Purchase Price Allocation FASB ASC 805

How you allocate the purchase price, how much you assign to each category of identifiable assets, and how much goes into non-amortizable goodwill can determine whether future earnings from the acquisition are accretive. Inasmuch as most buyers want any acquisition to be accretive, the allocation is extremely important.

Fair Value determinations by Marshall & Stevens make an essential difference in financial reporting.

How Can FASB ASC 805 Affect Your Financial Reporting?

As acquisitions become more complicated and purchase price allocation requirements are increasingly important in financial and tax reporting, Marshall & Stevens' experienced professionals and audit firm relationships bring maximum value for transactions, large or small. From the valuation of IPR&D, contingent payments, liabilities, the correct application of the Fair Value standard, the bargain purchase allocation rules, and other significant issues that impact EPS, Marshall & Stevens is your reliable and efficient partner to value your next acquisition.

What is Purchase Price Allocation?

The basic concept of this requirement is that the purchase price, including the valuation of contingent consideration and assumption of debt, has to be allocated over the acquired assets and liabilities. By definition, the difference between the value of the asset and liabilities and the total purchase price is designated as goodwill. The allocation exercise requires a determination by a valuation specialist of the Fair Value of the tangible and intangible assets and liabilities acquired.

Allocation Services Include Valuations of:

- Intangible Assets
  - Customer Lists, Contracts and Relationships
  - Trademarks, Trade Names, Patents, Software, and IPR&D
- Contingent Liabilities
- Real Estate Leases
- Real Estate Owned
  - Land
  - Site Improvements
  - Tenant Improvements
  - Real Estate Intangibles
- Machinery & Equipment, Furniture, Fixtures and Vehicles

Current Environment – Acquisition accounting and valuation under FASB ASC 805 - Business Combinations has changed dramatically since the original implementation of SFAS 141, including:

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1. Traditional **asset purchases** may be categorized as business combinations if the assets being acquired are capable of being conducted and managed as a business (a potential return to investors, lower costs or other economic benefit);
2. **Bargain purchases** must include a valuation of all assets and liabilities without downward adjustment to meet the purchase price;
3. **Acquired IPR&D** are valued and capitalized (internally developed IPR&D continues to be expensed);
4. **Contingent liabilities** are valued, capitalized and included in the purchase price (i.e., warranties, earn-outs, lawsuits, environmental);
5. The **valuation date** for acquisition accounting purposes will now be the date the transaction closed, not the date the deal is announced or the agreement is signed;
6. **Transaction-related costs** (banking/advisory, legal, accounting, valuation), are expensed as incurred, not capitalized as part of the purchase price;
7. Simplified Accounting for **Private Companies**: Certain Intangible Assets. Accounting Standards Update ("ASU") 2017-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination*, provides an accounting alternative for private companies related to the identifiable intangible assets recognized in the accounting for a business combination.

   Under the ASU, a private company* may choose to not separately recognize the certain intangible assets in the accounting for a business combination:

   a. intangible assets that would otherwise arise from non-compete agreements (NCA) or
   b. customer-related intangible (CRI) assets that cannot be separately sold or licensed. The value of these intangible assets is effectively subsumed into goodwill.

Our Experience

Marshall & Stevens, Inc. has been a credible resource for corporate executives in need of valuations for compliance with financial reporting standards, both domestic and international. Through regular dialogue with audit firms across the country as well as participation in accounting and valuation industry task forces, committees and conferences, our valuation professionals keep up-to-date on the latest standards and interpretations while providing cost-effective solutions for our clients.

About Marshall & Stevens

Marshall & Stevens is a recognized leader in valuation and litigation support. We assist our clients with planning, due diligence, negotiation and reporting issues related to financings, mergers, acquisitions, divestitures, restructurings, insurance placement and tax-related transactions. Our in-house specialists provide a full portfolio of valuation-related services, including transaction advisory for machinery & equipment, facilities, real estate, businesses and intangible assets, and debt and equity instruments.

**A key drawback to adopting this simplified private company standard is that a retrospective purchase price allocation (reallocation) and restatement may be required if the business is sold to a party that does not use the simplified standard.*