

Valuation Services

# Purchase Price Allocation

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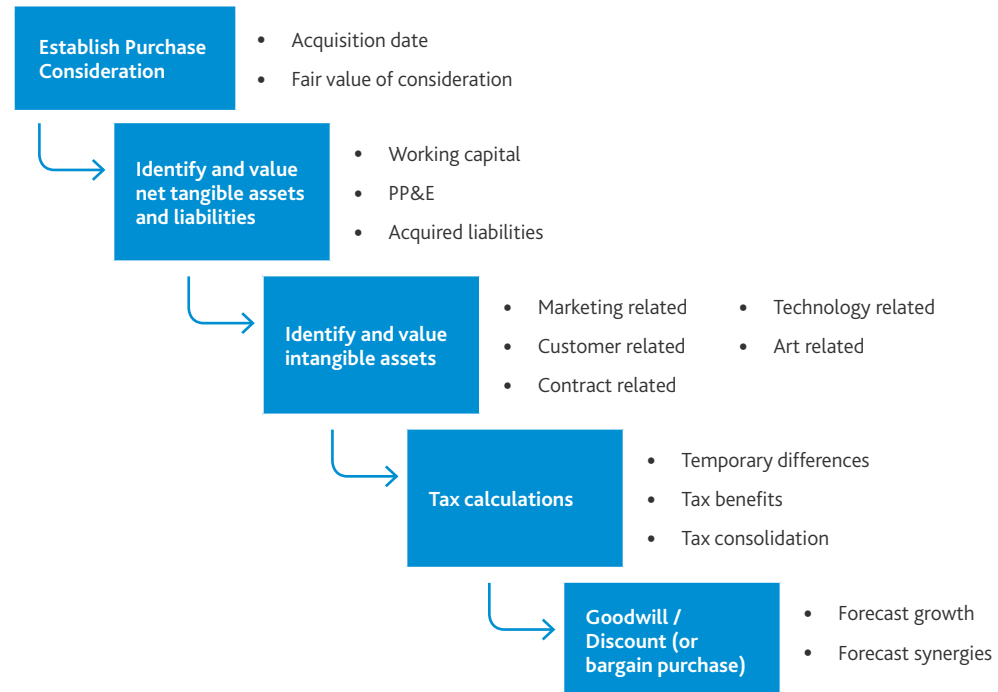


For financial reporting purposes, the purchase consideration relating to a business acquisition/merger must be allocated between tangible and intangible assets, liabilities and goodwill. This process can have a significant impact on reported earnings in future periods, making Purchase Price Allocation (PPA) an integral part of the M&A process.

### When do you require a PPA?

- Any business combination (as defined in AASB 3 *Business Combinations*) will require an allocation of the purchase price between the separately identifiable assets acquired, liabilities assumed and goodwill.
- Key steps in the PPA process are illustrated below:

### The PPA process



# Key technical issues

## Key technical issues from AASB 3 *Business Combinations*

Issue	Consideration
<b>Acquisition date</b>	Acquisition date is generally when the acquirer legally transfers the consideration, acquires assets and assumes liabilities of the acquiree. However, a written agreement may provide an earlier date that the acquirer takes control – in which case the earlier date would be the acquisition date.
<b>Identify the acquirer</b>	Under AASB 3, the legal acquirer may not be the accounting acquirer (e.g. AASB 3 provides guidance on accounting for reverse acquisitions).
<b>Purchase consideration</b>	The purchase consideration must be measured at fair value. The fair value calculation will require deferred and contingent consideration to be valued as at the acquisition date. Contingent consideration may need to be calculated with reference to probability and classified in accordance with AASB 132 <i>Financial Instruments: Presentation</i> .
<b>Separately identifiable assets and liabilities</b>	Intangible assets are recognised as identifiable if they meet either separability criterion, (e.g. can be separated and sold or transferred either individually or with another asset), or meets the contractual-legal criterion, (e.g. arises from contractual or legal rights – regardless of whether it is transferable).
<b>Deferred tax</b>	Temporary differences (i.e. variances between fair value and the carrying value for tax purposes) and/or tax benefits (e.g. tax losses acquired) may arise as a result of the business combination. Deferred tax is assessed as per AASB 112 as part of the PPA.
<b>Measurement period</b>	The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for a business combination. The measurement period provides a reasonable time to obtain the information necessary to identify and measure the assets acquired, liabilities assumed, consideration transferred and resulting goodwill. The period shall not exceed one year from the acquisition date.

- Whilst the above technical considerations are very important, the most challenging item and a key requirement of PPA is that each intangible asset which is identifiable (as defined in AASB 3) must be accounted for at fair value upon acquisition. Intangibles may be difficult to recognise and require an in depth understanding of the industry and business that the acquiree operates in, as key drivers of value will vary from industry to industry and business to business
- Goodwill is the residual of the PPA process.

# Intangibles

## Categories and examples of intangibles



### CUSTOMERS

- Customer contracts
- Customer relationships



### TECHNOLOGY

- Software
- Patents



### MARKETING

- Brand
- Logo
- Trademarks



### CONTRACTUAL

- Licenses
- Non-compete agreements



### CREATIVE

- Scripts
- Books

## Examples of intangibles – by industry

Industry	Examples of intangibles
<b>Technology</b>	<ul style="list-style-type: none"> <li>• Software developed internally for sale</li> <li>• Customer contracts and relationship agreements.</li> </ul>
<b>Mining</b>	<ul style="list-style-type: none"> <li>• Exploration licenses</li> <li>• Power supply contracts on favourable terms</li> <li>• Water rights.</li> </ul>
<b>Professional Services</b>	<ul style="list-style-type: none"> <li>• Client relationships.</li> </ul>
<b>Manufacturing</b>	<ul style="list-style-type: none"> <li>• Order book or production backlog</li> <li>• Customer relationships.</li> </ul>
<b>Agriculture</b>	<ul style="list-style-type: none"> <li>• Brand names.</li> </ul>

- The allocation between goodwill and intangibles is important. An impairment of intangibles may be reversed in subsequent periods but an impairment of goodwill is permanent.
- Assessing intangibles as either finite life or indefinite life intangibles will also have ramifications for future periods as indefinite life intangibles are required to be tested for impairment annually.

	Finite Life Intangible	Indefinite Life Intangibles	Goodwill
<b>Impairment testing</b>	When triggers of impairment are present	Annually	Annually
<b>Nature of impairment</b>	Reversible	Reversible	Permanent

## What we have observed

PPA is often misunderstood and sometimes poorly applied. Some of the issues we typically observe include:

- ▶ Correctly identifying the transaction as a business combination and determining the acquisition date and the acquirer.
- ▶ Entities not properly identifying or measuring the fair value of intangible assets acquired, e.g. customer contracts
- ▶ Inadequate rationale for apportionment between goodwill and other intangibles. Application of the correct valuation techniques and consistent assumptions in valuing intangibles. This may require industry specific knowledge to ensure all valuations and assumptions are representative of the industry, competition and market conditions.



## How BDO can help

We can assist you by preparing a compliant Purchase Price Allocation for your business acquisition, or review your internally prepared PPA.

We offer a unique value proposition when it comes to Purchase Price Allocation including:

- ▶ Partner-led delivery and senior experienced personnel;
- ▶ Real commercial acumen enabling an understanding of the issues and stakeholders involved and the importance of providing high quality advice specific to your business;
- ▶ Extensive experience in Purchase Price Allocation;
- ▶ Embedded firm culture that promotes innovation and creative thinking along with the importance of tailoring solutions appropriate to your business;
- ▶ Project based management which ensures that key personnel are always available for your project; and
- ▶ Competitive rates.

We have assisted a significant number of listed and unlisted Australian and international companies with Purchase Price Allocations. Our extensive experience with Purchase Price Allocations includes:

- ▶ Expertise in identification of assets and measuring fair value of assets acquired;
- ▶ Proven capability in the valuation of intangible assets;
- ▶ Proficiency and expertise across a broad range of industries;
- ▶ Demonstrated ability in calculating discount rates for specific assets, companies or projects; and
- ▶ Technical competency to conduct calculations in accordance with the relevant standards.

### Our recent experience

Our recent experience with Purchase Price Allocations includes the following:

- ▶ Preparation of Purchase Price Allocations and valuations of intangibles for multiple acquisitions by an enterprise software company;
- ▶ Preparation of Purchase Price Allocations for a multi-business aggregator in the labour hire / recruitment industry;
- ▶ Reviews of company prepared PPAs for acquisitions of businesses operating within a range of industries including:
  - Coal mining;
  - Oil and gas;
  - Website development; and
  - Point of sale software.

### NEED HELP?



To contact us today, [CLICK HERE](#) alternatively, please call us on 1300 138 991



**Contact us**

We offer comprehensive purchase price allocation services to our clients that enable them to meet compliance requirements and account for acquisitions in a simple and cost effective manner.

1300 138 991

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