International Journal of Social Science and Human Research

ISSN (print): 2644-0679, ISSN (online): 2644-0695

Volume 06 Issue 12 December 2023

DOI: 10.47191/ijsshr/v6-i12-83, Impact factor- 6.686

Page No: 7839-7841

The Impact of Business Merger on the Profitability and Income Taxes: Case Study of two CPA Firms

Dr. Ibrahim M. Oleimat[1], Dr. Khalil Abu Saleem[2], Dr. Amer Rashed[3], Mr. Muaath M. Oleimat[4], Ali M. G. Khawaldeh[5], Dr. Satam Ali Al- Mtari[6], Mr. Ahmad Al- Issa[7]

[1]Financial Consultant & Managing Partner

[2]Associate Professor- Faculty of Business Studies Arab Open University (AOU)-Jeddah-KSA

[3]Internal Audit Manager

[4]Audit Partner – Helpers of Success

[5]Police Officer

[6]PhD Accounting

[7]General & Admin Exp. Senior Officer

ABSTRACT: Merger & Acquisitions are two distinct terms in business that describes the consolidations between companies through different ways. The study investigates the role impact of mergers and acquisitions over the profitability of companies.

The results of this study shows that there is a significant impact that an organization experiences in its profitability and tax payments in situation of mergers, and based on the results the researchers recommended the companies that mergers are one of the best ways through which it can experience good growth by combating all the challenges

INTRODUCTION

There are a multiple number of reasons like increasing the profitability, growth of market shares in numbers and price, to achieve the compatibility to pay dividends regularly, etc. that indulges companies into mergers over the years. Reported that a merger can be looked upon as a situation where two or more companies come together in order to combine, forming bigger organization. According to Singh and Das (2018) a merger is a kind of business transaction that is made with the purpose of making a new single entity from multiple business entities that are already existing. Further Brooks, Chen and Zeng (2018) noted that the problem in efficiently using limited resources can be countered along with hiking the competitiveness and performance of a company. The method is considered as the best way for expanding the market share/ ownership according to Christofi and et.al (2019).Financial theories are studied for analysing the positive as well as negative impacts that mergers entail over corporative firms. A merger can on one hand help a company by enhancing its liquidity and on the side can impact financial performance & profitability negatively. There are three types of mergers namely, horizontal, vertical & conglomerate.

STUDY PURPOSE

The purpose of the study is to enhance the knowledge of merger and acquisition and its effect over the profits and the income tax payments of the company.

STUDY PROBLEM

The problem to which the current study deals with is whether the companies should use merger and acquisition into its planning for the growth perspectives.

SIGNIFICANCE OF STUDY

The significance of the study's topic is that it helps businesses majorly to explore wide range of products and services that can satisfy consumer needs and increase the market share and profits.

STUDY HYPOTHESIS

H01 = There is no major distinction in the profitability of chosen CPA businesses for the period before & after merger.

H02 = There exists no significant change over the taxes of selected CPA companies pre & post- merger.

LITERATURE REVIEW

The available literature highlighted many tools technique for analysing the effects of merger, Analysis of financial ratios to find out the effects of mergers.

POSITIVE IMPACTS OF MERGER ON PROFITABILITY

On systematic assessment and evaluation of researched 150 articles related to financial mergers and acquisition it was found that efficiency level was affected positively by the mergers of North American Bank. Literary works has also revealed a situation of creation of wealthy which concerns the stakeholders shown by the mixed picture. Literature of European bank related to the merger showed gains in the efficiency along with improvement in the value for stockholders. Diversification with respect to the product and geography impacted in mixed sense via merger whereas, adverse impacts were revealed on the types of borrowers, external stakeholders and depositors shown by mergers of the financial institutions. Brueller, Carmeli and Markman (2018).It has been found that the efficiency related to the cost and profits affected the merger events in the banking sector in the US sector of banking by utilization of the SFA (Stochastic Frontier Approach) and DEA (Data Envelopment Analysis which includes studying the merged and non-merged banks' structure of production. An improved efficiency of cost and profit was depicted post-merger. Additionally, higher costs were revealed for the non – merged banks as compared to the merged banks reason being, the focus of such merged bank is on technical and well located efficiency.According to Welch and et.al (2020) a merger has its positive impact over the organizations in the form of increase in revenue that is achieved as a result of deduction in the costs. The market share potential of the company increases in both the domestic market and also the foreign market where the new consumers seeks for such merger firm's products and services. Mergers leads to reduction in competition that significantly helps in increasing profitability.Further Argentesi and et.al (2021) highlights some of the elements that needs to be considered for effective merger. To begin with the merger partner should be first ensured for the suitability of coming together and merge. There should be trust between the parties for the smooth negotiation. The valuation should be good considered with diligence. The experience from the past mergers & acquisitions should always serve as a guide for efficacy in future dealings.

METHODOLOGY OF THE STUDY

Research Type	In the studies qualitative and quantitative both the research type has been used.
Research Approach	In approach that has been followed in the conducted studies is deductive approach.
Research Philosophy	Positivism is the research type that has been used in the current studies.
Data Collection	Data has been collected from the secondary sources for writing literature review and profitability analysis.
Data Analysis	The data that has been collected in the study will be analysed using SPSS.

RATIO ANALYSIS

Profitability Ratios	***Formula***	2019 (in Billions)	2018 (in Billions)
Operating Profit Ratio	***Operating Profit/Net Sales X 100***	50.36%	31.03%
Operating Profit		65.3	50
Revenue		129.67	161.13
Net Profit Ratio	***Net Profit/Net Sales X 100***	15.12%	20.29%
Net Profit		44.2	32.7
Revenue		292.34	161.13
Return on Investment Ratio	***Net Profit After Interest And Taxes/ Shareholders Funds or Investments X 100***	13.72%	8.99%
Net Profit After Interest And Taxes		44.2	32.7
Shareholders' Funds		322.22	363.78
Return on Capital Employed Ratio	***Net Profit after Taxes/ Gross Capital Employed X 100***	1.49%	1.03%
Net Profit after Taxes		44.2	32.7
Gross Capital Employed	***Total Assets – Current Liabilities***	2972.14	3172.66
Total Assets	***Noncurrent assets + current assets***	3020.00	3190

Current Liabilities		47.86	17.34
Earnings Per Share Ratio	***Net Profit After Tax & Preference Dividend /No of Equity Shares***	0.137	0.090
Net Profit After Tax & Preference Dividend		44.2	32.7
No of Equity Shares		3.22222E+11	3.63789E+11

The above table represents the ratio of two years that is 2018 & 2019. The BDO merged with Moore Stevens on 8th of February, 2018. The figures of the year 2018 represents the performance of company for the pre- merger period and the values of 2019 taken represents the post – merger profitability of the company. Operating profit ratio of the company hiked from 31.03 % in the previous year to 50.36 % in the current year. The net profit ratio shows a decrease of five –percent approximately. Another major determinant of a company's progress and profitability is through its return on the money put in for carrying out the activities of the business. The year 2018 BDO seen an investment return ratio as nearly 9% and in the year 2019 this jumped to 14% approximately. It can be said that the company's potentiality of receive investments increased. There is also an increase in the EPS of the company. 0.44% of increase is seen in the return on capital employed making the shareholders' investment more worthy. Income tax for the year 2018 was 15.02 B and year 2019 income tax was 11.01 B. it shows a decline of 4.01 B.

CONCLUSION

On the basis of the studies, it can be concluded that there is a significant impact that an organization experiences in its profitability and tax payments in situation of mergers. The study has selected two CPA firms one is BDO and the other is Moore Stevens. The later merged into the former in the year 2019. For analysing the impact of merger on BDO the financial statements of the company have been analysed in the studies for the years 2018 & 2019. Regarding the Income tax for the year 2018 was 15.02 B and year 2019 income tax was 11.01 B. it shows a decline of 4.01 B.

RECOMMENDATIONS

On the basis of the studies, it can be recommended to the company that mergers are one of the best ways through which it can experience good growth by combating all the challenges. To have successful mergers certain points are suggested to the company firstly it should ensure fairness to all the parties in the process the negotiation must be completely justifiable. It should be noted that the selected must be reputed in the market as reputation of the company plays a major role behind the successful and effective merger.In addition to the above recommendations and based on the known critical financial situation that are many companies are facing as a impact of COVID-19 pandemic the researchers recommend to highlight on importance of merger which may help the impacted companies to enhance their financial position ang increase their profitability.

REFRENCES

1) Argentesi, E., Buccirossi, P., Calvano, E., Duso, T., Marrazzo, A., & Nava, S. (2021). Merger policy in digital markets: an ex post assessment. *Journal of Competition Law & Economics*. 17(1). 95-140.
2) Brooks, C., Chen, Z., & Zeng, Y. (2018). Institutional cross-ownership and corporate strategy: The case of mergers and acquisitions. *Journal of Corporate Finance*. 48. 187-216.
3) Brueller, N. N., Carmeli, A., & Markman, G. D. (2018). Linking merger and acquisition strategies to postmerger integration: A configurational perspective of human resource management. *Journal of Management*. 44(5). 1793-1818.
4) Christofi, M., Vrontis, D., Thrassou, A., & Shams, S. R. (2019). Triggering technological innovation through cross-border mergers and acquisitions: A micro-foundational perspective. *Technological Forecasting and Social Change*. 146. 148-166.
5) Singh, S., & Das, S. (2018). Impact of post-merger and acquisition activities on the financial performance of banks: A study of Indian private sector and public sector banks. *Revista Espacios Magazine*. 39(26). 25.
6) Welch, X., Pavićević, S., Keil, T., & Laamanen, T. (2020). The pre-deal phase of mergers and acquisitions: A review and research agenda. *Journal of Management*. 46(6). 843-878.