

# The Four Questions of Valuation Reporting for FASB



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The Financial Accounting Standards Board, or FASB, provides accounting and valuation guidelines that are helpful to businesses, especially businesses in a state of change. Appraisers knowledgeable in FASB's principles, like those here at Cushman & Wakefield, can support the financial leadership of a company by providing valuations and other auditable reporting when they are needed or required.

## Who needs a valuation?

If you are a business owner or the financial controller of a business and there is a change — an acquisition, expansion, reduction, or adjustment due to outside economic or technological forces — you may benefit from or be required to engage an appraisal firm for their services. If your business environment is changing, you need to know the value of your assets whether it's due to an acquisition, buy/sell negotiation, corporate conversion, estate planning, financial reporting, financing, litigation support, risk management, or taxation issue.

An appraiser can guide you in this process. This includes determining the scope of the project, identifying any extenuating considerations, and building a team of specialists to provide the valuation services that will be tailored to the scope of the project to meet your reporting requirements. The appraiser will not only provide the valuation, but will also assist you in identifying the assets, determining the purpose, explaining the intended use, and selecting a definition of value that is appropriate for the purpose of the valuation.

## What is FASB?

According to their website, FASB is an independent organization that “establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow Generally Accepted Accounting Principles (US GAAP).” Founded in 1973, and recognized by the SEC and the AICPA as the authoritative setter of accounting standards, FASB's mission is “to establish and improve financial accounting and reporting standards to provide useful information to investors and other users of financial reports and educate

stakeholders on how to most effectively understand and implement those standards.” To summarize, FASB standards create a framework to communicate valuation concepts between the appraiser, the auditor, and the client.

When appraisers say they are going to prepare a FASB compliant report, it means they are going to follow GAAP and the Uniform Standards of Professional Appraisal Practice (USPAP). First developed in 1980 by a joint committee of North American appraisal organizations, USPAP is currently administered by the Appraisal Standards Board (ASB). As a division of the Appraisal Foundation, the ASB is authorized by Congress as the source of valuation standards and valuation qualifications. USPAP establishes minimum requirements for appraisers and valuation reporting, to ensure that valuation reports are meaningful and not misleading and that appraisers are ethical and maintain the public trust.

In summary, GAAP creates the guidelines and USPAP applies them to a report structure.

## Why is a FASB valuation report helpful?

A useful valuation report will provide data for your reporting needs, but a good appraiser much like an attorney, represents you. They will not only frame and answer the appraisal question, but they work with the auditors to assist you throughout the valuation process

Manufacturing companies often find themselves in two common positions: an acquisition or right-sizing. Both situations are essential to running an efficient business and both come with their fair share of headaches when it comes to proper disclosure under GAAP.

FASB is an essential tool for all appraisers, professionals who work in and understand financial reporting. To be valuable to their clients, Cushman & Wakefield's appraisers know what the FASB guidelines are, they know if a FASB valuation report is needed, and they know how to provide a supportable valuation that can meet and achieve FASB reporting needs.

## When is FASB valuation reporting needed?

One of the FASB's essential goals is to provide effective disclosure for investors and other stakeholders. A well-developed valuation identifies the proper scope and



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follows institutional reporting guidelines. But when do you know if you or your client needs an appraiser?

Any time there is an economic change in your business, FASB provides guidelines for valuation reporting and general accounting principles. For example, if you acquire another business, FASB ASC 805 provides a framework for purchase price accounting and the associated valuation supporting the accounting. If there is a downturn and your company decides to curtail production or close a facility, FASB ASC 350 provides guidance on an impairment study that can reduce the carrying amount of the company assets. In any of these situations, a qualified appraiser using FASB guidelines can lead you through the valuation process.

## FASB valuation reporting examples

ABC Manufacturing, Inc. has been in business for 15 years and sees an opportunity to expand their business by acquiring X&Y Industries, LLC. Under FASB ASC 805 *Business Combinations* (commonly referred to as ASC 805) guidelines, the acquirer will need to record the fair value of each asset and associated liability as of the acquisition date. Fair value is defined 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.” If X&Y Industries has significant assets and is a special use building, the value will typically be much higher than a market value, because the essential concept the appraiser considers in the fair value definition is going concern, meaning the assets’ value in use. This “as-is where-is” concept is important, because this value concept is almost always greater than the market value, which is typically the value concept in a financing appraisal.

First, the appraiser and the client discuss the valuation need and identify all assets of the transaction to be valued. In the case of X&Y Industries, a manufacturer of aftermarket auto parts, the assets include machinery & equipment used to produce the parts, real estate to house the machinery & equipment, a warehouse for products, an offsite leased office space, a trademark, and contracts with aftermarket auto retailers. Based on the asset types, various appraisers with their own unique skills and specialties would be required to value the separate parts of the acquisition - a machinery & equipment appraiser, a real estate appraiser, and a business enterprise appraiser. With their dedicated practice groups, Cushman & Wakefield’s Valuation & Advisory Group has qualified in house personnel in all of these areas to provide the services required for a project of this scope.

Let’s consider the inverse, ABC Manufacturing, Inc. is shutting down operations at its plant in Peoria, Illinois. The net book value of the machinery & equipment is \$42 million dollars, the

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net book value of the buildings and improvements is \$8 million dollars, and intangibles are on the books for \$24 million dollars. Under existing ASC 350, FASB allows for a test of the goodwill for possible impairment. Step 1 is an assessment of the fair value of the invested capital to determine if it is more or less than the carrying amount (net book value) of the business unit. If the fair value is lower, that would indicate an impairment. Step 2 is a valuation of the identified assets, which would compare the fair value of the Peoria facility with the carrying amount of the Peoria facility. Again, Cushman & Wakefield’s valuation specialists would be able to identify and appraise the assets and liabilities under the same basic methodology as in the previous example. The resulting fair value would be compared to the fair value of the Peoria facility. If an impairment is determined, ABC can recognize the loss by adjusting the carrying amount of the goodwill to a new accounting basis.

Under the Amendments to Subtopic 350-20, an update of which was released on January 27, 2017, the guidelines for goodwill impairment measurements will change as of December 15, 2019 for public businesses that are SEC filers and the following year for public businesses that are not SEC filers. In an effort to simplify the measurement of goodwill and reduce the complexity of evaluating goodwill, FASB designed two assessments — qualitative and quantitative. The qualitative assessment would allow ABC Manufacturing to evaluate recent events, such as the business climate surrounding their plant closure to determine if the fair value of the Peoria asset is less than its carrying amount. ABC Manufacturing can skip this step and proceed with the quantitative test, where an appraiser would calculate the fair value of the Peoria plant and compare it with its carrying amount. If the fair value is less than the carrying amount, then an impairment is determined, and ABC can recognize the loss by adjusting the carrying amount of the goodwill to a new accounting basis.