



The Complexity & Importance of Accounting for Divestitures

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Any company that has gone through a merger and acquisition (M&A) understands the complexity involved in accounting for divestitures. Covered under ASC 805 (formerly SFAS 141), accounting for divestitures — along with accounting for business combinations, discontinued operations, impairments, intangibles and segment reporting — poses many challenges for businesses and is a focal point for the SEC.

Corporate divestitures are the sale of stock or assets of a business segment as part of a merger or acquisition. In addition a company can just decide that it wants to divest itself of a particular division or business segment. They have unique characteristics that set them apart from other components of M&A transactions. In particular, it's critical to separate the infrastructure of the entity being sold from the seller itself before execution of the sale. This is due to potential instability that can result from the announcement of a sale price.

Complex Issues and Challenges

There are a number of complex issues and management challenges that accompany accounting for divestitures. Therefore, it's recommended that companies undertake a structured approach to divestiture accounting that includes planning and preparation as well as disciplined execution.

Among the specific challenges involved in accounting for divestitures are the following:

- Any settlement agreement may result in changes in the form and/or substance of the accounting records. It's important to understand these changes and incorporate them into your financial reporting.
- Changes to financial systems and records need to occur at the same time as ongoing transactions (unless a new entity is created, in which case the books will start from scratch).
- New organizational structures can trigger numerous compliance issues as well as changes in tax IDs and the corporate name, which can be time consuming.
- Prior period financial statements may need to be adjusted to ensure that the financial information being provided reflects current business conditions.

Failure to properly handle accounting for divestitures can result in a number of negative impacts on a company, including the following:

1. Time spent restructuring financial systems can result in delays in current financial reporting.
2. The impact of the divestiture accounting can result in unanticipated taxable gains and losses if these aren't planned for properly.
3. Improper preparation of legal documents can result in financial statement misstatements.

Also, remember that it's important to understand all the ramifications of the divestiture to ensure that proper pro-forma financial statements are issued to insure that management has at its disposal financial statements that show proper ongoing operational comparisons.

How an Outsourced CFO Can Help

An outsourced CFO services provider can offer a number of solutions to help companies with their divestiture accounting. For example, an outsourced CFO:

- Will possess the necessary accounting technical expertise to properly account for the business situation.
- Will know what to focus on and what kinds of potential divestiture accounting pitfalls to avoid.
- Will be able to review the divestiture documents before they're signed to ensure that there are no financial issues left unaccounted for.

Divestitures generally involve significant technical issues that require substantial knowledge and research. By hiring an outsourced CFO, you will have the technical resources of the entire CFO services team at your company's disposal. Among the positive outcomes from hiring an outsourced CFO for help with divestiture accounting are the following:

1. Assurance that the financial reporting reflects the current business structure, which will enable you to proactively understand the comparables of the new organization.
2. An understanding by all parties of the potential tax consequences and financial impact of the divestiture.
3. Assurance that divestiture accounting is done properly and is properly documented, which will reduce external audit time and effort.

Concluding Thoughts

Corporate divestitures have unique characteristics that set them apart from other components of M&A transactions, which makes accounting for divestitures complex. Therefore, it's recommended that companies undertake a structured approach to accounting for divestitures that includes planning and preparation as well as disciplined execution. An outsourced CFO services provider can offer a number of solutions to help companies with their divestiture accounting.

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