



Fair Value Readiness

A Reference Guide | April 2024

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TOMORROW'S TRUSTED ADVISOR, TODAY.

Overview

As IPO activity in U.S. markets continues to rise, it is becoming increasingly important for private companies considering going public to have a holistic understanding of all the fair value measurement requirements. This article aims to serve as a valuable reference guide for private companies planning an IPO, outlining the various fair value analysis requirements under different U.S. GAAP standards.

Moreover, this guide can also be beneficial for private company executives, accounting and audit professionals, during financial statement and audit preparation. Identifying potential fair value issues early in the audit process can significantly improve efficiency, reduce costs and minimize delays. However, with numerous accounting standards involving fair value, it can be challenging to identify all relevant situations that necessitate a fair value assessment.





The following is a list of examples, scenarios, assets, transactions, instruments and events that typically require fair value assessment under current U.S. GAAP standards, along with the relevant accounting guidance. While not exhaustive, this list includes many of the most common situations where fair value analysis is essential.

When to Consider Fair Value Measurement

IF THE COMPANY HAD ANY OF THE FOLLOWING LISTED ON THE BALANCE SHEET.

Asset/Liability	Relevant accounting standards	Accounting considerations
Goodwill	ASC 350 Intangibles – Goodwill and Other	Impairment test – Reporting unit
Trade names, customer relationships, non-compete agreement, technology, patents, favorable or unfavorable contract, or other identifiable intangible asset	ASC 360 Property, Plant and Equipment	Impairment test
Contingent consideration	ASC 805 Business Combinations	Fair value at acquisition date and subsequent revaluation each reporting period if applicable
Liability classified warrants	ASC 480 Distinguishing Liabilities from Equity and/or ASC 815 Derivatives and Hedging	Initial fair value and remeasurement each reporting period
Equity investments for which there is a readily determinable fair value	ASC 321 Investments – Equity Securities	Investment or ownership less than 20% of another entity
Debt securities classified as trading securities	ASC 320 Investments – Debt securities	Initial fair value and remeasurement each reporting period
Embedded features bifurcated from the host instrument as a derivative	ASC 815 Derivatives and Hedging	Initial fair value and remeasurement each reporting period
Convertible debt or other instruments where the fair value option has been elected	ASC 825 Financial Instruments	Initial fair value of the obligation
Asset retirement or environmental obligations	ASC 410 Asset retirement and Environmental Obligations	Initial fair value as of the measurement date (generally year end)
Assets held for use for future retirement plan payments	ASC 715 Compensation – Retirement Benefits	Fair value as the measurement date (generally year end)
Lease liabilities	ASC 842 Leases	Fair value measurement for lease liabilities in certain situations (e.g., initial recognition, lease modifications)
Lease components	ASC 842 Leases	Consideration in the lease must be allocated to the lease components based on their relative fair value

When to Consider Fair Value Measurement

IF YOUR COMPANY HAS ENTERED INTO ANY OF THE FOLLOWING TRANSACTIONS IN THE PAST YEAR.

Transaction	Relevant accounting standards	Accounting considerations
Purchased a business or group of assets	ASC 805 Business Combinations	Fair value measurement of acquired assets, assumed liabilities, exchanged equity awards and contingent consideration at acquisition date
Issued any stock, stock options, performance units, or similar equity awards which contain one or more market conditions	ASC 718 Compensation – Stock compensation	Fair value measurement of equity instruments granted as compensation
Issued equity awards which contain one or more market conditions	AS 718 Compensation – Stock Compensation	Fair value measurement of equity awards considering market conditions
Issued warrants to purchase the company's stock	ASC 480 Distinguished Liabilities from Equity and/or ASC 815 Derivatives and Hedging	Fair value measurement of warrants issued
Issued a warrant or stock in exchange for goods or services	ASC 718 Compensation – Stock Compensation	Fair value measurement of equity instruments issued in exchange for goods/services
Recapitalization of preferred stock	ASC 260 Earnings Per Share	Fair value of stock issued in exchange for old stock
Provided compensation in the form of retirement benefits	ASC 715 Compensation – Retirement Benefits	Fair value measurement of retirement benefits provided to employees
Purchased equity in another entity	ASC 820 Fair Value Measurement	Initial fair value of the equity investment
Entered into any hedging arrangements	ASC 815 Derivatives and Hedging	Initial fair value of the derivative
Acquired an asset that may incur future costs to dispose of the asset that may incur future costs to dispose of the asset	ASC 410 Asset Retirement and Environmental Obligations or ASC 420 Exit or Disposal Cost Obligations	Initial fair value of the obligation



Proactive fair value assessment is crucial for private companies, not just for IPO readiness but also for ongoing compliance and financial reporting accuracy. It is also important to remember that many of the items noted above require the fair value to be updated each reporting period with changes in the fair value flowing through the income statement. By identifying and addressing fair value measurement requirements early on, companies can streamline their financial reporting processes, enhance transparency, reduce any year-end audit adjustments and maintain investor confidence.

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