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TREATMENT OF ACQUIRED GOODWILL AND EARNINGS MANAGEMENT: THE NIGERIAN BANKING SECTOR CONSOLIDATION EXPERIENCE

BY

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Abstract

In line with the postulates of positive accounting theory, the study was carried out to check patterns of CEO discretion in treating acquired goodwill and earnings management in the post-Bank Consolidation era in Nigeria. The population of the study was the 25 banks that emerged after the consolidation process out of which a sample of 18 banks were selected judgementally. Different approaches were used to examine the reasons of the two bank procedures (those banks that write off goodwill through the profit and loss account and those that write off goodwill through the share premium account). The size of the bank, the type of compensation given to executives, the proportion of owner-directors on the board of directors, and the gearing ratio were all factors that were examined for their effect on employee motivation (leverage). Among the factors that were statistically significant, only the incentive based on profit percentage and the number of owner-directors differed between the two groups. The Study recommends a return to a rule-based approach in treating acquired goodwill [as already introduced for private firms in the USA] as there is too much discretion for earnings management in the impairment-only model.

Keywords: Acquired Goodwill, Earnings Management, Commercial Banks

1. Introduction

The research on earnings management has highlighted several managerial motivations that may impact reporting decisions. Goodwill impairment accounting has generated concerns about management compensation, public image, debt contraction, and market value. According to Scott (2008), both "big bath accounting" and "income smoothing" are related with discretionary accruals and goodwill impairment in an organization's earnings management. Big-bath accounting's one-time overestimation of losses in periods of negative or below-average earnings is the opposite. Overstating losses in periods of exceptionally high profits is a form of income smoothing. Accounting rules require managers to do periodic impairment tests, but they provide them wide latitude in determining whether goodwill's value has decreased and whether a loss on impairment should be recorded in the books. One might make an argument for and against the influence of latitude granted by accounting rules on the quality of financial reporting. Suppose management uses their discretion in accordance with standard-setting principles. In that case, investors can gain more meaningful and value-relevant information about the company's future cash flows. Managers may be tempted to misuse their ambiguous discretion in order to make the financial statements less accurate and more reflective of the underlying economics of the organization. Reports have been published by Abu Ghazaleh et al. (2011), and by Ramanna and watts (2012), as well as by Saastamoinen and pajunen in 2016 to name just a few. According to Healing and Wahlem (1999), accounting standards that rely on managerial estimates but are difficult for other parties to verify may make management opportunism and earnings manipulation viable.

Goodwill is an intangible asset that reflects the future economic advantages of other assets acquired in a company combination that can't be specified and recognized on their own (IFRS 3). The IAS 36 requires that goodwill be evaluated for impairment on an annual basis using estimates of its current fair value, rather than being amortized. According to Chalmers, Godfrey, and Webster, regular impairment tests

and detailed disclosures should improve the reality of earnings and promote transparency, so that financial statement readers may get more relevant and useful information (2011; Massoud & Raibom, 2003).

According to Lhaopadcham (2010), Qasin, Haddad, and Abughazaleh (2013), and Troberg (2014), the fair value-based approach gives management considerable discretion in determining whether goodwill has decreased in value and the magnitude of the potential loss of impairment to be recognized in the financial statements (2013). If the estimations employed in the impairment test and the valuation techniques are difficult to verify by other parties, management may be tempted to utilize its discretion for opportunistic aims. Economic issues are more likely to cause a goodwill impairment than other causes, according to Chalmers, Godfrey and Webster (2011) as well as Jarva (2009). In the accounting literature, this new accounting method for goodwill has been criticized. Managers' unsubstantiated assumptions are regarded to be the primary source of complexity and hazard in goodwill asset enhancement operations (Ji, 2003). It has been estimated that the reported goodwill impairment is one to two years behind the economic goodwill impairment, according to Amiraslani, Latridis, and Pope (2012, 2009), and Ojala (2007, 2008).

If accounting regulations have accomplished their intended purpose of providing financial statement users with more relevant and timely information, it is unclear how CEOs apply their discretion. Also in Nigeria, banking sector mergers revealed the CEOs' discretionary authority to decide how acquired goodwill should be treated. To bridge the gap, this study was conducted by a reputable academic.

Purpose and Motivations of the Study: The purpose of the study was to examine the behaviour of banks in handling post mergers goodwill. The aim was to identify earnings management behaviour. The main issue under study in this article is that accounting methods used in Business Combination determine the dirty surplus flows (goodwill and asset revaluation), which in turn affects the outlook of profits in the financial statement. The study investigates the factors that influenced banks to use different methods in treating goodwill. Specifically, the objectives of the study are to:

i. Ascertain the relationship between method of treatment of goodwill and magnitude of the goodwill figure in the merger and acquisition.
ii. Determine the relationship between method of treatment of goodwill and the size of a bank.
iii. Find out the relationship between type of executive compensation and method of treatment of acquired goodwill.
iv. Investigate the extent of relationship between the level of leverage and the method of treatment of goodwill
v. Survey the relationship between percentage of ownership by Bank Directors and the method of treatment of goodwill.

Research Questions:
In order to achieve the study's goals, the following research questions have been prepared.

i. What is the extent of relationship between method of treatment of goodwill and magnitude of the goodwill figure in a merger and acquisition?
ii. What is the extent of relationship between size of a bank and the method of treatment of goodwill?
iii. What is the extent of relationship between executive compensation and method of treatment of acquired goodwill?
iv. What is the extent of relationship between the level of leverage and the method of treatment of goodwill?
v. What is the extent of relationship between the level of percentage of ownership by Directors and the method of goodwill treatment?

Research Hypotheses: the tentative statements highlighted below are generated from the research objectives.

H01: There is no significant relationship between method of treatment of goodwill and the magnitude of the goodwill figure in the merger and acquisition.
H02: There is no correlation between a bank's size and the way goodwill is handled.
H03: A company's manner of acquiring goodwill does not substantially impact CEO remuneration.
H04: There is no significant relationship between level of leverage of a bank and method of treatment of acquired goodwill.
H05: Directors' ownership percentage and the way acquired goodwill is treated have no meaningful relationship.

Significance of the Study: In the Nigerian context where all banks used the purchase method with variations. This study is significant in that, the study investigates earnings management behaviour and executive discretion motives in the treatment of post-merger goodwill. The magnitude of dirty surplus flows generated during the M & A is measured. The study has added evidence on dirty surplus flows in Nigerian banking mergers. It will therefore be of interest to practitioners and accounting standard setters.

2. Review of Related Literature

2.1 Conceptual review

Scholars, practitioners, standard setters, and consumers of financial statements have long disagreed on how to account for goodwill. While some academics (Bugeja & gallery, 2006; Qasim et al., 2013) suggest that goodwill should be included in the statement of financial status, Gore and Zimmerman (2010) disagree. International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) regard the goodwill gained during a merger as an asset notwithstanding these issues. The academic part of the research focused on significant theories and concepts.

2.1.1 Goodwill

By Stora's definition from 2013, goodwill is the difference between a company's assets utilized for one specific entity and the value of its assets used for general purposes. As a result of this, a business has goodwill if the total market value of all of its assets exceeds their separate fair market values. In contrast, according to Scott (2008), goodwill is created when a company's net assets are able to yield more than its cost of capital. For Seetharaman et al. (2005), goodwill was defined as the value of reputation, positive stakeholder relations, and well-trained employees.

Acquired Goodwill: Acquired goodwill can be defined in a variety of ways, and Johnson and Petrone (1998) offer two distinct perspectives on the topic. It may be seen from a "top-down" or "bottom-up" perspective. While the top-down approach sees goodwill as an inherent part of a bigger asset, the bottom-up view breaks down goodwill into its constituent parts. According to the authors, there are six possible components to a goodwill asset:

i. Difference between the book value and fair value of newly acquired net assets.
ii. Other assets that were not recognized by the acquirer's financial statements
iii. The fair market worth of the acquired business as a going concern
iv. how much value may be derived from synergies that result from the merger of two companies.
v. It is possible for an acquirer to overvalue or undervalue the consideration they pay for a product or service.

2.1.2 Earnings Management

He describes Earning Management (Scott 2008) as a deliberate intervention in reporting processes for private gains. It is said that Earning Management is the practice of manipulating financial reporting and transaction structure to either deceive some stakeholders about the company's economic success or to affect contractual outcomes that are dependent on the reported accounting figures (Healy & Wahlen, 1999). Fraudulent accounting, accruals management, and genuine earnings management are all Earning management examples. Fraudulent accounting is characterized by the use of accounting procedures that are inconsistent with the norms of the industry. Making GAAP choices that obfuscate or disguise economic performance is a part of accruals management (Dechow & Skinner, 2000). A manager's activities that vary from the best practice of their company in order to boost reported earnings are known as real earnings management (RM).

Accrual management is performed instead of influencing underlying economic activity by adjusting accounting methods used to record such activities. When it comes to real profit management, the company's core processes must be changed in order to reach the desired results (Katherine Gunny 2005). Many academics have associated earnings management with discretionary accruals, low management costs when compared to cash flow flexibility, and low management costs when compared to cash flow flexibility. Aside from the work of Healy (1985) and Bushee (1998), Dechow et al (2003) found no evidence to support the idea that discretionary accruals may explain zero-earnings discontinuity. According to Beaver et al, non-discretionary accruals may have a role in some of the discontinuities (2003).

2.2 Theoretical Framework

This research work is premised on positive accounting theory as a result of its relevance to the study.

Positive Accounting Theory: Using a theory, Positive Accounting Theory (PAT) is able to forecast which accounting practices management would choose. An efficient securities market is a given in the theory. Assuming managers are rational also implies that they will not always behave in the best interest of shareholders. As a result, managers are viewed as being self-centered and acting solely in their own self-interest. The debt covenant hypothesis and the bonus plan hypothesis are two of the main pillars of positive accounting theory. Assuming management self-interest, these hypotheses can be easily understood and are compatible with the theory. Accountability is an element of the whole management process, thus managers use accounting rules to achieve their goals.. The three most significant managerial objectives include:

- Maximise the utility of compensation.
- Minimise problems with creditors.
- Minimised political heat.

2.3 Empirical Literature Review

SFAS 142 goodwill non-impairment was examined by Ramanna and Watts (2012). They wanted to know if a company's choice to sever goodwill was linked to secret knowledge about the company's future cash flow or proxy for managerial opportunism. According to the authors, the non-impairment can be explained by other variables, such as reporting unit size and the percentage of unverified net assets. The study's sample includes 124 companies with book-to-market ratios greater than one in each of the years 2003-2006. This is a sign that the market is indicating that goodwill has been damaged. According to the study authors, goodwill non-impairment does not appear to be a reflection of managers' secret information about future cash flows. Instead, the authors discover a strong link between CEO cash pay and longevity, worries about debt covenant violations, and goodwill non-impairment. The authors conclude that managers when motivated by agency-based reasons, avoid prompt identification of SFAS 142 goodwill impairment losses.

Jahmani, Dowling, and Torres have explored income smoothing (2010). 177 SFAS 142-compliant firms from 2003 to 2005 were analyzed to see if managers chose to recognize goodwill impairment in an opportunistic manner. Most enterprises reporting losses and earning poor returns for at least a year recognized loss of value over the three-year period

studied by the authors. Goodwill losses are prevented during times of financial crisis, according to the study's findings.

How can companies avoid disclosing goodwill impairment losses in accordance with SFAS 142? Filip, Jeanjean, and Paugam (2015) used a sample of 38667 firm-year data from 2003-2011 to solve this question. The authors predicted that managers may falsify current cash flows to support their non-impairment choice since they had to estimate future cash flows. The authors utilize industry year and lagged market-to-book ratio to identify companies that are deferring substantial goodwill impairments. Goodwill impairments are better managed by companies that delay them than by those that don't delay them, say the authors. Disposable cash flow is much higher among the non-impairers. According to the authors, the data are consistent with the theory of actual earnings management. Identifying impairment losses led the writers to additionally find evidence of big profit management in the bath. Additionally, academics have expressed concern about how the CEO's traits affect goodwill impairment assessments since senior management and particularly the CEO play such a critical role in the impairment testing process.

According to a study by Master-Stout, Costigan, and Lovata (2008), the longer a CEO has been in his or her position, the more goodwill impairment losses the company has suffered. Corporations between 2003 and 2005. Since the position and duties of CEOs have drastically changed throughout time, there are a number of reasons why this is the case. Researchers devised an equation that relates reported goodwill impairment losses to net income and the length of time CEOs have held their positions. A CEO is deemed new in the report if he or she was appointed during the previous two years. The authors suggest that rookie CEOs have a more adverse influence on the company's status than their more experienced peers. In years of poor performance, goodwill impairments are utilized to create earnings baths, according to the findings.

In order to determine the link between CEO pay and reported goodwill impairment losses, Darrough, Guler, and Wang (2014) examined 3543 U.S. business year data from 2002 to 2009. Also examined is how a company's remuneration is affected by its acquisition, the salary of its CEO, and other factors such as those mentioned above. The authors hypothesize that compensation committees relate CEO remuneration to goodwill impairments due to the possibility that bad management and suboptimal acquisitions are to blame. Cash, option, and restricted stock compensation all have their own regression models. Following a goodwill impairment, cash and option-based remuneration was significantly reduced. Cash remuneration for CEOs is affected more severely in firms that have spent more on their objectives and have a less-tenured CEO. For CEOs in their first year in office and those who concurrently serve as board chairman, goodwill impairment is less of an issue. Consequently, CEOs who disclose impairment losses may see their remuneration cut by the pay committee.

Miller, Neamtiu, and Riedl (2012) examined 653 publicly listed American Shares Exchange, NASDAQ, and NYSE businesses from 2002 to 2007 to see if management sold their own firm's stock strategically before realizing potential goodwill impairment losses. Goodwill impairment should be disclosed only when stock prices do not accurately reflect the economic loss, say the authors. For this reason, the authors studied insider trading previous to each impairment statement for the two years preceding the revelation of each impairment statement. According to the findings of the study, more corporate insiders of firms who recognize goodwill impairment losses sell their shares than those of organizations that do not. They claim that delayed goodwill impairments are favorable for managers because of the information gap between managers and investors in respect to these losses.

A survey of incentives was conducted by Glaum, Landsman, and Wyrwa (2015) to investigate if companies with different pre-impairment profits levels used IFRS goodwill impairment accounting to manage their earnings. With the use of regression analysis, we can look at both upward and downward management of profit margins. There were 19,846 years of business data collected between 2005 and 2010 from 40 jurisdictions that perform a goodwill impairment test. Empirical evidence shows that companies fail to recognize losses due to impairment that would keep them from achieving certain financial goals. Because of this, the author believes that managers do utilize the IFRS discretion to control results to some extent.

Saastamoinen and Pajunen (2016) positively examined goodwill in finish (Finland) listed companies. To better understand how reporting incentives and the stock market affect the likelihood of goodwill impairment recognition and the size of the recognized impairment losses, the authors examine financial firms from 2005 to 2009. Goodwill impairment is estimated using logit regression and the OLS model, which incorporates proxies for CEO change and salary as predictors of impairment losses. The writers also take into account factors such as business size, leverage, and the government's shareholding. According to the findings, CEO turnover is significantly associated with a decline in goodwill.

Giner and Pardo (2015) examined the goodwill of Spanish publicly traded corporations for evidence of degradation. Study after study has found that corporations with larger market capitalization and lower book-to-market ratios are more likely than smaller enterprises to recognize impairment losses.

A study by Carlin and Finch (2009) looked at the impact of management discretion on the selection of discount rates for impairment testing. A single discount rate is used to all Australian publicly listed firms that utilize the value-in-use method for goodwill impairment assessment. All 105 example firms' discount rates are calculated using the CAPM. The independent risk-adjusted estimate of discount rates was found to be more than 150 basis points higher in 54% of the sample enterprises. For example, the data show that corporations are able to avoid goodwill impairment losses by

choosing discount rates that are excessively low. The authors also expressed major concerns about the appropriateness of the present reporting criteria due to large discrepancies in disclosure compliance and quality.

The accountant uses the cost technique to assess the current cost of re-creating the goodwill components. It's common for the cost strategy to use a component repair technique. Individual components that make up an organization's value are first listed in a process called "component restoration." Replacement costs for each goodwill component are estimated in the second step. When calculating the value of the corporation's physical assets and discernible intangible ones, the restoration technique includes a consideration of the foregone revenue (called an opportunity cost in the cost approach).

3.0 Methodology

Ex-post facto is the study's research design. There were 89 banks in existence when our data was collected, but only 75 crossed over either through mergers or acquisitions, private offers, or public offers, and 14 ended up being dissolved. After this procedure, there were 25 mega banks. The population of study consists of all 75 banks that took part in the consolidation process. A total of 25 banks were used in the study from which samples of 16 acquirer banks were selected through judgemental sampling technique. Five research questions and five hypotheses guided the study. Difference of means and correlation was used to analyse the data obtained through secondary data.

4.0 Data presentation and Analysis.

Variable of Banks that used Share Premium Account to write off Goodwill.

Table 4.1 Data Presentation

Bank	Goodwill	% Owned	Leverage	Bonus	Total Assets	Capital
UNION	15,721	5	13.15	736	1,238,797	58
UNITY	17,085	5	8.35	216	131,032	30
FIDELITY	2,553	10.6	3.04	222	506,267	29
FIRST BANK	3,968	3.11	7.11	669	2,009,914	44.62
UBA	14,080	6.6	12.31	764	1,672,991	50
AFRIBANK	2,194	4.9	8.22	312	352,270	29
STERLING	4,978	18.39	6.25	129.46	248,847	25
STANBIC	46,585	50.7	3.22	720	351,253	35
FCMB	3,878	12.6	4.7	627	515,602	30
TOTAL	**111,042**	**116.9**	**66.35**	**4,395.46**	**7,026,973**	**330.62**

Variable of banks that used Profit and Loss a/c to write off Goodwill.

Table 4.2 Data Presentation Two

Bank	Goodwill%	Owned	Leverage	Bonus	Total assets	Capital
ACCESS	8240	9.95	5.45	62.66	710,326	28.5
DIAMOND	4180	14.8	5.02	34.3	682,078	33.25
SKYE	2516	12.11	8.04	280	790,708	37
PHB	5962	30.49	7.63	288	1,038,318	26
INTER	3156	13.65	5.39	384	1,392,210	51.7
OCEANIC	928	17.8	8.21	216	1,246,182	33.1
WEMA	5315	42	5.76	110.1	165,082	26
TOTAL	**30297**	**140.8**	**45.5**	**1375.06**	**6,024,904**	**235.55**

Results

Table 4.3. Summary of Descriptive Statistics 1

	Goodwill	Owned	Leverage	Bonus	Total assets	Capital
Mean	12338.00	12.98889	7.372222	488.3844	780,774.8	36.73556
Median	4978.000	6.600000	7.110000	627.0000	506,267.0	30.00000
Maximum	46585.00	50.70000	13.15000	764.0000	2,009,914.0	58.00000

Minimum	2194.000	3.110000	3.040000	129.4600	131,032.0	25.00000
Std. Dev.	14161.19	14.95260	3.604115	261.6896	683,328.9	11.40962
Skewness	1.715549	2.022581	0.400454	-0.249608	0.848185	0.828437
Kurtosis	4.926771	5.758406	2.010542	1.257770	2.126374	2.236663
Jarque-Bera	5.806831	8.989553	0.607680	1.231718	1.365334	1.247968
Probability	0.054836	0.011167	0.737979	0.540177	0.505268	0.535806
Sum	111042.0	116.9000	66.35000	4395.460	7026973.	330.6200
Sum Sq. Dev.	1.60E+09	1788.643	103.9172	547851.6	3.74E+12	1041.435
Observations	9	9	9	9	9	9

Source: Authors' computation using E Views 9.0

TABLE 4.4 Summary of Descriptive Statistics 2

	Goodwill	**Owned**	**Leverage**	**Bonus**	**Total assets**	**Capital**
Mean	4328.143	20.11429	6.500000	196.4371	860700.6	33.65000
Median	4180.000	14.80000	5.760000	216.0000	790708.0	33.10000
Maximum	8240.000	42.00000	8.210000	384.0000	1392210.	51.70000
Minimum	928.0000	9.950000	5.020000	34.30000	165082.0	26.00000
Std. Dev.	2421.663	11.75731	1.393150	130.7465	409460.8	8.954096
Skewness	0.232108	1.063821	0.261191	0.052920	-0.348781	1.225238
Kurtosis	2.196916	2.629058	1.220083	1.612726	2.342124	3.443120
Jarque-Bera	0.250962	1.360466	1.003621	0.564588	0.268156	1.808681
Probability	0.882073	0.506499	0.605433	0.754052	0.874522	0.404809
Sum	30297.00	140.8000	45.50000	1375.060	6024904.	235.5500
Sum Sq. Dev.	35186701	829.4058	11.64520	102567.9	1.01E+12	481.0550
Observations	7	7	7	7	7	7

Source: Authors' computation using E Views 9.0

Table 4.5 Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Goodwill & Goodwill 2	7	.433	.332
Pair 2	Owned & Owned 2	7	.586	.166
Pair 3	Leverage & Leverage 2	7	-.607	.148
Pair 4	Bonus & Bonus 2	7	.391	.386
Pair 5	Total Assets & Total Assets 2	7	.520	.231
Pair 6	Capital & Capital 2	7	.204	.661

From Table 4.5 results, we can say that: GDW 1 & GDW 2, BONUS 1 & BONUS 2 and CAP 1 &CAP 2 scores were weakly and definitely connected with (r=0.433, p<0.332), (r=0.391, p<0.386) and (r=0.204, p<0.661) respectively. While OWNED 1 & OWNED 2 and TASSETS 1 & TASSETS 2 scores were strongly and positively correlated with (r=0.586, p<0.166) and (r=0.520, p<0.231) respectively. Whereas, the result of LEV 1 & LEV 2 score were strongly and negatively correlated with (r= -0.607, p <0.148).

Table 4.6 Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	GDW - GDW2	4326.00	6007.38	2270.58	-1229.90	9881.90	1.91	6	.105
Pair 2	OWND- OWNED2	-12.46	9.66	3.65	-21.39	-3.52	-3.41	6	.014
Pair 3	LEV - LEV2	1.85	4.47	1.69	-2.29	5.98	1.09	6	.316
Pair 4	BNUS - BNUS2	239.06	254.58	96.22	3.61	474.51	2.48	6	.048
Pair 5	TSSET - TASSET2	19316.29	644225.65	243494.40	-576493.07	615125.64	.08	6	.939
Pair 6	CAP – CAP 2	4.30	14.04	5.31	-8.69	17.28	.81	6	.449

From the paired sampled test in table 4.6 above. The results exposed that there is a substantial average variance between GDW 1 and GDW 2 scores at (t6=1.905, p<0.105), while the results for Pair 2 (OWNED – OWNED 2) scores (t6= -3.412, p<0.014), Pair 3 scores (t6=1.093, p<0.316), Pair 4 scores (t6=2.484, p<0.048), Pair 5 scores (t6=0.079, p<0.939) and Pair 6 (CAP – CAP 2) scores (t6=0.809, p<0.449) respectively.

Comparatively, the average scores for banks that write off Goodwill using a Profit and Loss account and banks that write off Goodwill using a share premium account are as follows: There was a 95% confidence interval (95 percent CI) of -1229.90 to 9881.9 for GDW 1 scores, a 12.46 point difference in OWNED 2 scores, a 1.85 point difference in LEV1 scores, a 239.06 point difference in BONUS 1, and a 19316.29 point difference in TASSETS 1 scores (95 percent CI [-576493.07, -576493.07) for TASSETS 2 scores). The GDW 2 average score was 4326, which was a -129.90 to 9881.9 point difference (95 percent CI[-8.69, 17.28]).

Decision Rule

The Paired Samples Test statistics rules states that, If the tested probability is lesser than 5 percent significance (P <0.05), that the Null hypothesis (H0) should be rejected, and accept the Alternate Hypothesis (H1). This implies that the 'Means' are significantly different from the paired variables. Conversely, If the tested probability is greater than 5 percent significance level (P>0.05), we are to accept H0 and reject H1. This on the other hand reveals that the 'Means' are not significantly different from the paired samples or variables.
This means that, as a consequence of the foregoing results, the Null Hypothesis (1, 3, 5, and 6 correspondingly) will be accepted based on the paired samples (1, 3, 5, and 6). There is no statistically momentous variance between the Alternate Hypotheses (2 and 4) in the two sets of paired samples (2 and 4), therefore it may be concluded that they are accepted in that order.

Discussion

Goodwill values were extraordinarily high compared to the purchase considerations that were paid. Many of the banks did not disclose the acquisition equation as is required. Acquisition equation is purchase consideration equals goodwill plus fair value of assets taken over. For the banks that disclosed their acquisition equation, the following goodwill to purchase consideration percentage was obtained. Access Bank 67%, Diamond Bank 71%, FCMB 64% Skye Bank 43%. Union Bank and WEMA Bank generated goodwill figures that were far above their purchase consideration because the banks they acquired had net liabilities instead of net assets. The goodwill to purchase consideration ratio was 331% for Union Bank and 117% for WEMA Bank. This ratio was simply too high for what goodwill represents. In order to compensate firms, accountants utilize goodwill treatment as a workaround since businesses aren't valued based on their net assets, but rather on their future cash flow forecasts. The fair worth of the assets and liabilities that the seller intends to transfer is not taken into consideration while negotiating prices. This is why the goodwill figures were greater even in cases where there were net obligations to be taken over than in cases where there were net assets. The idiosyncrasies of Nigeria's banking industry mergers exacerbated this scenario, which was made worse since Nigerian banks were required to recapitalize to 25 billion naira in capital. Three options are available to satisfy this requirement:

i. To raise money from the capital market
ii. To raise fair value of net assets acquired as high as possible so that when the assets are combined the target of 25 billion can be achieved and
iii. After exploring the second option, the third and remaining option was to raise purchase consideration as much as possible in a bid to meet up with the target of 25 billion.

While this was done to meet the CBN requirement it also threw up serious goodwill problem for the banks. For Example, Lo and Lys (200) reported that U.S mergers and acquisition only 14% of their observation reported dirty

surplus flows that are larger than 10% of the clean surplus income. Similar result were found in New Zealand data (Cahan, et al, 2000), Canadian firms (Kanagaretriam, 2004), but in the Nigerian Banking Sector M & As dirty surplus flows accounted for over 37% of clean surplus income.

5.0 Summary of Findings, Conclusion, and Recommendations

The following findings emerged at the end of the study

- Total Goodwill Figure generated by the mergers and acquisitions that took place in the Nigeria banking sector between 2005-2010 amounted to over 141 billion naira. With Stabic IBTC (45.5b) Union Bank (15.7b) followed by UBA (14.08 billion) and Access Bank (8.2 billion) as the highest figures.
- Asset Revaluation surplus during the period amounted to a little over 129 billion. Actually many banks gave little or no information about asset revaluation in their financial statement. Banks like UBA had surplus of 25 billion, Union Bank 14.9 billion, etc. Therefore total dirty surplus flows arising as a result of bank mergers and acquisitions amounted to over 270 billion naira.
- Treatment of Goodwill: Bank CEO's used their discretion to treat acquired goodwill the way it suited their purpose. The following banks which used the purchase method in accounting for their business combinations amortized goodwill for five years according to section (21)(2) of schedule two of Companies and Allied Matters Act of 1990 as Amended: Access Bank, Diamond Bank, First Bank (two years) Oceanic Bank (in one year) Wema Bank, FCMB, Sterling bank.
- The following banks wrote off their goodwill through the share premium accounts that were created through extraordinary general meeting of shareholders and court sanctions. Union Bank, UBA, Afribank, Stanbic IBTC.
- In 2007, the Nigerian accounting standards board (NASB) released the SAS 26 standard for business combination with retroactive powers, which states that the goodwill shall be subjected to yearly impairment testing and impairment losses should be written down via the profit or loss. First bank (earlier wrote of through share premium but later yielded to NASB), Unity Bank, and Bank PHB. These ones merely tested for impairment
- For hypotheses 2 and 4 the null hypothesis was rejected. This means that CEO discretion was biased in favour of type of executive compensation and percentage of owner directors.

Conclusion

The study concludes that CEOs used their discretion in dealing with post-merger goodwill even those banks that amortised goodwill through the profit or loss account did not follow the 5 years amortization period prescribed by the companies and allied matters act. Some banks used one year, some used two years and others used three years as if the prevailing methods was not ruled based. CAMA prescribed 5 years of amortization of goodwill through the profit and loss. The study also proves that there was attempts to manage earnings by directors who were earning bonuses as a percentage of profit. Also, banks whose Directors were non-owners preferred to write off goodwill through the share premium accounts to enable them reflect better profits in the income statement. Another variable that did not demonstrate any noteworthy transformation between the two groups was bank size and political visibility, the volume of goodwill produced by the merger as well as the degree of borrowing.

Recommendations

- Reconciliation of the requirements of company and related affairs laws with the 2007 Accounting Rules Board accounting standards on goodwill is required.
- The accounting standard issued on goodwill in 2007(SAS 26) which was quite belated though had retroactive powers seem to have given too much of discretionary powers to the companies in the way they are to deal with goodwill. It is obvious from the literature research that financial institutions had a significant impact on the legislation, as evidenced by a large number of references to US cases. More specific testing procedures for impairment are needed for that standard to have more relevance.
- There is need to review the standard in favour of rule-based model as is the case with private companies in the United States.

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