

The International Financial Reporting Standard (IRS) and merger and acquisition in Nigeria

Juliet Chika Ekwugha & Bonaventure Chukwu
Kingsley Ozumba Mbadiwe University Ideato South, Imo State, Nigeria

KEY WORDS

Merger and
Acquisition,
Consolidation,
Central Bank,
Financial Reporting

ABSTRACT

The study seeks to examine the International Financial Reporting Standard (IRS) and merger and acquisition in Nigeria. The objective of the study is to determine the impact of international accounting standard in merger and acquisition in the development of the Nigerian economy, and investigate the effects of merger and acquisition on the confidence of the serving public, as well examined factors that hinder international accounting practice in merger and acquisition in Nigeria. The Researchers used expo-factor research design to conduct the research involving primary and secondary data collected from the central bank of Nigeria (CBN) 2013/2014 and 2015 to 2022 statistical bulletin. The analysis was presented and analyzed with the aid of students' T-test statistical tools and regression analysis using SPSS software which yielded a mixed result, with a higher positive result on international financial accounting practice in merger and acquisition. The researchers discovered that the Nigerian Accounting Standards Board have been replaced with the Financial Reporting Council Act 2011, they also discovered that institutions find it difficult to embark on voluntary merger until the CBN recommend for merger and acquisition. The researchers recommends that institutions considering merger should follow the international financial reporting standard (IRS) Banks and institutions should embark on voluntary consolidation instead of waiting for the CBN forced merger and acquisition.

1. Introduction

The relationship International Financial Reporting Standard is an integral part of corporate Governance and Accountability, is also an expression of effective corporate Governance. The concept was highly appreciated when evaluating the 2009 banking failure in Nigeria and the 2005 economic meltdown that started in America. This problem perhaps could have been detected early enough and pre-empted, but for questionable accounting and audit practices hence the lacuna. The resulting failures further minded the gap between what the stakeholders expect and what the audit firms believe was their responsibility. Michael Porter describes on early 1990 series of failures in the United Kingdom Financial institutions as adding fuel to continuing preoccupation with the expectations gap. However, the directors of companies have the statutory responsibilities to oversee the management of the affairs of their institutions and keep accurate books of account of the company.

Here lies the foundation of corporate financial reporting and regulation of the standard of financial reporting requirements for Nigerian companies and institutions are legally regulated by Nigerian Accounting Standards Boards (NASB), Institute of Chartered Accounting of Nigeria (ICAN), Association of National Accountants of Nigeria (ANAN) etc. The relevant laws on the subject of accounting and financial reporting are the Nigerian companies and Allied Matters Act (CAMA). The financial reporting is generally guided by sets of rules and regulations which have been collated into an Accounting Standard. The International Accounting Standard Board (IASB) is an independent organization based in London. Later the International Accounting Standard Committee (IASC) was set up on the initiative of Sir Henry Benson during the 10th World Congress of Accountants at Sydney, Australia in 1972. The International Financial Reporting Standard 2004 was issued to guide merger and acquisition popularly known as business combination.



IERS is a watch dog to merger and acquisition having excluded the following business combinations from its application. Merger involving the formation of joint venture; Merger affected by contract merger of selfish mutual entities and Merger of institutions under common control. etc. Ironkwo & Oglekwu (2016) Full compliance to international financial reporting standard (IFRS) plays a vital role in increasing and improving the acceptability and reliability of the instruments used in measuring corporate performance. Corporate performance in turn can be measured through the analysis and inter-pretation of the components that make up the financial statements (Ofrum, Ebge & Micah 2014) the evidence from a good number of studies carried out in different countries have highlighted the benefits of having a single set of financial reporting standard across the globes (Chen Jiang and Lin 2017)

Adejoh and Ilasnah (2014) proposed the need for a high quality and a uniform manner of accounting for which financial statements are to be prepared and presented giving rise to IFRS in 1972

1.1 Objective of the study

To determine the impact of International Accounting Standard in Nigeria and acquisition in development of the Nigerian economy. And to investigate the effects of merger and acquisition on the confidence of saving depositors.

The research will examine the factors that hinder International Accounting practice in merger and acquisition.

1.2 Statement of problem

The International Financial Reporting Standards IFRS and merger and acquisition is one of the most critical issues in the financial industry across the globe. Failure of countries and institutions in the past has made it imperative to promote international financial reporting standard and merger and acquisitions in developing countries. Financial standard around the world and the collapse of major corporate institutional have brought about the need for International Financial Reporting Standard and merger and acquisition of institutions (Onakoya, Ofoegbu and Fasanya 2012) lack of International Financial Reporting Standard (IFRS) was identified as one of the major factors in virtually all known institution of financial distress in all over the world.

Poor International Reporting Standard in 1990 when the supervisory authorities of the Nigerian Banking Sector perceived the distressed syndrome with the National Bank of Nigeria at the forefront further in 1994 over 31 banks have become distressed due to poor International Reporting Standard of banks management. In 2005 the central Bank of Nigeria published names of banks that quality the 31st December 2005 consolidation ignited by lack of International Reporting Standard, merger of financial institutions, resulting to the massive withdrawal of public sector funds from banks and insurance industry in Nigeria.

This ugly development in the financial sector motivated the CBN Governor to establish a hotline with a confidential internet address (governors@Cenbank.org) for all Nigerians wishing to share any confidential information with the Governor of the Central Bank on the financial recklessness and operations of any bank or insurance in Nigeria. This paper was motivated by the 2014 to date weak corporate Governance and merger and acquisition in Nigeria evidenced by high turnover in the board management of institutions, money laundering report, corruption and total noncompliance of regulations. These problems motivated low domestic saving and mass erosion of depositor's confidence in cooperate Governance.

2. Literature Review

The leadership and strategic work of Weish (2015) produced a template – style of strategic planning. The strategy termed vision and mission strategy is a search engine in corporate institutions. The template according to Weish defined vision as a philosophical dreams of

organisational intent, future direction and leading arrow to the promised land. He also saw mission as a political statement of purpose, innovation of human progress, and why they exist, and how they exist with sustainable solutions. (WEISH 2015).

Ajogwu Fabian (SAN) (2014) posits that directors of companies have the statutory responsibilities to oversee the management of the affairs of a company to maintain the books of accounts of that company. Ajogwu further stated that International reporting standard is justified by the forces of globalization, prompting countries to open their doors to foreign investments as businesses themselves expand across borders, both the public and private sectors are increasingly recognizing the benefits of having a commonly understood financial reporting framework supported by strong globally accepted standard. Thompson (2020) states that strategic planning for large institutions and Accounting Standards is based at corporate head office, and will typically comprise both corporate planners and auditors' analysts. Stiner (2021) emphasized that corporate planners and analysts help the top management to devise the planning manuals.

He further stressed that corporate planners must of course have conceptual or intellectual skills as their equipment to meet the responsibilities placed on their shoulder's perils of good International Accounting standard. A good International Accounting Standard says Professor Richard (2019) a senior executive who can spot a good and bad Accounting Standard posits that strategic planning is factor to International Accounting Standard, porter in a paper (2001) states that effective strategic planning gives a firm a competitive advantage as it renders choice about what not to do as important is choices about what to do.

Stopford (2001) opined that to remain competitive in a complex and competitive business environment, many organization are seeking to find new ways of conducting business. One of such is following International Accounting Standard, and the prime aim is to adopt the three classical model strategy of Structure – performance; Structure conduct performance and Resource based view. This will provide managers with the conceptional model and analytical tools to enable them plot a path for better Accounting Standard and maintain competitive advantage as posited in Chandler (1962).

2.1 The elements of accounting standards and corporate governance

Different authors and management specialist have argued that Accounting Standard and corporate governance required laid down procedures, processes systems and codes of regulations and ethnic that ensures its implementation in institution (Altunbas, Evans and Molynt 2001) some suggestions that have been understood in this respect include the need for institutions to set strategies which have been commonly referred to as corporate strategies for their operations and establish accountability for executing these strategies, El – Kharouf (2000).

While examining strategy for International Accounting Standard and Corporate Governance pointed out that corporate strategy is a deliberate search for a plan of action that will develop the corporate competitive advantage. In addition, the based committee on banking supervision (BCBS) 2009 contends that transparency of information related to standards, existing conditions decision and actions is integrally related to Accountability, in that it gives market participants sufficient information with which to judge the management of an institution. This is attested by the signing into law of the Financial Reporting Council Act (2011). The Act established the Financial Reporting Council to replace the National Accounting Standard. Board (NASB) and is expected to function as a united independent regulatory body for accounting, auditing, actuarial, valuation and corporate governance.

IFRS and merger and acquisition Fabian Ajogwe San (2014). The IFRS that relates to merger and acquisition, the Board of both companies must be assured of the legality and appropriateness of the proposed acquisition in order to fulfil their due diligence obligations. Further the director of the merging companies owes their respective shareholders the duty of good faith and fair dealing.

2.2 Conceptual Framework

The first recorded move towards accounting standard proposal was the Accountants International Study group (AISG) conducted by the professional accountants in Canada and United Kingdom and USA in 1966. Their move was to develop a comparative study of accounting and auditing practices on the three nations. Sir Henry Benson forwarded a proposal and set up an international accounting standard committees (IASC) in Sydney in 1972. Chakrabary (2011) believes that IFRS as a standard are meant to attain the objectives of standardization of the varied accounting principles and policies obtained across the globe and enhancing comparability of financial statements which are transparent thereby eliminating the element of subjectivity in accounting statements.

2.3 Theoretical framework

The researchers adopted the theory of synergy of Jundra (2002). This centres on the concept that the value and performance of two or more institutions combined would be greater than the sum of the separate individual company and the popular definition of synergy according to Jindra is $1 + 1 = 2$ or $1 + 1 = 3$. Meaning that synergy is often a driving force behind merger and acquisition. The synergy theory of merger and acquiring a firm achieve efficient gain by combining two effective and efficient firm. Another theory adopted by the researcher is the cybernetics theory of communication. The dissemination of information from top to bottom levels of management is enormous in this globalization era. This theory according to Karl Deutsch (1963) stated that cybernetics theory deals with information which can be analyzed for decision making in any organization. The theory is crucial in reporting international accounting starting standard to various stakeholders for the institutions.

2.4 Empirical Studies:

Kaya (2015) investigated the impact of international financial reporting standard (IFRS) on merger acquisition and earning to management. The study applies a desktop review to investigate the worldwide existing empirical research evidenced on the impact of IFRS on earnings and in relation to other reporting standards and reports, whether the reports are not comparable between the developed and developing countries. The findings reveal that the existing empirical studies on IFRS benefits the developed and the developing economies Isenmila and Adeyeno (2013) in Konze etal (2023) in a perception-based analysis of the mandatory adoption of IFRS in Nigeria to aid mager and acquisition. The researchers adopted the use of questionnaires, survey method to seek the respondent's opinion on the adoption of IFRS. Specifically, the study expected to be of immense significance to equity investors and institutions. The research employed the G test statistical tool in resolving the three hypotheses in the research. The result shows the perception of the stakeholders about the desirability of the mandatory adoption of IFRS.

In the study of Bollinger and Nguyen (2003) which centred on empirical evidence on the motive of merger and acquisitions in eight food industries in USA it was discovered that only in two out of the eight industries that merge had a negative impact on productivity and accounting standards. This discovery is consistent with Baldwin (2019) who found that acquired Canadian manufacturing plants of all type had higher productivities than other Canadian plant which did not experience merger and acquisition. Mccarty (2012) merger and acquisition are triggered by economic downturn and accounting standards.

3. Methodology

The researcher adopted expost facto research design with the Central Bank of Nigeria (CBN) statistical bulletin 2022. And the aggregative deposits of assets and liabilities of the Nigerian banking industry. Model Specification:

Y = The dependent variable
 X_x = Independent variable
 B_o = The slop (beta)
 N_1 = error term

$$\text{Given } T = \frac{\bar{x}-\bar{y}}{sn \sqrt{n}}$$

Where T = t test statistics
 Sr = Standard deviation
 n = the sample Size (years)
 xy = (respective mean of the pair x and y)

4. Results

Table 1: Summary of Information from CBN Using T-Test Descriptive Statistics Review

Variables	PSD	PRD	PUD	TSD	TTD	TDD	TDL
Pre- merger mean	200.70	624.70	85.09	202.70	217.50	422.40	910.11
Post- merger mean	1,424,30	6.882.4	1546.4	1.435	27.48	4289.7	9705.80
Paired Diff. mean	1223.60	6.257.7	1461.3	1233.	2530.8	3867.3	8795.70
t-statistics	6.528	8.980	3.306	6.548	7.529	7.455	6.495
Prob. t-statistics	0.000	0.000	0.013	0.000	0.000	0.000	0.000

Source: SPSS output (2.0)

4.1 Model Specifications:

1. PSD = Private sector deposits (t-value 6.528, p-value = 0.000)
2. PRD = Private sector aggregate deposits (8.98)
3. PUD = Private sector deposits (3.306)
4. TSD = Total saving deposits (6.54)
5. TTD = Total time deposit (7.529)
6. TDD = Total Demand deposits (7.455)
7. DTDL = Total deposit liability (6.495) Dm (3f) 4.80.

4.2 Testing of mean (3) objective using 5% level of significant (0.05)

The researcher used a negative hypothesis to test the objectives of the study: There is no positive impact using international accounting standard in merger and acquisition in the development of the Nigerian economy. There is no confidence of the saving public in merger and acquisition. And there is no relevant factor that hinder international accounting practice in merger and acquisition in Nigeria.

4.3 Testing of Null Hypothesis/Results

The first null hypothesis was rejected as the t-test statistics of 3.306 has a probability value of 0.013 which is less than the significance level of 0.5. The second hypothesis was rejected as the t-test value of 4.950 with a probability value of 0.013 which is less than the significance level of 0.5. The second hypothesis was rejected as the t-test value of 4.950 with a probability value of 0.000 which is less than the significant value of 0.05. The third null hypothesis was also rejected as t-test value of 4.950 with a probability-value of 0.000 which is also less than the significant value of 0.05. The summary of findings: the Researchers rejected the three (3) null hypothesis and accepted an alternative hypothesis and accepted an alternative hypothesis, meaning that institutions should follow the international financial reporting standard (IRS) in merger and acquisition in Nigeria.

5. Conclusion

To ensure long-term economic stability and institutional growth, Nigerian financial entities must transition from reactive to proactive corporate strategies. This study concludes that strict adherence to the International Financial Reporting Standards (IFRS) is no longer optional but a fundamental necessity for successful Mergers and Acquisitions. Aligning with the Financial Reporting Council Act of 2011 will make the institutions to provide the transparency required to restore depositor confidence. Furthermore, banks should prioritize voluntary consolidation over the Central Bank of Nigeria's forced intervention. This proactive approach, coupled with leveraging the national cashless policy, creates a more resilient financial framework. Ultimately, the integrity of these processes relies on the human element; organizations must entrust financial reporting to highly competent, reputable accountants and auditors. Such professional rigor ensures that stakeholders receive accurate data, fostering a culture of accountability that drives both institutional success and broader national economic development.

References

- Ajogwu F. SAN (2014). Merger acquisition and international Reporting Standard. Published by Mbayi Associated Lagos.
- Altanbas Evans and Molyment (2001). Recent Development in corporate governance journal v.7 no17
- CBN Statistical Bulletin (2022) unpolished paper by the CBN Lagos. Chakrabary M (2011) Journal of finance and Accounting Vol 2 No 2 P 114-125
- Chen Il, Tang Q. Jiangy and Linz (2017) The role of International Financial Reporting European Union journal of Accounting
- E.L. Kharoof (2000). Corporate Governance and Islamic Bank operating in Pakistan. International Journal of Contemporary research in business v.6 no 2.
- Ironkwe U.A & Ogelekwu M. (2016) International Financial Reproting Standard (IFRS) and corporate performance of listed companies in Nigeria ILARD international Journal of Banking and Finance Research (2) p 1-13
- Iseemila S. & Adeyemo P. (2013) Journal of Accounting and Finance Published by Association of National Accountants of Nigeria (ANAN) 2 (2) p 114-125
- Jundra A. (2002) Board Dynamics and corporate performance Review of Literature and Empirical challenges. Journal of economics and finance vol 16. No 2 pp 70-80.
- Karl Deutsch (1963). Corporate Accounting and Reporting. An Essential Record for Corporate Governance. Published in India School of Business (1963).
- Kaya I.O. (2015) the impact IFRS in Earning Management. Journal of Finance and Accounting 3 (3) p57-65
- Maccarty (2012). The corporate Governance of Banks Economics policy review vol 16 no.2 pp 89-102
- Michael P. (199) Corporate governor and Accountability published by Nk press
- Stiner A.U. (2021). Corporate Governance and Equity prices. Quarterly Journal Of Economics vol 118 pp.107-125.
- Stopford P. (2001) strategic Economic policy in South Africa Journal of Economics and Accounting vol 5 no 2 pp 15-27.
- Thompson .S. (2020). Strategic Management and corporate planning published by oxford press.