

# Corporate Restructuring Through Mergers and Acquisitions: Accounting Challenges and Practices in Bangalore

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## ABSTRACT

This study investigates the accounting challenges faced during corporate restructuring through mergers and acquisitions (M&A), based on primary data collected from 100 accounting and finance professionals in Bangalore. It explores the practical difficulties in fair value estimation, goodwill recognition, ERP integration, and regulatory compliance. Using a structured questionnaire, the study captures frequency and percentage responses and identifies key accounting pain points and coping strategies. The findings underscore the need for better integration planning, standardization of practices, and upskilling of accounting teams to support post-merger financial health.

The study contributes to applied finance and accounting research by providing practical insights into post-merger accounting complexities and the preparedness of organizations in Bangalore to manage financial integration during corporate restructuring.

## INTRODUCTION

Mergers and acquisitions (M&A) are important instruments of corporate restructuring that enable organizations to achieve growth, market expansion, operational efficiency, and competitive advantage. In India's evolving business environment, particularly in metropolitan centers such as Bangalore, M&A activity has increased significantly across sectors including information technology, finance, manufacturing, and services. While strategic and operational dimensions of M&A have received substantial academic attention, the accounting and financial reporting challenges associated with these transactions remain comparatively underexplored in practical contexts. This study examines the real-world accounting difficulties encountered during and after M&A transactions, with specific focus on valuation practices, goodwill accounting, system integration, and regulatory compliance.

## LITERATURE REVIEW

1. IFRS 3 and ASC 805 Emphasize Fair Value Recognition and Proper Disclosure of Identifiable Assets and Liabilities

Both **IFRS 3 (International Financial Reporting Standard 3)** and **ASC 805 (Accounting Standards Codification Topic 805)** provide guidance on accounting for business combinations. These standards share a fundamental requirement: at the acquisition date, the acquirer must recognize **identifiable assets acquired, liabilities assumed, and any non-controlling interest at their fair values**.

- **Fair value recognition** ensures transparency and comparability of financial statements post-acquisition.
- Proper **disclosure** of all identifiable intangible and tangible assets, including contingent liabilities and off-balance sheet items, is mandatory.
- These standards also require careful evaluation of **goodwill or bargain purchase gains**, both of which can significantly impact financial outcomes and investor perception.

The reviewed literature demonstrates that accounting practices play a critical role in determining the success of mergers and acquisitions. Existing studies largely focus on international standards and theoretical perspectives; however, empirical evidence relating to accounting integration challenges in Indian corporate environments remains limited. Therefore, this study attempts to bridge this gap by examining practical accounting issues faced by professionals involved in M&A activities in Bangalore.

### Relevance to M&A Accounting

Failure to adhere strictly to these fair value guidelines can lead to:

- Overstated or understated asset bases.
- Misleading financial reporting.
- Future disputes regarding asset performance or impairment.
- Audit and regulatory challenges, especially in cross-border M&As where different interpretations of valuation standards may arise.

Kaplan & Norton (2007) Noted That Strategic Alignment Must Include Financial Reporting for Successful Post-Merger Outcomes

Kaplan and Norton, creators of the **Balanced Scorecard**, emphasized that **strategic alignment**—the harmonization of vision, strategy, and operations—is key to M&A success. They argued that financial reporting is not just a compliance activity but a **strategic tool** that must reflect the merged entity's objectives and synergies.

- During integration, financial systems must be aligned to ensure uniform **performance measurement, cost tracking, and profitability analysis**.
- Transparent, integrated reporting enables better **management control, stakeholder communication, and strategic decision-making**.

### Relevance to M&A Accounting:

If the financial reporting systems of the merging firms are not aligned:

- Management may receive distorted financial signals.
- Performance metrics may not reflect actual synergies or risks.
- Inconsistent or delayed reporting can erode stakeholder trust and investor confidence.

This aligns closely with your research theme of accounting challenges—highlighting how strategic misalignment in financial reporting can undermine the objectives of M&A.

### Deloitte (2022) Reported That 65% of Failed M&As Suffer from Accounting System Incompatibility and Valuation Disputes

A Deloitte global M&A trends report (2022) revealed that 65% of failed or underperforming M&As were hindered by issues such as:

- Incompatible accounting systems (ERP, financial reporting, compliance frameworks).
- Valuation disagreements between parties during due diligence or post-merger accounting adjustments.

**Accounting system incompatibility** leads to:

- Integration delays.
- Increased IT and consulting costs.
- Inconsistent data aggregation.
- Operational inefficiencies in budgeting, forecasting, and regulatory filings.

**Valuation disputes** may arise from:

- Differing methods for valuing intangibles (brands, IP).
- Uncertainty over contingent liabilities or earnouts.
- Divergent approaches to asset impairment or revenue recognition.

**Relevance to M&A Accounting:**

**These findings stress the importance of:**

- Early-stage harmonization of accounting systems.
- Strong due diligence processes that include accounting compatibility assessments.
- Use of independent valuation experts to avoid subjective biases and litigation risk.

Ghosh & Jain (2000) Linked M&A-Related Goodwill with Long-Term Financial Uncertainty if Not Impaired Timely

In their research, **Ghosh and Jain (2000)** examined the role of **goodwill**—the premium paid over the fair value of net identifiable assets in an M&A. They found that if this goodwill is not **tested and impaired appropriately**, it can create significant **long-term financial uncertainty**.

- Goodwill can remain on balance sheets for years, even if the economic benefits expected from the acquisition never materialize.
- When goodwill is eventually impaired (i.e., written down), it can cause **sharp declines in reported profits**, affecting stock prices and investor sentiment.

**Relevance to M&A Accounting:**

Improper handling of goodwill can:

- Mask poor acquisition performance for years.
- Lead to sudden financial shocks when impairments are recognized.
- Raise concerns about **earnings management** and **financial integrity**.

This highlights a key accounting challenge in M&As: the need for robust **post-acquisition performance tracking** and **impairment testing**, particularly in volatile markets or industries with rapid technological disruption.

Despite these studies, limited empirical research captures the accounting challenges in the Indian context, especially in high-growth cities like Bangalore.

**Objectives of the Study:**

1. To identify common accounting challenges faced by companies during M&A.
2. To understand the awareness and application of accounting standards like IFRS and IND-AS among professionals.
3. To explore the preparedness of companies in Bangalore in handling M&A-related accounting integrations.

**Scope of the Study:**

- Geographical: Limited to Bangalore, Karnataka.
- Sectoral: Inclusive of IT, manufacturing, finance, and service sectors.

- Respondents: Accountants, finance executives, auditors, and CFOs involved or knowledgeable about M&A processes.

**Limitations of the Study:**

- Sample size is restricted to 100 respondents, which may not represent the entire city’s diversity.
- The study focuses only on accounting aspects, excluding legal, cultural, or HR integration challenges.
- Relies on self-reported data which may have bias or subjectivity.

**RESEARCH METHODOLOGY**

- **Research Design:** Descriptive and exploratory
- **Sample Size:** 100 respondents
- **Sampling Technique:** Convenience sampling
- **Data Collection Tool:** Structured questionnaire (self-administered)
- **Data Analysis:** Frequency and percentage analysis using MS Excel/SPSS

The following section presents the empirical findings obtained from finance and accounting professionals regarding their experiences with M&A accounting practices, integration challenges, valuation approaches, and compliance-related issues.

**Table 1: Involvement in M&A Accounting**

Response	Frequency	Percentage
Yes	72	72%
No	28	28%

The data in **Table 1** reveals the level of involvement among respondents in M&A-related accounting activities:

- **72 respondents (72%)** reported being involved in M&A accounting.
- **28 respondents (28%)** indicated no involvement.

**Table 2: Most Difficult Accounting Challenge**

Challenge	Frequency	Percentage
Fair value estimation	30	30%
Goodwill accounting	25	25%
ERP/system integration	28	28%
Regulatory compliance	17	17%

**Fair Value Estimation (30%) – Top Challenge:**

- The most commonly reported challenge is **fair value estimation**, with 30% of respondents selecting it.
- This reflects the **complexity and subjectivity** involved in valuing acquired assets and liabilities, especially intangibles like brand value, customer relationships, or proprietary technology.
- It aligns with IFRS 3 and ASC 805 requirements, emphasizing fair value accounting at the acquisition date—often difficult due to lack of comparable market data or fluctuating assumptions.

### ERP/System Integration (28%) – Technological Hurdle:

- Close behind is **ERP/system integration**, reported by 28% of participants.
- This indicates that **technical incompatibility** between merging entities' accounting systems is a major operational hurdle post-merger.
- Integration issues can lead to data inconsistency, delayed reporting, and increased costs, as noted in the Deloitte (2022) findings.

### Goodwill Accounting (25%) – Long-Term Risk Factor:

- **Goodwill accounting** is a key concern for 25% of respondents.
- This challenge involves not only initial recognition but also **ongoing impairment testing**, which can affect financial performance if overestimated or mismanaged.
- The risk of delayed impairment can lead to financial uncertainty, as emphasized by Ghosh & Jain (2000).

### Regulatory Compliance (17%) – Though Less Frequent, Still Significant:

- While **regulatory compliance** is considered the least difficult among the options (17%), it remains a critical issue.
- M&As often involve cross-border transactions, necessitating compliance with complex legal, tax, and financial regulations.

**Table 3: Use of IFRS/IND-AS for M&A**

Response	Frequency	Percentage
Yes	64	64%
No	36	36%

#### Key Insights:

##### 1. Majority Adoption (64%):

- A significant **64% of respondents** confirm the use of **IFRS or IND-AS** in their M&A accounting practices.
- This indicates a strong level of **compliance with globally recognized or nationally converged accounting standards**, particularly in the Indian context where IND-AS is aligned with IFRS.
- The data suggests that many companies are aware of and apply these standards, especially when dealing with **fair value measurement, goodwill recognition, and disclosure requirements** in M&A transactions.

##### 2. Non-Adoption (36%) – Room for Standardization:

- However, **36% of respondents** reported **not using IFRS or IND-AS**, highlighting a potential gap in standardization.
- This could be due to:
  - Lack of regulatory enforcement (e.g., in smaller firms).
  - Limited awareness or expertise.
  - Preference for legacy systems or local GAAP.
- Such gaps may increase the risk of inconsistent accounting treatment, **valuation errors**, or **compliance issues**, particularly during cross-border mergers or when subject to audit scrutiny.

##### 3. Implications for Accounting Practice:

- The findings emphasize the importance of **capacity building and training** on IFRS/IND-AS among finance professionals involved in M&A.
- They also underline the **critical role of regulatory bodies** and professional institutions in promoting uniform adoption for improved transparency and comparability.

**Table 4: Goodwill Impairment Issues**

Response	Frequency	Percentage
Yes	55	55%
No	45	45%

**Key Insights:**

**1. Goodwill Impairment is a Common Concern (55%):**

- **55% of respondents** reported facing issues related to **goodwill impairment** after M&A transactions.
- This suggests that more than half of the sample experienced difficulty in:
  - Accurately assessing the **recoverable value of goodwill**.
  - Performing **timely impairment tests**.
  - Complying with standards like **IND-AS 36 or IAS 36**, which require annual impairment testing or when indicators of impairment arise.

**2. Financial Impact and Risk Exposure:**

- Goodwill impairment directly affects a company's **profitability and balance sheet**, as write-downs reduce net income and signal potential underperformance of acquired assets.
- Frequent or delayed impairments may indicate overvaluation at the time of acquisition or failure to realize expected synergies.

**3. Significant Minority (45%) Not Facing Issues:**

- **45% of respondents** reported **no impairment issues**, which may suggest:
  - More conservative or accurate valuation practices.
  - Successful post-merger integration.
  - Limited exposure to goodwill (e.g., asset purchases over business combinations).
- However, this does not necessarily imply risk-free accounting—some firms may **underreport or delay** impairment recognition due to managerial incentives or lack of robust valuation tools.

**Table 5: Valuation Tools Used**

Tool	Frequency	Percentage
Discounted Cash Flow	40	40%
Comparable Company Method	35	35%
Other	25	25%

**Key Insights:**

**1. Discounted Cash Flow (DCF) – Most Common Tool (40%):**

- The **DCF method**, used by **40% of respondents**, is the most widely adopted valuation approach.
- This reflects a preference for **intrinsic valuation**, which involves forecasting future cash flows and discounting them to present value.
- Its popularity may be due to its ability to capture a company's **future earning potential** and provide a detailed, company-specific assessment—especially useful when valuing intangible-heavy businesses.

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## 2. Comparable Company Method – Widely Used (35%):

- **35% of respondents** use the **Comparable Company Method (CCM)**, which relies on market-based valuations by comparing the target with similar publicly traded firms.
- This method is often used for benchmarking and is particularly useful in industries with established valuation multiples.
- However, it may not capture unique synergies or future potential as effectively as DCF.

## 3. Other Methods (25%) – Less Common but Notable:

- **25%** reported using **other tools**, which may include:
  - **Precedent transactions analysis**
  - **Asset-based valuation**
  - **Market capitalization**
  - **Real options valuation**
- These tools may be selected based on the nature of the business, availability of data, or sector-specific factors.

## DISCUSSION

The findings indicate that M&A accounting activities are increasingly significant within Bangalore-based organizations, with 72% of respondents reporting direct involvement in merger- and acquisition-related financial processes. This reflects the growing relevance of corporate restructuring in contemporary business environments and highlights the need for strong accounting and financial integration practices.

Among the identified challenges, fair value estimation emerged as the most critical issue (30%). This reflects the complexity involved in valuing intangible assets, liabilities, and future earnings potential during acquisition processes. The findings align with IFRS 3 and ASC 805 requirements, which emphasize accurate fair value measurement and transparent disclosure practices.

ERP and accounting system integration (28%) was identified as another major concern. The integration of financial systems after mergers often creates operational inefficiencies, delays in reporting, and inconsistencies in financial information. This observation supports Deloitte's (2022) findings that accounting system incompatibility significantly contributes to unsuccessful or underperforming mergers.

Goodwill accounting (25%) also remains a major area of concern. Respondents highlighted challenges associated with impairment testing and long-term valuation accuracy. Inadequate management of goodwill can distort financial statements and create future financial uncertainty, supporting the arguments presented by Ghosh and Jain (2000).

The findings further reveal that although 64% of respondents reported using IFRS/IND-AS standards, a substantial proportion still lacks complete adoption. This indicates the need for greater standardization, professional training, and awareness regarding accounting frameworks applicable to M&A transactions.

Overall, the study demonstrates that successful corporate restructuring requires not only strategic alignment but also efficient accounting integration, skilled financial management, and strong compliance mechanisms. Improved coordination between valuation experts, auditors, finance professionals, and regulatory bodies can significantly enhance post-merger financial reporting quality and organizational stability.

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## CONCLUSION

Corporate restructuring through mergers and acquisitions requires a comprehensive and well-coordinated accounting framework to ensure successful financial integration and long-term organizational stability. The study highlights that organizations in Bangalore commonly face challenges related to fair value estimation, goodwill accounting, ERP integration, and regulatory compliance during M&A processes.

The findings suggest that firms adopting standardized accounting practices, advanced valuation methods, and integrated financial systems are better positioned to manage post-merger complexities effectively. At the same time, the study emphasizes the importance of skilled accounting professionals and continuous training in IFRS/IND-AS standards to improve transparency and reporting accuracy.

Although the challenges identified are significant, they can be addressed through stronger planning, improved technological integration, and enhanced coordination between finance and compliance teams. The study contributes to applied finance and accounting research by offering practical insights into accounting issues associated with corporate restructuring in emerging business environments.

Future research may examine industry-specific M&A accounting practices, comparative studies across Indian cities, and the long-term financial performance implications of post-merger accounting integration.

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