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Deloitte business combination guide

The accounting complexities surrounding business combinations start before the acquisition even begins. Not every deal meets the criteria for a business combination under ASC 805, but for those that do, a specific accounting method comes into play. Entities engage in acquisitions for various reasons, such as expanding their size, diversifying their product offerings, or entering new markets or geographies. The accounting process for these deals can be complex and begins with determining whether the acquisition should be accounted for as a business combination. A business combination typically occurs when an entity purchases another company's equity interests or net assets in exchange for cash, equity, or other consideration. However, this definition extends beyond purchase transactions to include any transaction where an entity obtains control of a business. If the deal does not meet the criteria for a business combination, the entity must determine whether it should be accounted for as an asset acquisition under ASC 805-50. Distinguishing between acquiring a business and acquiring assets is crucial because each requires different accounting methods. In some cases, the substance of the transaction may be a capital transaction (a recapitalization) rather than a business combination or an asset acquisition, especially if the assets acquired are primarily cash or investments. To determine whether an acquisition should be accounted for as a business combination, entities must evaluate whether the acquired set of assets and activities together meet the definition of a business in ASC 805. This involves using a "screen" to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the screen is not met, entities must apply a "framework" for determining whether the acquired set includes an input and a substantive process that together significantly contribute to the ability to create outputs. If so, the acquired set is considered a business combination. SEC registrants are required to use a specific definition of a business when evaluating certain regulatory requirements. This definition differs from the one used in ASC 805. The SEC requires companies to report financial information about significant businesses or real estate operations acquired under Regulation S-X, specifically Rules 3-05 and 3-14. This information helps investors make informed decisions about the company's activities. The Financial Accounting Standards Board (FASB) provides guidance on business combinations through ASC 805, which covers various aspects such as pushdown accounting, common-control transactions, and asset acquisitions. Deloitte's Roadmap series offers comprehensive guides on applying FASB and SEC reporting requirements, including a roadmap for business combinations that provides insights into the guidance in ASC 805 and related SEC reporting requirements. The updated edition reflects guidance issued through November 29, 2024. The Roadmap can be downloaded, copied, or printed by those who require it, but non-subscribers must ask their engagement teams for a PDF version. This document aims to assist domestic registrants with SEC reporting obligations related to business acquisitions or probable acquisitions. It combines SEC guidance on reporting for business acquisitions with Deloitte's interpretations and examples in an easy-to-read format. The latest edition of On the Radar is also available, offering a high-level summary of emerging issues and trends in accounting and financial reporting. Additionally, other titles in Deloitte's Roadmap series provide comprehensive guides on various topics of interest to the financial reporting community. The FASB Accounting Standards Codification material reproduced here is copyrighted by the Financial Accounting Foundation. To determine whether an acquisition represents a business combination or an asset acquisition, refer to the decision tree below. According to ASC 805, entities must use the acquisition method of accounting for business combinations. This involves several steps: For information about Deloitte's services related to business combinations, please contact: Confidential and Proprietary — for Use Solely by Authorized Personnel This publication offers comprehensive guidance but may not cover all possible scenarios, and the guidance is subject to change. For specific issues and questions, consult a Deloitte & Touche LLP professional. Our FRD publication on business combinations has been updated to improve clarity, with a summary of updates available in Appendix H.

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