Transaction completed, or not?

Selected post-transaction Valuation and Accounting considerations

A successful transaction takes an immense amount of time, effort and skills. The expertise of several advisers and stakeholders are required to collaborate effectively to ensure an optimal outcome from each perspective. Transactions typically have a long duration and when the 'ink is finally dry' on the contracts, transaction fatigue is not uncommon for all parties involved.

However, following the completion of any transaction, the next step is to embark on the integration journey. Further, any transaction classified as a Business Combination (in accordance with AASB 3) also involves determining the accounting and valuation implications.

Accounting for a transaction via a Purchase Price Allocation can result in some unexpected practical and financial statement outcomes that should not be underestimated. If possible, these implications should be considered prior to completion of transaction terms. We explore a number of these potential outcomes and their implications below.

Accounting outcome	Description	Implication
Goodwill realisation	A large goodwill balance that is unlikely to be supported by future cash flows of a Cash Generating Unit (CGU).	Potential impairment of goodwill in future periods.
Discount on acquisition	Asset values in excess of the purchase price.	Recognition of a discount on acquisition, which must be immediately recorded in profit or loss on the date of the acquisition.
Future amortisation impact	Recognition of finite life intangibles which require amortisation in future periods.	The amortisation adjustment could be significant and will therefore have material impact on earnings per share on an ongoing basis.
Disagreement regarding earn-out calculations	Earn out hurdles that are not explicitly explained in the transaction documentation.	Variation in the parties' calculation of the achievement of the earn out and potential disagreement regarding payment of the same.
Earn outs classified as remuneration (expense)	Earn out payments that are dependent on key individuals' continuing employment with the company.	The earn out may be classified as remuneration and required to be expensed, rather than being treated as purchase consideration, as the purchaser may have envisaged or intended.
Independent valuation advice	A Business Combination requires an independent valuation of all assets acquired and liabilities assumed. Further, where the consideration received is not a fixed cash price, additional valuations may also be required.	Additional services from Accounting and Valuation professionals should be factored into the post-transaction timelines, including costs involved for the same.

As highlighted above, there are many important considerations that must be noted during the transaction process. The list above highlights a selected few interesting outcomes and is not exhaustive. The potential outcomes and their flow-on ramifications should not be underestimated. Accordingly, deal-makers (companies and their advisers) should inform themselves of the potential accounting application of any transaction and seek the expert guidance from experienced Valuation and Accounting advisers.

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