

PDF - THE ROLE OF CHARTERED ACCOUNTANT IN THE FORMATION, ACQUISITION AND LIQUIDATION OF COMPANIES - researchcub.info1.0 INTRODUCTION

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Abstract

The accountants the business and the economy are inseparable. They are mostly needed in resolving various conflicting investment decision, initiating and co-ordinating meaning of economic development and growth. In Nigeria, this function has largely been restricted to the reporting role, book-keeping accounting and auditing. This research project is thus a search part for what the role of the accountant, has been and what it should be in enhancing economic development in the area of company formation and profitable business acquisition. Moreover in this period of high business mortality rate, what the role of the accountant in corporate rescuer should be. Chapter one of the study lays a theoretical framework for subsequent chapters. Following the general introduction, the problem statement and the objective of the study which provided basis for the significance of the study and the hypothesis were stated. The limitation of this study were also highlighted. In the literature review as contained in chapter two, works of various authors, international and local journals were reviewed to elicit views on the roles and relevance of

the account in business and economic development.

CHAPTER ONE

INTRODUCTION

Background of the study

The public accountant is an independent practitioner who works on a fee basis for business management or for individuals wishing to use his services or as member of an accounting firm. Most public accountants are also external authors. The commonly known services offered by the public accountant include the following:

Those that are substantially of auditing nature

Those who involve primarily accounting

Those pertaining to taxes.

Most people perceive the roles of the public accountant as being limited to the traditional one balance sheet in the process of auditing the financial statements of companies. They have failed to realize and appreciate that the public accountant provides services in respect of problems relating to conceptualization of business ideas, formation, registration and development of business most importantly on how to do with the collection and presentation of accounting data. They also undertake routine book-keeping for enterprises without adequate book-keeping personnel. Very often, the accountant is consulted with respect to income tax implication of proactive transactions. In his contribution, Okugi said consultant of his client, the task will be more cost effective and efficient. Hence, he will be able to make comprehensive report to avoid as much tax as possible and avoid unnecessary duplication. C.A. Okafor sees the designing of accounting systems for clients as one of the frequently ignored aspects of public accounts in Nigeria. The public accountant helps in the planning stage of company preparing feasibility studies, writing the expected financial flow-making realistic projections and determining the cost implication of intended projects. He also co-ordinates and uses the input from other professionals to compute, analyze and expose the financial implications of the entire line of action. Nnam added that the accountancy firms perform appraisal of investor to determine their viability and profitability and to check the stability of expected cash flow. The public accountant drafts the Articles of Association, memorandum of Association and formulates the internal policy of the firms. These documents are then filed with the Register of companies. He can also help in the preparation of budget, business plan and install control systems and procedures that generate necessary data from which information needed by business is processed. In some circumstances, a new or existing company may rely on the public accountant for recruitment of some specialized manpower or he can send his staff on recommendation to a new business for specified period during which the firm is expected to stand on its own. He also has important roles to play in the diversification and enhancing of the company's profitability and stability of income. This is done through regular, advisory service on the best way to utilize funds. He should be able to advise on the more profitable lines in the production process, the services which generate more value added, which services, products or departments should be initiated and which should be discontinued. The accountant gathers and analyzes quantitative information and gives opinion as to which alternative makes economic sense. The public accountant can also act, as an insolvency practitioner by examining the company to see whether immediate liquidation is needed or whether the company still stands a chance to succeed. He can act as a receiver by taking possession of the assets as charged to debenture holders and realizing them and which he withdraws from the company. He can also act

as liquidation by selling and collecting (in case of debts) the assets of the company and pays the proceeds to the entitled.

THE NATURE OF ACQUISITION, MERGER AND LIQUIDATION

Acquisition refers to all form of merger, amalgamation and take-over bids. It is the process of becoming a holding company or subsidiary involving significant cash out flow from the acquiring company to the acquired company's shareholders as consideration for acquired interest.

Mergers, also called pooling of interests, describe an acquisition through the exchange of equity shares. Specifically, the parent company issues its own share certificate in exchange of equity share certificate of the subsidiary. There is no purchase/ sale transaction between the affiliates, so the long term investment by the parent company is carried at the book value of the shares issued as consideration. Amalgamation is the merger of two or more companies or undertakings of the interest in business or undertakings. The merger could be temporary and involve only certain aspects of a business operation (eg the pooling of orders or sales or formalized co-operation in production or procurement of inputs) this is referred to as partial merger. It can also be a complete amalgamation and usually involves the absorption of one or two companies by an existing company by new company specially formed for that purpose. In its narrowest sense, it is the formation of entirely new company to acquire existing separate concern. This necessitates the winding up of the existing companies. In its wider sense, it could be used to mean absorption whereby there is new company formation and is a two company situation, there will be only one liquidation. Liquidation can be described as a situation whereby authorization is given to sell business of the old company to a new company and in consideration to accept, shares in the new company for the agreed asset value. The only asset in the hands of the liquidator is now these new shares and he distributes them to the old shareholders. The end result is the shareholders now hold share in the new company at the agreed reduced valuation and the new company owns the business. The principal advantage from the point of view of the shareholders is that dissenting shareholders have the right to acquire the liquidator either to abstain from carrying the resolution of effect or to purchase their shares at an agreed price.

REASONS FOR ACQUISITION, MERGER AND LIQUIDATION

Expansion is a major objective of most organizations. Usually a large and profitable company with adequate records invests on other companies. The investment can be short term or long term; it can be an investment in debt securities or in the share capital of the other company. When a company invests in the shares (ordinary or preference) of another company, the reason may be just to employ idle case and earn some additional revenue or it could be to enhance growth through the production and sale of new products and services. Additional reasons may be to gain access to new markets and supply sources or to exercise influence and control over the company whose shares are acquired. When the desire is to effect control a company invests in the ordinary shares of the other company. Companies who could not stand the pressure of the government economic policy collapsed due to structural Adjustment programme (SAP) introduced in 1986 which was directed towards encouraging Nigerian companies to source their raw materials locally and be self-sustaining. To provide themselves with a strong common front against the industrial constraints, many other average companies came together to form a merger. And yet the big one emerged to acquire the weak companies. For instance, seven-up Bottling company acquired 'schwapps', lever Brothers Limited also merged with Iptons Nigeria limited. In Nigeria today, the number or record of company, failures mergers and acquisition is intriguing and the trends from all indications are expected to continue as more and more

companies continue to absorb the stringent impact of ASP. And only those companies with the correct and adequate mix of resources can survive.

STATEMENT OF PROBLEMS

Peter Langard stated that the most proprietors of small businesses look upon the statutory audit as an imposition and do not feel that there is any value to the business firm from it.

Thinking makes it imperative on the accountants to emphasize the non-audit roles in order to retain the prestige, improve their income, ensure the satisfaction of their clients and enhance national economic development. Thus, most people including potential investors and entrepreneurs do not understand the expert services the professional accounting firm can provide them.

The above problem that is the lack of understanding of the accountants' other capabilities has called for some questions, answers to which will give an insight into the non-auditing roles of accounting firms, especially at the formation and infancy stages of business. The questions are:

- (i) What are the usual problems proprietors encounter prior to, at the formation and at the initial stage of their business?
- (ii) Which of the accountant's usual functions are specifically relevant to the needs of new firms?
- (iii) Can public accountants assist in the planning, registration and management of young firms? To what extent can the accountant's involvement help the firms to achieve growth and profitability?
- (iv) Is it feasible and advisable for public accounting firms to initiate an enlightenment programme through organization of lectures, symposia, seminars and so on with an aim of encouraging potential entrepreneurs to set up business?

OBJECTIVE OF THE STUDY

The objectives of the study are;

To ascertain the role of chartered accountant in the information, acquisition and liquidation of companies

To ascertain the notice of the public particularly potential investors and entrepreneurs, the services the professional accountants can provide them.

To examine the problems firms will undergo at infancy and highlighting those areas where the public accountants will readily provide succor

1.4 RESEARCH HYPOTHESES

Ho: There is no role of chartered accountant in the information, acquisition and liquidation of companies.

Hi: There is the role of chartered accountant in the information, acquisition and liquidation of companies

Ho: there are no problems firms will undergo at infancy and highlighting those areas where the public accountants will readily provide succor

Hi: there are problems firms will undergo at infancy and highlighting those areas where the public accountants will readily provide succor

1.5 SIGNIFICANCE OF THE PROBLEM

The main beneficiaries of this study are public, the accounting firms, professional accounting bodies and government.

PUBLIC: This study will enable the public appreciate the duties of the accountants and their capabilities. In particular it will be useful to budding entrepreneurs who may find in the accounting firms, a useful instrument for realizing their dreams of owning their business and making profit through

ACCOUNTANT FIRMS: Through this work, the accounting firms may understand more clearly the problems

firms and individuals encounter which they are in position to solve.

Subsequently, it will enable them to broaden their services, acquire new clients and provide other related services to their audit clients. This undoubtedly will help improve their image and ultimately their income.

PROFESSIONAL ACCOUNTING BODIES: The outcome of the study may aid the understanding of the new challenges facing accountancy professional in their peculiar environment.

Consequently, this will guide professional accountancy body's life institute of chartered Accountants of Nigeria, (ICAN) in determining and designing the type of training and exposure that will be given to its existing and intending members in order to equip them adequately to tackle such problems. Thus, it may find the need to introduce courses and organize lectures with a view to making qualified accountants acquire new skills relevant to the needs of clients and the economy.

GOVERNMENT: The active participation of accountancy firms in the formation and development of new firms will help in the realization of government's objectives of encouraging small and medium scale industries. This study may show necessity of government to review certain laws that hinder the accountants from performing their roles in ensuring survival and growth of such firms and make new laws where necessary. Besides, government will benefit from the survival of such companies as it will derive income through taxes and job opportunities will be created.

1.6 SCOPE AND LIMITATION OF THE STUDY

The scope of the study covers the role of chartered accountant in the formation, acquisition and the liquidation in companies. These constraints include but are not limited to the following;

- a) **AVAILABILITY OF RESEARCH MATERIAL:** The research material available to the researcher is insufficient, thereby limiting the study
- b) **TIME:** The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

1.7 DEFINITION OF TERMS

- a) **FORMATION:** Implies bringing into being or "bringing into existence.
- (b) **COMPANIES:** Denotes to partnership firms, sole proprietorship, public or private companies, or all forms of business operated.
- (c) **PUBLIC ACCOUNTANT:** Those accountants whose services are rendered to the general public on fee basis.
- (d) **ACQUISITION:** Here refers to all forms of merger, amalgamation, and take-over bids. It is the subsidiary involving significant outflow of cash from the acquiring company.
- (e) **LIQUIDATION:** Act of bringing an existing company that could not continue in business to a close.
- (f) **ACCOUNTANCY FIRMS:** This means business organization consisting primarily of professional accountants registered with ICAN and is qualified to be external auditors to other firms.
- (g) **CHARTERED ACCOUNTANTS:** Refers to fellows and Associate members of institute of chartered Accountants of Nigeria and other bodies of accountant recognized in Nigeria which qualifies one to be external auditor of a company.

1.8 ORGANIZATION OF THE STUDY

This research work is organized in five chapters, for easy understanding, as follows;

Chapter one is concerned with the introduction, which consists of the (overview, of the study), historical background, statement of problem, objectives of the study, research hypotheses, significance of the study,

scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrates on the data collection and analysis and presentation of findings. Chapter five gives summary, conclusion, and recommendations made of the study

THE ROLE OF CHARTERED ACCOUNTANT IN THE FORMATION, ACQUISITION AND LIQUIDATION OF COMPANIES

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