses

Goodwill impairment is the reduction in value of goodwill asset. The basis for determining the amount to be written down should reflect the permanent loss in value to the company (Pearson and Okubara, 1987). The primary reason for writing down operating assets is to recognize that they will not be contributing to the company's profit. However, "not contributing to the company's profit" is an extremely judgmental concept that raises some troubled questions. Most people would agree that a loss has occurred if the company cannot recover the net loss of the asset through future use. The question is that; should the impairment loss be limited to the unrecoverable cost of the asset? Or should an impairment loss recognize the assets inability to recover loss plus a "normal profit". The typical concern is whether or not a loss is understated in the case of impairment losses, an additional concern exists that these losses may be overstated, thus creating higher future profits. Moreover, if the initial written-down value was under estimated, reporting additional adjustments year after year undermines the credibility of financial statements.

Goodwill and Its Accountability for Merger and Acquisition

In accountability orientation, management should be required to justify its merger and acquisition of other companies by demonstrating that cash inflows from the merger and acquisition exceed cash outflows incurred when making investments (*Grinyer et al, 1997*). As identified by Ma and Hopkins (1988), it is frequently impossible to disentangle the flows attributed to the merger and acquisition once it has been undertaken because of the synergy within the new group. It is clear, however, that the net cash inflows in respect of sales made by the subsidiary will flow through the consolidated profit and loss account at some point in the group's future. Cash inflows and outflows, therefore, are included in the reported profits of the group.

Research carried out by Balugon (2011) found that reported profits are perceived by managers as indicators of their financial performance and there is some evidence that a similar perception exists among investors who take an active interest in the figures of reported earnings (Davison, 1989). In these circumstances it seems to be reasonable to claim that appropriate reporting for monitoring performance can only be achieved if the cash outlays committed to achieved the future net operating inflows are changed as costs in a profit and loss account at some time.

As implied by Ma and Hopkins (1988)'s definition, payments for goodwill are made to purchase a "future stream of superior earnings". It follows that payments for goodwill should be debited at some time to the profit and loss account that is credited over time with such earnings. Note that this argument is based on the need of owners to control management. Managers should be required to justify their merger and acquisition decisions by accounting for all of the related costs are expenses in the profit and loss account. Thus the writing-off of goodwill direct to reserves as is advocated by SSAP 22 is unacceptable for the primary purpose assumed for accounts. Nevertheless the immediate write-off approach has been advocated by many able thinkers, including Gray (1988), Ma and Hopkins (1989) and Okeji (2013).

RESEARCH METHODOLOGY

We employed a cross section survey design for this study. The population of the study is made up of 24 banks in Nigeria. Ten (10) banks were selected as sample for the study. Primary data were collected and analysed which were used to test the hypothesis for conclusions to be reached. Primary data were collected via structured questionnaire and administered on the officers of the banks. The questionnaire was structured into two sections. Section (a) captured the personal data of respondents and section (b) obtained information from respondents on information disclosure on goodwill impairment for the purpose of decision making in merger and acquisition decision by Nigerian universal banks as in the provision of SAS 26 in respect of goodwill accounting. Copies of the questionnaires were distributed to (i) Internal control (ii) Operation and (iii) Financial control units. The study employs both descriptive and inferential statistics for data analysis. Chi – square independence and homogeneity were used to test the hypothesis of the study.

The chi- square test statistics is:

$X^2 = \sum \frac{(\mathrm{Oi} - \mathrm{Ei})2}{\mathrm{Ei}}$ where

K = Number of cells in the contingency table.

Oi = Observed frequency of value.
ei = Expected frequency of value and is calculated as follows:

$$\frac{(\text{Column i total})(\text{Row i total})}{\text{Sample Size}}$$

At 5% significance level, where (r - 1) (c - 1) is the degree of freedom.
Null hypothesis for the study states thus:
H0: Nigerian universal banks do not disclose information on goodwill impairment that permit inform judgement in merger and aquisation decision as stated in statement of accounting standard (SAS) 26.

PRESENTATION, INTERPRETATION AND ANALYSIS OF DATA

Table 1: Years of Service of Respondents

Duration of work (years)	Number of Respondent	Percentage (%)
0-1	0	0
1-5	6	22.22
5-10	9	33.33
10 above	12	44.45
Total	27	100

Source: Questionnaire Administered 2012.

Twenty one (21) respondents have worked in their banks for five years and above, representing 77.8% of the total respondents. This implies that most of the respondents are experienced therefore may gives useful information required for the study. See table 1 above.

Table 2: Recognition of acquired goodwill as an asset in business combination

Opinion	Compliance	Percentage (%)
Yes	21	77.78
No	6	22.2
Total	27	100

Source: Questionnaire Administered 2012.

Twenty one (21) respondents, representing 77.8% of the respondents recognized acquired goodwill as an asset in business combination. This shows compliance with that provision as in SAS 26 in respect of goodwill. See table 2 above.

Table 3: Accounting for goodwill using Purchase Method

Opinion	**Number of Respondents**	**Percentage (%)**
Yes	20	74.1
No	7	25.9
Total	27	100

Source: Questionnaire Administered 2012.

In table 3 above twenty respondents representing 74.1% accounted for goodwill using purchase method. This also shows compliance with that particular provision as stated in SAS 26 in respect of goodwill.

Table 4: Testing acquired goodwill annually or more frequently for impairment.

Opinion	**Number of Respondent**	**Percentage (%)**
Yes	21	77.8
No	6	22.2
Total	27	100

Source: Questionnaire Administered 2012.

Twenty one respondents representing 77.8% test acquired goodwill annually or more frequently for impairment. It is a show of compliance with that particular provision as stated in SAS 26 in respect of goodwill. This is shown in 4 table above.

Table 5: Disclosure of acquired goodwill in financial statement of banks in Nigeria.

Opinion	**Number of Respondent**	**Percentage (%)**
Yes	19	70.4
No	8	29.6
Total	27	100

Source: Questionnaire Administered 2012.

As in table 5 above nineteen respondents agreed with disclosure of acquired goodwill in financial statement. This represents 70.4% of the respondents and a show of compliance with that provision as in SAS 26 in respect of goodwill.

Computation of Chi – Square:

Fo	**Fe**	**Fo-fe**	**$(fo\text{-}fe)^2$**	**$\frac{(Fo\text{-}fe)^2}{fe}$**
21	13.5	7.5	56.25	4.17
6	13.5	-7.5	56.25	4.17
6	13.5	-7.5	56.25	4.17
21	13.5	7.5	56.25	4.17
20	13.5	6.5	42	3.12
7	13.5	-6.5	42	3.12
7	13.5	-6.5	42	3.12
20	13.5	6.5	42	3.12
19	13.5	5.5	30.25	2.24
8	13.5	-5.5	30.25	2.24
8	13.5	-5.5	30.25	2.24
19	13.5	5.5	30.25	2.24
21	13.5	7.5	56.25	4.17
6	13.5	-7.5	56.25	4.17
6	13.5	-7.5	56.25	4.17
21	13.5	7.5	56.25	4.17
Total				54.80

Source: Questionnaire Administered 2012.

Degree of freedom = d.f
d.f = (r-1) (c-1)
= (3-1) (3-1)
= 2x2
d.f = 4
Chi – square (x2) calculated = 54.80, while critical value from chi – square table at 4 d.f and 5% level of significance is 9.488.

Decision rule:
Since the computed value of x2 (ie 54.80) is greater than the value of chi – square from the critical table (9.488) at 5% level of significance, the null hypothesis that Nigerian universal banks do not disclose information on goodwill impairment that permit inform judgment in merger and acquisition decision as stated in statement of accounting standard (SAS) 26 is rejected while the alternative hypothesis that Nigerian universal banks disclose information on goodwill impairment that permit inform judgement in merger and acquisition decision as stated in statement of accounting standard (SAS) 26 is accepted.

RESULTS AND DISCUSSION

In this study, variables include: quality decision and information disclosure. Quality decision is the dependent variable while information disclosure is independent variables. The quality of decision is dependent on the information disclosed on goodwill impairment. Data relevance to the variables is contained in table 2 – 5. From the analysis and test of hypothesis found that Nigerian universal banks disclose enough information in respect of goodwill impairment which was used in merger and acquisition decision. Nigerian universal banks disclose information on goodwill impairment to enable users of financial statements evaluate changes when there are changes in the carrying amount of goodwill in a particular period. This study is for the regulators to identify the importance of the goodwill impairment in accounting reporting especially on merger and acquisitions. Indication from the results shows that, there was enough disclosure of good will in the merger and acquisition. During capitalization process, the Quality of accounting information made banks to merger while others to be acquired (Soludo 2012)

CONCLUSION AND POLICY RECOMMENDATIONS

The study found that Nigerian universal banks took quality and right decision in merger and acquisition in respect of goodwill as result of information disclosure on goodwill impairment. However, this study recommends that: Nigerian universal banks should ensure there is enough information in respect of goodwill impairment before taking merger and acquisition decision as this will foster quality decision. Also Nigerian universal banks should providing adequate and accurate information in foot notes of financial statement in respect of goodwill impairment.

REFERENCES

Ahmed, A. M. (1995), Empirical Evaluation of the Degree of Compliance with SAS No. 2 by Companies in Nigeria. *An Unpublished M. Sc Dissertation Submitted to* Ahmadu Bello University Zaria.

Appah, E., & Sophia J., M., (2011). Mergers and Acquisations in the Nigerian Banking industry: An explorative investigations. The social sciences journal 6(3) accessed October 2013

Barker, N. and Noonan, S. (1995), Small Companies Compliance with Accounting Standards: *Irish situation DCUB Research Paper.*

Balogun O.,O., (2011) The capital market in Nigeria in historical perspective. Journal of History and Diplomatic Studies. www.ajol.info. Accessed October 2013

Dumontier, P.and Raffournier, B. (1998), Why Firm Comply Voluntary with AIS: An Empirical Analysis with Swiss Data. *Journal of International Financial Management and Accounting. Vol 9, March, 216-245.*

Ekoja, B. (2005), Disclosure Compliance with Accounting Standards for Fixed Asset and Depreciation by Listed Banks in Nigeria. *Nigerian Journal of Accounting Research*, Ahmadu Bello University Zaria. Vol 3, December, 78-94.

Imam, Z., Mohsen, O.,A., Ghasem, O., A (2012) Qualitative Characteristics of Accoutning Information in Reporting Values of Goodwill and Intangible Assets(Case Study of the Stock Exchange of Iran) Middle-East Journal of Scientific Research 11(1):32-38

International Accounting Standards Board, (2004), Business Combination Goodwill and Intangible assets.

Nigeria Accounting Standards Board (2007), Business Combination, *Statement of Accounting Standard*, 26.

Nobes, C.W. (1990), Compliance by US corporations with IASC Standard, *British Accounting Review.*

Okeji U., (2013). Reforms of Insurance Companies & Historical Transformations in Nigeria's Finance Market. Unpublished report www.academia.edu accessed October 2013

Salisu, M. (2006), An Analysis of the Accounting Standard On Operating and Finance Lease for Firms Quoted on The Nigeria Stock Exchange. *Nigerian Journal of Accounting Research*, Ahmadu Bello University Zaria. Vol 5, December, 75-83.

Shinhan Financial Group, (2012) Proposal of Alternatives for Goodwill Accounting, Issue paper 2012 www.ifrs.org/The...bodies/ accessed 2013,

Soludo, C., C., (2012). Consolidating the Nigerian Banking industry to meet the development challenges of the 21st century www.bis.org/ accessed October 2013

Taplin, R., Tower, G. and Hancock, P. (2002), Disclose (Discernibility) and Compliance of Accounting Polices: "Asia-Pacific Evidence" *Accounting Forum*. Vol 17, February, 172-190.

Tyrone, M.C and Guy, F. (2007), Goodwill Impairment: An Assessment of Disclosure Quality and Compliance Levels by large listed Australian firms. Macquarie.

Zimmerman J., L., and Watts R., L (1986) Positive Accounting Theory. Prentice Hall, Inc. Englewood Cliffs, New Jersey