

Pushdown accounting: make the right choice for your company



What you need to know

- New guidance allows acquired companies to elect whether to apply fair value pushdown accounting in their separate financials, on a transaction-by-transaction basis.
- Previous SEC guidance has been eliminated, which required or precluded pushdown accounting depending on the buyer's ownership percentage.
- In deciding whether to apply pushdown accounting, consider the needs of financial statement users and the practical implications to the buyer and acquired company.
- The new option is available immediately for all open financial reporting periods.

Pushdown accounting is now optional—which approach is best for your company and investors?

Typical impact of pushdown accounting on an acquired company's financial statements¹:

Assets	↑	Impact of goodwill and "step up" in value of PP&E, intangibles, and inventory	Revenue	NEUTRAL	Future revenues could decrease if the fair value of acquired deferred revenue is less than book value
Liabilities	NEUTRAL	Liabilities could increase if contingencies are recorded at fair value	Expenses	↑	Impact of increased amortization and depreciation expense
Equity	↑	Reflects value paid by buyer; typically exceeds book value	Net income	↓	Impact of increased expenses
Operating cash flows	NEUTRAL	Impact of pushdown is typically noncash	EBITDA	NEUTRAL	EBITDA could decrease if "step up" of inventory results in increased costs of goods sold

¹Illustration purposes only; impact could vary depending on the transaction.

"Pushdown" accounting refers to establishing a new basis for reporting assets and liabilities in an acquired company's separate financial statements based on a "push down" of the buyer's basis. This typically results in "stepping up" the basis of assets and liabilities to fair value and recording goodwill in the acquired company's financial statements. Under the new guidance, pushdown accounting is optional for any transaction in which another party obtains control of the reporting company. Now that there is choice, management will need to weigh various factors to decide whether to apply pushdown accounting, including both practical considerations and the needs of investors and creditors.

An election to apply pushdown accounting is irrevocable – weigh the factors before making a decision

What matters to investors and creditors?

It is important to consider the needs of the users of the acquired company's financial statements—and those needs may vary. Some users may prefer the “stepped-up basis” that results from pushdown accounting. For example, retaining the historical basis can result in the acquired company reporting negative equity if the transaction involves taking on new debt to finance the purchase of treasury stock (a leveraged recapitalization). Management should also keep in mind any regulatory or contractual requirements that focus on balance sheet measures.

Other users may prefer an acquired company retain its historical basis to avoid distorting income statement trends as a result of increased amortization and depreciation expense. Users that focus on cash flow and EBITDA measures, however, may be indifferent to the impact of pushdown accounting as these measures are often not significantly affected.

Other considerations before electing pushdown accounting

From a practical standpoint, buyers that report consolidated results may favor pushdown accounting at the subsidiary level to avoid separately tracking assets, such as goodwill and fixed assets, at two different values (historical basis and “stepped-up basis”). Conversely, the acquired company may prefer to carry over its historical basis due to the increased complexities of pushdown accounting. Companies may also decide to retain the historical basis when that is the basis used for tax reporting purposes (that is, in transactions where there is no tax “step up”).

You can change your mind later...but only in one direction

If an acquired company does not elect to apply pushdown accounting upon a change-in-control event, it can do so in a subsequent period as a change in accounting policy. However, once pushdown accounting is elected for a specific transaction, that election is irrevocable. Management should therefore weigh the needs of investors and the practical implications prior to making an election.

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How PwC can help

To have a deeper discussion of how the pushdown accounting guidance might affect your company, please contact:

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Coming soon

In depth: Pushdown accounting becomes optional

More details and insights on the new guidance, including when the pushdown election is available and how pushdown accounting is applied

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