Corporate accounting

Finance

Acquisition Premium and Goodwill Acquisition Premium and Goodwill on Acquisition An acquisition premium is the variation between the real cost paid to own an organization and the approximated real value of the purchased business before the acquisition. Acquisition premium should be recorded as ‘‘ goodwill’’ on the balance sheet. Acquisition premium shows the expanded price of purchasing a target business during a business combination. There is no need for a business to pay an acquisition premium for acquiring another company, but depending on the circumstance they may even get a discount. The underlying factors contributing to premiums include intense competition within the industry, the presence of other bidders, and the inspirations of the buyer and seller. Goodwill on acquisition, on the other hand, is the price the purchasing company parts with for the target company exceedingly above the target’s market book value usually accounting for the value of the target’s goodwill.

The acquisition premium can be measured through a measurement known as Book Value Premiums where the effective offer price as a percentage premium should be divided by the target firm’s share market price minus one (Mukherjee& Mohammed, 2006, p. 14). The share price of the target firm is recorded two days before the acquisition announcement to remove the effects of any rumors or information leaks in the market that may affect adversely the market share price of the target firm. Goodwill on acquisition can be calculated at cost minus any accumulated impairment losses such as losses arising from brand name usage following an initial recognition of assets. Goodwill on acquisition involves calculation of all the acquired firm’s assets to market value and add together the values of all acquired assets as the second step. Thirdly, subtract the identifiable assets from the purchase price. Fourthly, record the journal entry to recognize the acquisition and test the goodwill account for impairment. Lastly, record the journal entry to recognize any goodwill impairment.

The similarities between acquisition premium and goodwill on acquisition are that companies pay premiums when making acquisitions in the form of discounts or excess payment. Secondly, both acquisition strategies put pressure on the buying corporation to generate the outcomes its inherited stockholders will anticipate. Lastly, acquisition premiums arising from synergies may fall within the goodwill bucket. The difference between acquisition premium and goodwill on acquisition is that goodwill on acquisition should be reviewed on a yearly basis for impairment, or more often because of events or circumstance changes, but acquisition premium is not valued (Mukherjee& Mohammed, 2006, p. 25). Secondly, acquisition premium analysis is carried out through the price allocation method while goodwill on acquisition is conducted via an investigation of the purchase price allocation. Lastly, the acquisition premium is assigned to goodwill to prevent a company’s liabilities exceeding its assets or impacting shareholder equity while goodwill on acquisition impedes an imbalance from being made on the balance sheet of a purchasing firm that would usually come up after paying more for something than its real value.

Goodwill is an intangible business asset. It is termed as the difference between the fair value of the market of a corporation’s assets and the market cost for the whole business. Also, goodwill is the amount in excess of the company’s book value that a potential buyer is inclined to pay to purchase it. If a sale is realized by an acquiring company, the new owner of the company lists the difference between the book value and the price paid as goodwill in financial statements.

References List

MUKHERJEE, A., & MOHAMMED HANIF. (2006). Corporate accounting. New Delhi, Tata McGraw-Hill.