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Reaction to New Mergers and Acquisitions Accounting Rules and its Impacts in the USA

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The business combinations are a long-running controversial accounting issue. Two methods of accounting have been generally accepted in practice since World War II in the USA, but recently, in 2001, FASB banned pooling of interests and elected the purchase method as the single one for Mergers & Acquisitions (M&A).

Although some restrictions on managers' discretion over accounting numbers are expected, some accounting discretion will remain (Watts and Zimmerman, 1990). This managerial discretion can be used to meet financial reporting objectives. The accounting choice has value implications. Several studies have found that both acquirer and target companies select an accounting method based upon certain financial and non-financial characteristics (Davis, 1990). The percentage of insiders' ownership, accounting-based compensation plans, leveraged-based lending agreements, the company size and some other specific characteristics determine which accounting method is selected (Dunne, 1990). For instance, managers at companies with compensations based upon earnings favoured pooling of interest method because it benefited earnings and return on investment (Gagnon, 1967; Aboody et al., 2000).

The aim of this paper is to study managers' reactions to new M&A accounting rules and its impacts on the financial reporting and on the M&A activity in the USA. Therefore, we investigate the impacts of new FASB standards on the annual reports (10-K). We also developed a survey addressed to S&P 500 companies with the purpose to find any perceived economic effects from the new standards over the M&A activity.

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