

Financial Reporting

Purchase Price Allocation

If you are purchasing a business, Gordon Brothers' expertise at appraising the "fair values" of all identifiable tangible and intangible assets establishes the beginning balance sheet of the acquired company and the basis for depreciation and amortization of the acquired assets. We recognize that an important factor in the efficient and accurate execution of these engagements is upfront and proactive communication with you and your external auditors. We work to immediately identify the material assets that need to be appraised, confer with your auditors regarding methodology and meet critical deadlines.

What are purchase price allocations?

In an effort to bring consistency and transparency to business combinations, the Financial Accounting Standards Board (FASB) set forth very specific rules governing how business combination transactions must be accounted for under accounting standards codification (ASC) 805 (formerly SFAS 141R). It mandated that the total purchase price be allocated among all acquired assets and liabilities in proportion to their fair value and that a universal method of accounting be utilized to do this – called "the acquisition method."

According to FASB, the intent of this requirement is to better reflect the investments made in an acquired entity, improve the comparability of reported financial information and provide more complete financial information. Purchase price allocations also establish the basis for depreciation and amortization allowance.

How are purchase price allocations performed?

- Gordon Brothers examines the details of the transaction to confirm that a purchase price allocation is required. The target company, acquirer, acquisition date, book value, and purchase price are identified, and rationale for the transaction are considered.
- All property, plant & equipment and all identifiable intangible assets are identified, and Gordon Brothers verifies that these assets meet the recognition criteria set forth by FASB.
- The fair values of all assets are determined. This technical phase requires a high degree of valuation acumen. Appraisers examine the market to determine the price that would be paid in an orderly transaction between market participants. It assumes an active market with knowledgeable and unrelated parties. But this process can be more complicated when there is not an active market to reference. In those instances, Gordon Brothers abides by the guidelines set forth in FASB's fair value hierarchy.
- The value of goodwill is recorded. If the purchase price is greater than the fair value of net assets acquired, the remaining amount is recorded as goodwill which is tested annually for impairment according to ASC 350 (formerly SFAS 142). If the purchase price is less than the fair value of net assets acquired (a "bargain purchase"), a gain from the transaction is recorded.

Why Gordon Brothers?

Gordon Brothers helps acquirers ensure the allocation of the purchase price meets financial reporting standards and regulatory approval by providing independent appraisals that meet the stringent review of auditors, the Public Company Accounting Oversight Board, and the Securities and Exchange Commission.