# Frequently Asked Questions Regarding Purchase Price Allocation Exercises

Purchase Price Allocation (PPA) exercises are among the most common valuation projects that companies typically face. In this document, we address the most frequently asked questions related to these assignments.

### 1. In which cases is it necessary to carry out a PPA?

A PPA must be performed when a company takes control of a business.

### 2. What does a PPA exercise consist of?

In general, a PPA exercise involves allocating the fair value of the consideration paid for the business between the fair value of the acquired assets and liabilities, with any remaining difference allocated to goodwill.

### 3. Which accounting standards are relevant to PPAs?

The most relevant accounting standard for PPAs is IFRS 3 – Business Combinations. Other applicable standards include IFRS 13 – Fair Value Measurement, IAS 38 – Intangible Assets, and IAS 12 – Income Taxes.

### 4. Is it necessary for the transaction to be structured as a "share deal" in order to require a PPA?

No, it is not necessary. The purchase of assets, also known as "asset deal," requires a PPA if the group assets acquired qualify as a business. However, there are certain differences in how the PPA is performed depending on whether the transaction is structured as an "asset deal" or a "share deal”.

### 5. What happens if the acquired group of assets does not qualify as a business?

In such cases, a similar exercise to a PPA must be performed, but with certain differences.

For example, the analysis will not result in goodwill. Instead, the difference between the fair value of the business consideration and the fair value of the assets will be allocated proportionally between their individual values.

### 6. What is the deadline for completing the PPA?

PPAs should be completed as soon as the necessary information to perform the exercise becomes available. If the PPA cannot be finalised by the end of the financial year, the annual accounts will be prepared using provisional values, which can later be adjusted within one year from the transaction date.

### 7. What date is used for the estimates in the PPA?

The entire PPA exercise must be conducted as of the acquisition date.

Therefore, this date will be used for estimating the fair value of the business consideration and the acquired assets and liabilities.

### 8. What is the main focus of the PPA?

The focus of the PPA is the fair value estimates.

Typically, these estimates concentrate on intangible assets, which are often not recorded on the acquisition balance sheet due to accounting rules (e.g. customer relationships, internally developed brands).

Additionally, companies with relevant tangible assets (such as machinery, plant, and real estate) will require a review of their book value.

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### 9. What information is needed to carry out a PPA?

Generally, certain information is required for all PPA exercises, including a description of the transaction's terms and conditions, the business plan, and the balance sheet as of the acquisition date. Due diligence reports are also commonly requested, if available.

Additionally, specific information about assets and liabilities is required, which may vary depending on the nature of the business. This can include details on trademarks, patents, customer relationships, contracts, and loans, among others.

### 10. What are the typical phases of a PPA project?

Once the necessary information to carry out the PPA has been received, the process usually follows these phases:

1. Estimation of the fair value of the business consideration (e.g. deferred or contingent payments).
2. Identification of key assets and liabilities to be valued.
3. Estimation of the fair value of the identified assets and liabilities.
4. Preparation of the draft report and presentation to management.
5. Review of the draft report by auditors.
6. Issuance of the final PPA report after the auditors have completed their review.

### 11. What factors should be considered to ensure a smooth review process by auditors?

From the outset, it is essential to understand the auditors' expectations regarding the PPA exercise.

To achieve this, the valuation expert must have significant experience in PPAs, in order to structure the report and financial model in a way that facilitates the review process.

In general, once the approach to the PPA has been discussed and agreed upon with management, we recommend sharing it with the audit team. This allows auditors to anticipate any concerns and address them appropriately in the early stages of the process.

# A Few of Our Credentials in PPAs

PPAs in connection the acquisition of Telecom Infrastructure and Contracts

PPAs in connection to the acquisition companies involved in clinical trials.

PPAs regarding the acquisition of cardboard manufacturing and recycling businesses.

PPA in connection to a business involved in the distribution of veterinary products

PPAs regarding the acquisition of vertical software companies.

PPAs in connection to the acquisition of hospitals and healthcare facilities

PPA required in connection to the merger of two listed online gaming companies

PPA in connection to the acquisition of a logistics and transportation group.

PPA regarding the acquisition of a supermarket chain

PPAs in connection to the acquisition of plastic bottle manufacturers

PPA regarding the acquisition of a sports equipment retailer

PPA in connection to the acquisition a bookstore and an online book retailer

The MKD team has extensive experience in PPAs, both supporting clients and collaborating with audit teams during the review process.

If you would like more information or wish to discuss your specific situation, please feel free to contact us at info@mkd-advisors.com.

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