



## Purchase Price Allocation (PPA)

**ASC 805 Business Combinations & ASC 820 Fair Value Measurement | Accredited Valuations by Intelék**

When your company acquires another business – through a merger, stock purchase, or asset deal – U.S. GAAP requires you to identify, measure, and record the fair value of every identifiable asset and liability. Intelék's accredited specialists deliver audit-ready purchase price allocations built specifically for ASC 805 and ASC 820 compliance.

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# Why Purchase Price Allocation Matters

When your company acquires another business, U.S. GAAP requires a Purchase Price Allocation (PPA) under **ASC 805 (Business Combinations)**, with all fair value measurements governed by **ASC 820 (Fair Value Measurement)**. The residual – the portion of the purchase price not attributed to identifiable assets – is recorded as goodwill. Getting this wrong carries real consequences.

## Undervaluation Risk

Under-identifying intangibles inflates goodwill – setting the stage for future impairment charges that hit earnings and erode investor confidence.

## Overvaluation Risk

Over-allocating to short-lived assets accelerates amortization, depressing reported income in the near term and distorting financial results.

## The Solution

An accredited valuation specialist with deep ASC 805 and ASC 820 expertise is the single most important safeguard for your financial reporting.

ASC 805

## ASC 805 — The Acquisition Method

ASC 805 requires acquirers to apply the **acquisition method** to all business combinations — recognizing and measuring, at the acquisition date, all identifiable assets and liabilities at their respective fair values, and recording any excess consideration as goodwill.

A PPA is required whenever one entity obtains control of another business. This includes traditional mergers and acquisitions, stock-for-stock exchanges, earn-out funded acquisitions, consolidations of variable interest entities (VIEs), and asset purchases meeting ASC 805's definition of a "business." There is **no size threshold** — the requirement applies whether the deal is \$5 million or \$5 billion.

# Key ASC 805 Compliance Considerations

## Identifying the Accounting Acquirer

One party must be identified as the accounting acquirer – the entity that obtains control and performs the PPA. In reverse mergers or VIE transactions, this determination is complex and consequential.

## ASU 2025-03 Update (May 2025)

Refined guidance for identifying the accounting acquirer when the legal acquiree is a VIE – requiring application of ASC 805 factors rather than defaulting to the primary beneficiary under ASC 810.

## The Measurement Period

ASC 805 allows up to 12 months from acquisition date to finalize the PPA. Provisional amounts must be adjusted retrospectively once finalized. Failure to complete within the window creates restatement risk.

## Public vs. Private Acquirers

For public companies, the PPA is a filing requirement reviewed by external auditors and potentially the SEC. For private acquirers, it is required for GAAP-compliant statements issued to lenders, investors, or PE sponsors.



## ASC 820 — The Fair Value Framework

Every fair value measurement within a PPA must comply with **ASC 820**, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction between market participants** at the measurement date – an exit price concept.

❏ ⚠ **Critical Distinction:** ASC 820 fair value differs from Fair Market Value (used in tax and estate contexts under Revenue Ruling 59-60). In a financial reporting PPA, fair value is the required standard, and the two can produce materially different results for the same business or intangible asset.

ASC 820

## The Three-Level Fair Value Hierarchy

ASC 820 establishes a three-tier hierarchy that prioritizes the inputs used in valuation techniques. The vast majority of intangible assets valued in a business combination fall under **Level 3** – requiring sophisticated models, well-supported assumptions, and robust documentation.

Level 3 measurements receive the **highest degree of audit scrutiny** and are a leading area of PCAOB inspection findings. IntelleK's valuations are engineered from the outset to satisfy the documentation and transparency requirements that auditors and regulators expect.



# ASC 820 Fair Value Hierarchy — Level Detail

The hierarchy prioritizes observable market data and requires entities to maximize the use of relevant observable inputs and minimize unobservable inputs in fair value measurements. For a PPA, the level classification drives both the valuation methodology and the required audit documentation.

- **Level 1:** Quoted prices in active markets for identical assets (e.g., publicly traded equity, exchange-traded debt)
- **Level 2:** Observable inputs — quoted prices for similar assets, market-corroborated interest rates, yield curves, implied volatilities
- **Level 3:** Unobservable inputs reflecting market-participant assumptions — DCF models for customer relationships, technology, trade names
- Most PPA intangibles are Level 3, requiring ASC 820-10-50 disclosure support

## L1

**Active Market Prices**

Quoted prices for identical assets

## L2

**Observable Inputs**

Similar assets, market-corroborated data

## L3

**Unobservable Inputs**

Entity assumptions — highest audit scrutiny

# Intangible Asset Identification & Recognition

The most consequential component of any PPA is the identification and valuation of the acquired business's intangible assets. Under ASC 805, an intangible must be recognized separately from goodwill if it meets either of two criteria:

## **Contractual-Legal Criterion**

The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable – e.g., patents, licensing agreements, franchise rights, non-compete covenants.

## **Separability Criterion**

The asset is capable of being separated from the acquired business and sold, transferred, licensed, or exchanged – e.g., customer lists, trade names, developed software.

## **Goodwill — The Residual**

Only value that cannot be attributed to identifiable assets – assembled workforce, market-participant synergies, going-concern value – may be subsumed into goodwill.

# Common Intangible Assets in a Business Combination

1

## Customer Relationships

Existing contractual and non-contractual relationships, order backlog, and recurring revenue streams. Often the single largest intangible asset in service, distribution, and B2B companies.

2

## Trade Names & Trademarks

Brand equity and market recognition. May be definite-lived (amortized) or indefinite-lived (impairment tested annually) depending on whether the acquirer intends to continue using the brand.

3

## Developed Technology & IPR&D

Proprietary software, patents, trade secrets, formulations, and know-how — plus in-process R&D classified as indefinite-lived until the project is completed or abandoned.

4

## Non-Compete Agreements

Restrictive covenants executed by key personnel or sellers as a condition of the transaction. Valued based on the economic impact to the business if the restricted party were to compete.

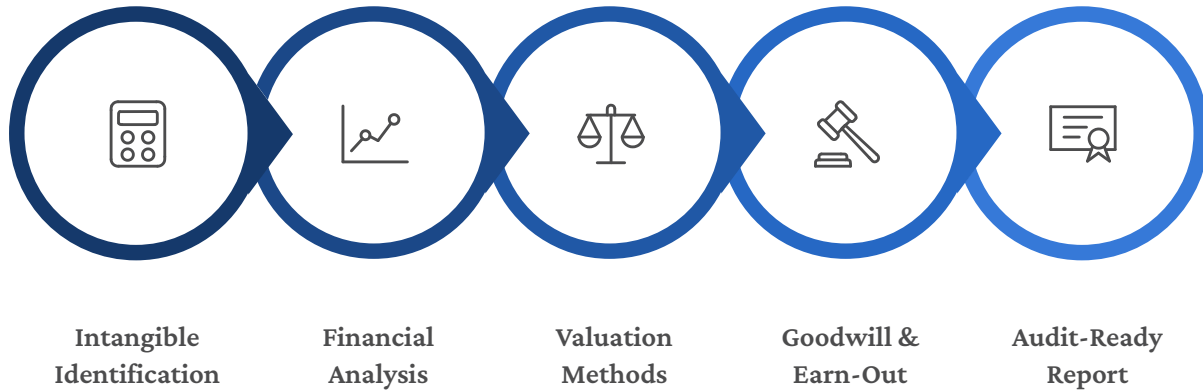
5

## Favorable Contracts & Assembled Workforce

Below-market supply or customer agreements, and the assembled workforce — not separately recognizable but a critical contributory asset charge in valuing other intangibles.

# IntelK's PPA Valuation Approach

Our accredited appraisers bring deep ASC 805 and ASC 820 compliance experience to every business combination engagement. Every report is built to withstand external audit, PCAOB inspection, and SEC review.



Our proven approach begins with rigorous intangible asset identification, applies the correct valuation methodology for each asset, and delivers Level 3 documentation designed to satisfy Big Four and mid-tier audit requirements from Day 1.



# What Sets IntelleK's PPA Process Apart



## Audit-Ready Deliverables From Day 1

Every report is structured and documented to satisfy Big Four, mid-tier, and national audit firm requirements. We build the auditor's standard into every engagement – because we've been through the review process hundreds of times.



## Rigorous Intangible Asset Identification

We analyze the acquired business's revenue model, customer base, competitive moat, technology stack, contractual landscape, and workforce to identify every intangible meeting the contractual-legal or separability criteria. Nothing is subsumed into goodwill without proper justification.



## Best-Practice Valuation Methodologies

We apply the MPEEM, Relief-from-Royalty, With-and-Without, and Replacement Cost methods as appropriate – with full transparency on selection rationale and every assumption documented, sourced, and defensible.



## Coordinated Book & Tax Allocations

We work with your tax team to align the ASC 805 financial reporting allocation with the Section 1060/338(h)(10) tax allocation – ensuring deferred tax assets and liabilities are properly measured and no planning opportunities are overlooked.



# Collaboration With Your Deal & Advisory Team

InteleK doesn't work in isolation – we integrate seamlessly with your **full advisory team** to ensure the PPA valuation is delivered as part of the deal's overall accounting and reporting workflow, not as an afterthought.

## → **CFO, Controller & Finance Team**

We structure our engagement timelines to deliver final valuations well within the 12-month measurement window – giving your finance team and auditors ample time to review and integrate results.

## → **External Auditors & PCAOB Firms**

Our reports are structured with complete Level 3 disclosure support – ASC 820-10-50 compliant documentation, sensitivity analyses, and transparent assumption sourcing that gives auditors a clear path to their own assessment.

## → **Tax Advisors & Legal Counsel**

We coordinate the ASC 805 book PPA with your Section 1060/338(h)(10) tax allocation and work alongside legal counsel on contingent consideration classification, earn-out structures, and deal documentation.

# Purchase Price Allocation (PPA): Key FAQs

Expert insights into ASC 805 business combination valuations, intangible asset identification, fair value measurement, and goodwill allocation in 2026.

## When is a PPA required under ASC 805?

A PPA is required whenever one entity obtains control of another business – including mergers, stock acquisitions, asset deals meeting ASC 805's definition of a "business," and VIE consolidations – regardless of deal size.

## What intangibles must be separately recognized?

Any intangible meeting the contractual-legal criterion (arises from a contract or legal right) or the separability criterion (can be sold, licensed, or transferred independently) must be recognized at fair value – separately from goodwill.

## What valuation methods are used for intangibles?

Common methods include the Multi-Period Excess Earnings Method (MPEEM) for customer relationships, Relief-from-Royalty for trade names and technology, With-and-Without for non-competes, and Replacement Cost for assembled workforce.

## How does a PPA affect tax reporting?

In most stock acquisitions, the book PPA exists only for financial reporting. A §338(h)(10) or §336(e) election treats the stock acquisition as an asset purchase for tax – creating a new tax basis allowing amortization under Section 197.

## What is the ASC 805 measurement period?

ASC 805 provides up to 12 months from acquisition date to finalize the PPA. Provisional amounts are adjusted retrospectively once finalized. Failing to complete within this window creates audit qualification and restatement risk.

## How did ASU 2025-03 change requirements for 2026?

ASU 2025-03 (May 2025) refined the guidance for identifying the accounting acquirer when the legal acquiree is a VIE – requiring entities to apply ASC 805 factors rather than defaulting to the primary beneficiary under ASC 810.

## How does contingent consideration affect the PPA?

Earn-outs must be recognized at fair value on the acquisition date. Liability-classified earn-outs are remeasured at each reporting date with changes through earnings – creating income statement volatility that can be material.

## Are there simplified PPA rules for private companies?

Yes. Under ASU 2014-18, certain customer-related intangibles may be subsumed into goodwill. Under ASU 2014-02, goodwill may be amortized straight-line over 10 years with a triggering-event-only impairment model.

ABOUT US

# About IntelleK

## Business Valuations For Today.... & Tomorrow

Business Valuations are an "opinion of value" so finding the right professional valuer is key, an opinion with trust. Business Valuations need the combination of science (technology) and art (knowledge & experience).

IntelleK embraces the two worlds to deliver the most robust and efficient service to its clients, adapting to the ever changing environment of businesses and how to value them.

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OUR PURPOSE

## Transferring Business Valuation Knowledge to Business Owners

Most business owners don't know the value of the business, let alone where the value comes from, how to influence / increase it, or where the risk exposure is, which limits its potential.

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