

Valuation Services

ASC 805: Business Combinations

Summary

If your company has recently completed a business acquisition, then a purchase price allocation in accordance with Accounting Standards Codification Topic 805 *Business Combinations* (“ASC 805”) is required. ASC 805 requires that identified assets acquired, liabilities assumed, contingent considerations, and noncontrolling interests are recognized and measured at fair value. Part of this work includes the valuing of identifiable intangible assets such as customer relationships, patents, trademarks and trade names, software, contracts, proprietary know-how (trade secrets), copyrights, and non-compete agreements. Centri’s Valuation Services professionals have combined decades of experience in providing clients with ASC 805 valuations as well as a myriad of other valuation solutions. Centri specializes in valuations for companies of various sizes, business stages and industries.

When these valuations are not performed correctly the first time, it can require additional time and attention from a company’s management team, may cause audits to be more expensive, and could delay the timing of completed audited financials which can create covenant compliance issues for leveraged businesses.

Issue #1: Did You Acquire a “Business” or an “Asset”?

The Financial Accounting Standards Board (“FASB”) issued ASU 2017-01 in January 2017 to clarify the definition of an acquired business versus an acquired asset.

Issue #2: Determining Which Assets Meet the Identification Criteria

Assets most commonly meeting the identification criteria include tangible assets, such as inventory, real estate, and PP&E, and intangible assets, such as trade names, technology (whether patented or not) and customer relationships (whether contractual or not). Intangible assets are more challenging to evaluate, but they increasingly comprise the bulk of the value acquired in today’s deals.

Issue #3: Private Company Alternative to ASC 805 to Potentially Reduce Compliance Costs

There is a private company alternative reporting option that companies may choose to elect. This election reduces the scope of work for your ASC 805 fair value measurements, although compliance with ASC 805 is still required. By using the private company election of ASC 805 a company avoids the valuation of certain intangible assets such as customer relationships and non-competition agreements. Providing information about these particular intangible assets is often costly for private companies and not especially useful for their stakeholders, as such, these assets are included in goodwill. The valuation of other intangible assets such as trade names and patents, is still required, as well as valuations of tangible assets.

The following are considerations that should be incorporated into a valuation:

Issue #4: Measurement Period

CFOs commonly wonder when they are required to make fair value measurements. In accordance with ASC 805, after a business combination, the acquirer has up to one year to make provisional adjustments to the amounts recognized at the acquisition date to reflect new information obtained about material facts and circumstances that existed as of the acquisition date.

Issue #5: Recognizing and Measuring Contingent Consideration in a Business Acquisition

If the purchase agreement specifies a contingent consideration agreement (i.e. an earnout), the fair value of such an agreement must be determined and be recorded. If the contingent consideration is classified as a liability, it is remeasured and reported at fair

value each reporting period until the contingency is resolved or has expired. If the contingent consideration is classified as equity, it is not subsequently remeasured. When a transaction is considered an asset acquisition, contingent consideration is recognized when the liability becomes probable.

Issue #6: Post-Transaction Accounting for Definite vs. Indefinite Life

The most notable accounting consequences of determining that an asset has an indefinite useful life are two-fold: (i) the asset is not regularly amortized by a predetermined amount; and (ii) the need for at least annual impairment testing, (or sooner if certain “triggering events” occur). For definite-lived intangible assets, regular amortization expense beginning on the transaction date will result in lower net income. Reporting entities should use the criteria outlined in ASC 350-30-35 to document the analyses for selecting a definite versus indefinite life for an intangible asset.

How Centri Can Help

Organizations today are under tremendous pressure to ensure that their financial statements accurately reflect their merger and acquisition efforts, including the expected future benefits of such activities. The amount and timing of amortization of intangible assets and depreciation of tangible assets resulting from a business acquisition, value determined in a purchase price allocation, can have a material impact on a company’s financial statements, and potentially its value.

Accounting standards continue to evolve and, in particular, valuation methodologies for purchase price allocations are constantly being refined. Therefore, selecting the right specialist to perform a purchase price allocation is critical.

At Centri, we have built our reputation as a leading provider of valuation services through outstanding achievements. The Centri Valuation Services team specializes in services provided in connection with business combinations and financial reporting.

Additionally, we offer a broad spectrum of valuation services for financial reporting purposes. We help organizations comply with the Financial Accounting Standards Board (FASB) Accounting Standards Codifications (ASC).

Among the standards we help clients address are:

- Purchase price allocation studies (ASC 805)
- Goodwill and other intangibles impairment testing (ASC 350)
- Stock Options (ASC 718) and restricted securities
- Complex Financial Securities, Warrants, Convertible Notes (ASC 815)

Centri Business Consulting provides the highest quality finance and accounting consulting services to its clients by being reliable and responsive to their needs. Centri provides companies with the expertise they need to meet their reporting demands. Centri specializes in financial reporting, internal controls, technical accounting research, valuation, and CFO advisory services for companies of various sizes and industries. From complex technical accounting transactions to monthly financial reporting, our professionals can offer any organization the specialized expertise and multilayered skill sets to ensure the project is completed timely and accurately.

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