ADAMS CAPITAL INC. BUSINESS VALUATION SERVICES

Purchase Price Allocation (ASC 805)

MAXIMIZING VALUE THROUGH KNOWLEDGE™

ASC 805 describes the proper accounting of business combinations. ASC 805 applies to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Business combinations with an acquisition date prior to the first annual reporting period after December 15, 2008 are covered under FAS 141.

The premise of value used in ASC 805 measurements is fair value, which is defined in ASC 820 and focuses on market participants and exit values. These new rules will dramatically increase the risk and complexity of accounting for an acquisition.

Accounting for business combinations requires the services of an independent, third party valuation firm. The valuation issues associated with ASC 805 are complex, and you should consider an appraiser's financial reporting valuation credentials when making a selection decision.

The first step of the analysis is to determine the fair value of all assets acquired, liabilities assumed, and adjust any previous non-controlling interests by the acquirer in the acquired entity to fair value. This requires the valuation of contingent assets and intangible assets.

If a fixed asset appraisal is required to meet the fair value standard, Adams Capital is uniquely qualified to perform this function as part of a purchase price allocation. Our work plan is designed to reduce management work effort through careful planning and execution by knowledgeable appraisal professionals.

Determining the fair value of any asset requires the appraiser to perform various advanced valuation methodologies while complying with hundreds of pages of FASB Statements. When hiring an appraiser, verify that they understand the impacts of relevant FASB statements on their valuation methodologies. Proper compliance with ASC 805 and ASC 820 is critical to producing a valuation report that helps you get through your audit process quickly and efficiently.

The fair value of net assets acquired is then compared to the total consideration paid for the acquired entity. This exercise is more complex when equity interests are paid to the seller or contingent consideration is included in the purchase. ASC 805 requires contingent consideration to be measured and added to total consideration. Adams Capital uses advanced measurement methods, such as Monte Carlo simulation and options analysis to determine the fair value of contingent consideration.

Adding cash payments, equity and debt payments, options and warrants, contingent consideration, and the fair value of previous equity interests in the acquiree results in total consideration paid for the acquired entity. Transaction costs are not included in the allocable basis.

If the fair value of net assets acquired is less than the total consideration paid for the acquired entity, the difference is recorded as goodwill and tested annually for impairment according to ASC 350. If the fair value of net assets acquired exceeds the consideration paid, the entity recognizes a gain on bargain purchase. Both scenarios must be properly explained as to why they make sense in that specific transaction.

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