SELECTED AREAS OF COST

Chapter 8 – Business Combination Costs

Authoritative Sources

FASB Statement 141

FAR 31.205-52 Asset Valuations Resulting from Business Combinations

48 CFR 9904.404 (CAS 404) Capitalization of Tangible Assets

48 CFR 9904.409 (CAS 409) Cost Accounting Standard Depreciation of Tangible Capital Assets

This section provides guidance for audit evaluation of business combination costs proposed or claimed by contractors.

This chapter addresses the following topics:

8-1 Business Combinations

A business combination occurs when an entity acquires net assets that constitute a business or acquires equity interests of one or more other entities and obtains control over the entity or entities. The new entity carries on the activities of the previously separate, independent enterprises (see FASB Statement No. 141).

Once an auditor becomes aware of a business combination whether it be through a merger, consolidation, acquisition, divestiture, etc., he/she should take the following steps:

(1) Contact the contractor immediately to obtain information on the situation;

(2) Request that the contractor keep DCAA advised of all related transactions and activities as they occur;

(3) Remind the contractor of the FAR and CAS requirements concerning affected costs, including the requirement that unallowable costs together with directly associated costs be identified and excluded from any claim applicable to the Government;

(4) Maintain contact between and among the affected FAOs to assure a complete exchange of information, and to ensure that consistent audit action is being taken.

(5) Contact the ACO and the major buying commands to ensure that they are aware of the circumstances. There should be a complete exchange of information with emphasis on items such as advance agreements and novation agreements; and

(6) Evaluate the benefits of having a CAD or region conference or a meeting of the auditors cognizant of the specific organizational units involved in the change.

8-2 Basic Approaches to Obtaining Control Over Assets Owned and Used by Other Firms (Business Acquisition)

There are two basic approaches to obtaining control over assets owned and used by other firms. The acquiring firm may buy the desired assets and thereby obtain title to their use directly, or it may obtain an ownership interest in the common stock of another company enabling it to exercise indirect control over the other firm's assets. These two basic approaches can be adopted in various forms, as follows:

- Acquisition of assets.
- Acquisition of stock.
- Statutory merger.
- Statutory consolidation.

8-2.1 Acquisition of Assets

The acquisition of assets under a business combination is more than a casual sale and purchase of an asset. It is the purchase and sale of a major amount of operating assets, requiring approval by each company's board of directors and, generally, its stockholders. Payment for the assets may be made by cash, debt securities, the acquiring firm's stock, or a combination thereof.

The acquiring corporation may:

(1) create a new corporation for the assets,

(2) assign the assets to a new division or branch, or

(3) assimilate the assets into its present organization.

An important point to bear in mind is that purchasing the assets does not give the acquiring firm any ownership rights in the selling organization. The acquiring firm is buying title to specific assets and is in no way acquiring any stockholders' rights in the selling firm.

8-2.2 Acquisition of Stock

Instead of buying assets directly, an acquiring firm may gain control of assets by buying the voting common stock of the investee. Voting stock may be acquired by :

(1) purchase of outstanding stock on the open market,

(2) negotiation with major stockholders to purchase all or part of their interests,

(3) purchase of authorized but unissued shares (including treasury stock) from the investee company, and

(4) a tender offer.

In a tender offer, the investor makes a public announcement to the stockholders of the corporation whose stock the investor wishes to purchase. The announcement stipulates the price offered for the shares and the number of shares the potential investors want to purchase, what will happen if more or less than that number are tendered, and the time period for tendering the stock. Information regarding the tender offer must be filed with the Securities and Exchange Commission prior to making the offer.

8-2.3 Statutory Merger

A statutory merger occurs when one or more corporations give up their separate legal identities to another constituent corporation which maintains its identity. Stockholders of the liquidated corporation usually receive common stock of the surviving corporation, but they may also receive cash, debt securities, or preferred stock. Normally, a statutory merger must be approved by the boards of directors of the constituent corporations and then by the stockholders of each company.

8-2.4 Statutory Consolidation

A statutory consolidation is similar to a statutory merger in that the consolidation must be approved by the boards of directors and stockholders of the constituent corporations. Unlike a merger, however, a consolidation results in the formation of a new corporation and the liquidation of the constituent corporations. The shareholders of the constituent corporations are issued stock in the new corporation, which then controls the assets and liabilities of the former constituent corporations.

8-3 Accounting for Business Combinations

8-3.1 Introduction and Use

FASB Statement No. 141 requires that all business combinations initiated after June 30, 2001 must be accounted for using the purchase method. Prior to this date the pooling of interest method was acceptable under certain circumstances. (See editions of CAM prior to July 2003 for discussion of the pooling of interest method.)

8-3.2 Purchase Method

The purchase method reflects the acquisition of one company by another. The excess, if any, of the fair value of the identifiable assets purchased over the fair value of the liabilities assumed and the amount paid is recorded as goodwill. Goodwill is an expressly unallowable cost. Also, goodwill is an unallowable element of the facilities capital employed base used to compute cost of money.

The effect of using the purchase method on the valuation of acquired assets is stated in paragraph 7 of FASB Statement No. 141. It requires that the cost of each individual asset be determined based on its estimated fair value at the date of acquisition. Any excess of the price paid for the acquired business over the sum of the amounts assigned to all recognized assets acquired less liabilities assumed is assigned to unidentified assets, including goodwill.

In a business combination, a write-up (or write-down) of the asset values can occur when the fair value of the assets acquired is more (or less) than the book value of the assets (see 8-4.1). Costs assigned to intangible assets should reasonably reflect their fair market value (see 8-4.2).

For more specific guidance relating to the valuation or write-up of assets under the purchase accounting method, see 8.4 below.

8-4 Asset Valuation and Revaluation Resulting from Business Combinations

8-4.1 GAAP for Write-ups (or Write-downs)

The GAAP for determining the value of an acquired company's assets and liabilities are principally provided in Statement of Financial Accounting Standards No. 141. Five paragraphs are restated below.

(1) Paragraph 7 - Allocating cost.

Acquiring assets in groups requires not only ascertaining the cost of the asset (or net asset) group but also allocating that cost to the individual assets (or individual assets and liabilities) that make up the group. The cost of such a group is determined using the concepts described in paragraphs 5 and 6. A portion of the cost of the group is then assigned to each individual asset (or individual assets and liabilities) acquired on the basis of its fair value. In a business combination, an excess of the cost of the group over the sum of the amounts assigned to the tangible assets, financial assets, and separately recognized intangible assets acquired less liabilities assumed is evidence of an unidentified intangible asset or assets.

(2) Paragraphs 35 and 36 - Allocating the Cost of an Acquired Entity to Assets Acquired and Liabilities Assumed.

Following the process described in paragraphs 36-46 (commonly referred to as the purchase price allocation), an acquiring entity shall allocate the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at date of acquisition (refer to paragraph 48). Prior to that allocation, the acquiring entity shall:

(a) review the purchase consideration if other than cash to ensure that it has been valued in accordance with the requirements in paragraphs 20-23 and

(b) identify all of the assets acquired and liabilities assumed, including intangible assets that meet the recognition criteria in paragraph 39, regardless of whether they had been recorded in the financial statements of the acquired entity.

Among other sources of relevant information, independent appraisals and actuarial or other valuations may be used as an aid in determining the estimated fair values of assets acquired and liabilities assumed. The tax basis of an asset or liability shall not be a factor in determining its estimated fair value.

(3) Paragraphs 37 and 38 - Assets acquired and liabilities assumed, except goodwill.

The following is general guidance for assigning amounts to assets acquired and liabilities assumed, except goodwill:

(a) Marketable securities at fair values.

(b) Receivables at present values of amounts to be received determined at appropriate current interest rates, less allowances for uncollectibility and collection costs, if necessary.

(c) Inventories.

- Finished goods and merchandise at estimated selling prices less the sum of:

  (i) costs of disposal and

  (ii) a reasonable profit allowance for the selling effort of the acquiring entity.

- Work in process at estimated selling prices of finished goods less the sum of:

  (i) costs to complete,

  (ii) costs of disposal, and

  (iii) a reasonable profit allowance for the completing and selling effort of the acquiring entity based on profit for similar finished goods.

- Raw materials at current replacement costs.

(d) Plant and equipment.

- To be used, at the current replacement cost for similar capacity unless the expected future use of the assets indicates a lower value to the acquiring entity (Note - Replacement cost may be determined directly if a used-asset market exists for the assets acquired. Otherwise, the replacement cost should be estimated from the replacement cost new less estimated accumulated depreciation.)
- To be sold, at fair value less cost to sell.

(e) Intangible assets that meet the criteria in paragraph 39 at estimated fair values.

(f) Other assets, including land, natural resources, and nonmarketable securities, at appraised values.

(g) Accounts and notes payable, long-term debt, and other claims payable, at present values of amounts to be paid determined at appropriate current interest rates.

An acquiring entity shall not recognize the goodwill previously recorded by an acquired entity, nor shall it recognize the deferred income taxes recorded by an acquired entity before its acquisition. A deferred tax liability or asset shall be recognized for differences between the assigned values and the tax bases of the recognized assets acquired and liabilities assumed in a business combination in accordance with paragraph 30 of FASB Statement No. 109, Accounting for Income Taxes.

Further guidance on the proper procedures for writing up assets is contained in Section 7610 of the "AICPA Technical Practice Aids."

8-4.2 Intangible Assets

Intangible assets such as patents, trademarks, and franchises are referred to as “identifiable.” Other intangible assets lack specific identity. The excess amount paid for an acquired company over the sum of identifiable net assets, usually termed goodwill, is the most common unidentifiable intangible asset. The most significant distinction between “identifiable” and “unidentifiable” intangible assets is separability. Identifiable intangible assets may be acquired singly, as part of a group of assets, or as part of an entire company. Unidentifiable intangible assets are inseparable from the entity.

Costs should be assigned to all identifiable assets, normally based on the fair values of the individual assets; costs of identifiable assets should not be included in goodwill or any other type of unidentifiable assets (see FASB Statement No. 141 Paragraph 39). The cost of unidentifiable intangible assets is measured by the difference between the cost of the group of assets or enterprise acquired and the sum of the assigned costs of individual tangible and identifiable intangible assets acquired, less liabilities assumed.

The assets of the acquired company are appraised and fair values established. Usually, outside appraisers perform the appraisal. They may take several different approaches in arriving at their estimated fair values. While:

(1) the accounting processes prescribed by FASB Statement No. 141 require the assignment of costs to identifiable assets, and

(2) GAAP prescribes recognition of the assigned cost, the auditor should not automatically conclude that the resulting costs are reasonable and reimbursable.

The auditor needs to evaluate the contractor's categorization of each identifiable intangible asset to determine whether or not the fair value assigned to such asset is reasonable and commensurate with economic reality or substance of the asset in review. The allowability of identified assets should be limited to fair market values subject to allocability and reasonableness tests.

8-4.3 Allowability of Asset Valuation Write-ups

Contracts subject to TINA awarded after February 27, 1995 incorporate a contract clause (FAR 52-215.19) which specifically requires the contractor to notify the Government of any changes in contractor ownership which would impact asset valuations. The clause also expressly requires maintenance of the records and calculation of the expense amounts which are required in order to comply with the cost principle at 31.205-52. For business combinations that use the purchase method of accounting, FAR 31.205-52 (Asset Valuation Resulting from Business Combinations) limits the amount of allowable amortization, depreciation, and cost of money to the total amount that would have been allowable had the combination never taken place. This provision became effective July 23, 1990. Simply stated, the Government will not recognize for cost allowability purposes any costs resulting from the increase in the value of acquired assets (or the creation of new assets) as a result of business combinations. FAR 31.205-52 applies to contracts awarded on or after July 23, 1990. For purposes of pricing and costing contracts entered into after July 22, 1990, this FAR provision also applies to preexisting business combinations that predate the effective date of the cost principle. However, the contracting officer may need to separately address the costs of past asset write-ups on a case-by-case basis to achieve equity or to protect the Government's interest in special situations (see below).

An exception exists in those cases when the assigned values of noncurrent assets are adjusted downward (purchase price is less than net fair value). For contracts not subject to the April 15, 1996 revision to CAS 404, the allowability of costs will be based on the written-down amount. This is in accordance with the pre-April 15, 1996 version of CAS 404. More specifically, the pre-April 15, 1996 version of CAS 404.50(d) provides that when the fair value of assets less liabilities exceeds the purchase price of the acquired company under the purchase method of accounting, the value otherwise assignable to tangible capital assets shall be reduced by a proportionate part of the excess. The Government cannot allow costs that are not assignable to a cost accounting period under the CAS requirements. Therefore, prior book values in excess of the price paid by the contractor are unallowable. The April 15, 1996 revision to CAS 404 goes beyond the FAR concept of “no step-up” and provides “no step-up, no step-down” of asset values. Consequently, under the provisions of the revised CAS 404, the net book value of the tangible capital asset in the seller’s accounting records will be used as the capitalized value of the asset for the buyer (see CAM Section 8-404.2b). The contractor is responsible for maintaining the proper documentation to demonstrate that the proposed or claimed costs do not exceed the amounts calculated based on the book values of the acquired assets (but see CAM Section 8-404.2b). This becomes particularly important in those business combinations when one company purchases another company and the acquired company is dissolved.

Auditors who encounter the following situations should advise the contracting officer that an advance agreement, while not required, may be beneficial to provide equitable treatment to both the Government and the contractor and to minimize future disputes:

(1) when the Government, prior to July 23, 1990, had agreed to a settlement covering a business combination which implied acceptance of such costs in the future. For example, when the Government had agreed to accept an immediate credit for excess depreciation and amortization costs recognized prior to the business combination;

(2) when the acquired company had no or little Government business before being acquired so that no material credit exists for excess depreciation and amortization previously recognized, and the acquiring company subsequently entered Government business with the asset valuations established by the combination.

(3) when an extensive period of time has elapsed between a prior business combination and the effective date of the cost principle. A reasonable period of time may need to be considered in applying the limits of FAR 31.205-52 when the acquired company’s asset values prior to the business combination are no longer available and it is not practical or cost beneficial to reconstruct these costs.

Gains and losses on the disposition of assets resulting from a business combination are not allowable as specified at FAR 31.205-16(a) (but see CAM Section 8-409.1g.(5) and (6) for the measurement of gains and losses under the April 15, 1996 revision to CAS 409).

For contracts awarded on or after April 24, 1998, whether or not the contract is subject to CAS, FAR 31.205-52 allows costs calculated based on the seller’s net book value (no step-up, no step-down) if the assets generated depreciation expense or cost of money charged to Government contracts in the most recent accounting period prior to a business combination. If tangible capital assets did not generate depreciation expense or cost of money charged to Government contracts in the most recent year, such costs calculated based on the purchase method (step-up or step-down) of accounting would be allowable.

The asset values determined in accordance with CAS (or GAAP) are used in the three-factor formula for distributing home office costs. Likewise, depreciation and amortization costs assigned in accordance with CAS will be included in any allocation base which normally includes such costs (e.g., the total cost input base). FAR 31.203(d) requires that the full amount of such costs be included in allocation bases so as to cause the unallowable portion of the costs to absorb a portion of overhead cost or G&A expense (see CAM Sections 8-410.1a(2) and 8-405.1g(1)). However, on September 29, 1999, a class deviation from this requirement was issued for DoD contracts and subcontracts, effective through September 30, 2002. This deviation was extended on September 9, 2002, effective through September 30, 2005, also on September 26, 2005, effective through September 30, 2008 and on February 18, 2009, effective through September 30, 2011. Under this DoD deviation, the indirect costs allocable to the step-up asset value under the prior CAS 404 requirements will not be disallowed.

8-4.4 Unallowable Costs

Goodwill. FAR 31.205-49 defines goodwill as an unidentifiable intangible asset. It originates from use of the purchase method of accounting for a business combination. Goodwill arises when the price paid by the acquiring company exceeds the sum of the identifiable individual assets acquired less liabilities assumed, based upon their fair values. Goodwill may arise from the acquisition of a company as a whole or in part. Any costs for amortization, expensing, write-off, or write-down of goodwill (however represented) are unallowable.

Cost of Money. The cost of money resulting from including goodwill (however represented) in the facilities capital employed base is unallowable (see FAR 31.205-10(b)(2)).

8-4.5 Summary of Audit Guidelines for Write-ups

For contracts awarded after July 22, 1990, the auditor should verify that contracts do not receive increased costs flowing from asset revaluation resulting from business combinations. This would also apply to preexisting business combinations that predate the contracts being entered into. The auditor may have to advise the contracting officer of the need to separately address the costs of past asset write-ups on a case-by-case basis to achieve equity or to protect the Government's interest in special situations.

For contracts awarded on or after April 15, 1996, the auditor should verify whether the contracts are subject to the revised CAS 404 and 409, effective April 15, 1996 (8-404.b and 8-409.b). If the revised CAS 404 and 409 apply, the auditor should verify whether the acquired tangible capital assets generated depreciation or cost of money charges on Federal Government contracts or subcontracts negotiated on the basis of cost during the most recent cost accounting period. For tangible capital assets that generated such depreciation expense or cost of money charges, no write-up and no write-down of asset values is permitted and no gain or loss is recognized on asset disposition. For tangible capital assets that did not generate such depreciation or cost of money charges, asset values are written-up or written-down in accordance with CAS 404.50(d)(2). However, tangible capital assets meeting the requirements of CAS 404.50(d)(2) must still comply with the requirements of FAR 31.205-10, 31.205-11, 31-205-16, and 31.205-52 (i.e., costs resulting from asset write-ups are unallowable).

For contracts awarded on or after April 24, 1998, whether or not the contract is subject to CAS, the allowable depreciation and cost of money would be based on capitalized asset values measured in accordance with CAS 404.50(d). (See CAM Sections 8-404.2 and 8-409.2)

8-5 Novation Agreements

A successor in interest to a Government contract usually evolves from a change in the ownership of a contractor organization. The successor in interest is recognized by a novation agreement executed by:

(1) the contractor (transferor),

(2) the successor in interest (transferee), and

(3) the Government.

By the novation agreement, among other things, the transferor guarantees performance of the contract, the transferee assumes all obligations under the contract, and the Government recognizes the transfer of the contract and related assets (FAR 42.1201). Novation agreements are entered into for all executory contracts transferred to a successor in interest.

The transfer of a Government contract is prohibited by law (41 U.S.C. 15). However, FAR 42.1204(a) states: "The Government may, when in its interest, recognize a third party as the successor in interest to a Government contract when the third party's interest in the contract arises out of the transfer of

(1) all the contractor's assets or

(2) the entire portion of the assets involved in performing the contract." Examples include, but are not limited to:

   (a) Sale of the assets with a provision for assuming liabilities.

   (b) Transfer of the assets pursuant to merger or consolidation of a corporation.

   (c) Incorporation of a proprietorship or partnership or formation of a partnership.

When it is in the Government's interest not to concur in the transfer of a contract from one company to another company, the original contractor remains under contractual obligation to the Government, and the contract may be terminated if the original contractor does not perform (see FAR 42.1204(c)).

When a contractor requests the Government to recognize a successor in interest, the contractor is required to submit a signed novation agreement. The form of the novation agreement and the conditions for its use are prescribed in FAR Subpart 42.12.

The standard novation agreement provides in part that "The Transferor and the Transferee agree that the Government is not obligated to pay or reimburse either of them for, or otherwise give effect to, any costs, taxes, or other expenses, or any related increases, directly or indirectly arising out of or resulting from the transfer or this Agreement, other than the Government in the absence of this transfer or Agreement would have been obligated to pay or reimburse under the terms of the contracts" (see paragraph (b)(7) of the standard novation agreement at FAR 42.1204(i)). Auditors should be aware that the cited provision is not limited to professional services, taxes, and corporate expenses directly related with the change in ownership. For novated contracts, the Government is not obligated to pay any increase in contract costs that would otherwise not have occurred. This applies not only to total cost of performance but to any element of cost. The Armed Services Board of Contract Appeals barred an increase in depreciation resulting from a revaluation of assets by the new owners (LTV Aerospace Corporation, ASBCA No. 11161, 67-2 BCA para. 6406). In that case, the Board also rejected a contention that the claim was proper as an offset for "savings" resulting from decreases in other cost categories such as reduced state income taxes resulting from increased depreciation. The "savings" were not costs under the contract because they were never incurred by the contractor.

Auditors need to review each novation agreement to determine its accounting impact on the applicable contracts, the concurrently running contracts, and those contracts entered into subsequent to the agreement.

Pending the execution of a novation agreement, auditors should consult with the ACO on matters such as the appropriate recognition of the transferee and transferor for contract costing and payment purposes.

8-6 Organization and Reorganization Costs

Expenditures made in connection with planning or executing the organization or reorganization of the corporate structure of a business, including mergers and acquisitions, are unallowable under FAR 31.205-27, Organization Costs (see Dynalectron Corporation, ASBCA 20240, 77-2 BCA 12835). Such expenditures include, but are not limited to, incorporation fees and costs of attorneys, accountants, brokers, promoters and organizers, management consultants, and investment counselors, whether or not they are employees of the company. This would also include costs related to changes in the financial structure which may result from divestitures or the establishment of joint ventures or wholly-owned subsidiaries. In establishing the coverage at FAR 31.205-27, the Cost Principles Committee relied on the following definition of an organization and reorganization and the costs thereof:

(1) A major change in the financial structure of a corporation or a group of associated corporations resulting in alterations in the rights and interest of security holders; a recapitalization, merger, or consolidation.

(2) Any costs incurred in establishing a corporation or other form of organization; as, incorporation, legal and accounting fees, promotional costs incident to the sale of securities, security-qualification expense, and printing of stock certificates.

In the event a contractor creates or acquires a new segment or business unit through an acquisition or reorganization, the auditor should review the activity associated with the transaction to determine if any unallowable or unallocable costs are assigned to Government contracts. These activities are often performed by an in-house business planning group, an acquisition and divestiture committee, and by the corporate legal and accounting departments. The auditor should review any available documentation to identify activities and associated costs which are directly incident to establishing or altering the contractor's financial structure. Many times the employees involved in these activities do not maintain adequate time records to identify and support their effort expended on reorganizations and related work. The auditor should ensure that the contractor implements the necessary policy and procedures to properly identify and account for these activities.

Normal recurring expenditures associated with internal reorganizations of contractor segments and divisions are generally allowable costs to the extent they are reasonable and allocable. Such expenditures may be incurred for business planning and forecasting, developing policies and procedures, preparing a CAS disclosure statement, establishing an accounting system, etc.

8-7 Costs Associated With Resisting Change in Ownership (Golden Parachutes and Golden Handcuffs)

8-7.1 General Allowability

For contracts awarded prior to April 4, 1988, contractor expenditures to resist a takeover should be disapproved in accordance with the provisions of both FAR 31.205-27, "Organization Costs," and FAR 31.205-28, "Other Business Expenses." In addition, the auditor should:

(1) Be aware that such costs do not meet the criteria for allocability stated in FAR 31.201-4 (i.e., the costs are not incurred specifically for a Government contract nor do they benefit Government work).

(2) Make every effort to have the contractor segregate its expenditures to effect or resist a business combination as they are being incurred.

For contracts awarded on or after April 4, 1988, the costs incurred by a contractor in connection with successfully or unsuccessfully resisting a merger or takeover are expressly unallowable per FAR 31.205-27(a), and must be segregated as unallowable costs per FAR 31.201-6.

8-7.2 Abnormal Executive Severance Pay (Golden Parachutes)

In order to discourage a hostile takeover attempt, some companies have instituted extraordinary arrangements with key employees to provide very large termination benefits to be paid only in the event of a merger or loss of control and the subsequent dismissal, termination, or departure of the executive. These arrangements have been referred to as "Golden Parachutes" because they provide extremely lucrative financial arrangements for the executives in those circumstances. See 7-2107.8 for a discussion of the allowability of these costs.

8-7.3 Special Compensation for Retaining an Employee (Golden Handcuffs)

Special compensation which is contingent upon the employee remaining with the contractor for a specified period of time is commonly called "golden handcuffs," and is expressly unallowable per FAR 31.205-6(l), "Compensation incidental to business acquisitions." With respect to the FAR provision, it is important to note that the disallowance of costs is linked with the requirement for the employee to remain with the company. For example, assume an individual was performing a job normally paid and objectively worth $50,000 per year, but for good reason, (e.g., to help the company through a rough financial period) accepted and was paid only $40,000 per year. If the new owners immediately raise the individual's salary to $50,000, this would not be considered a "golden handcuff" unless the pay raise is granted on a condition that the individual would remain with the company for a specified period of time.

8-8 Adjustment of Pension Costs

In the event of a business combination, the DCAA auditor cognizant of the selling contractor, in consultation with the DCMA insurance/pension specialist, will determine whether an adjustment of pension costs is required in accordance with CAS 413.50(c)(12). In making this determination, the asset purchase/sales agreement should be reviewed immediately following the business combination. If an adjustment of pension cost is warranted, the auditor should request the ACO to initiate a special CIPR. Refer to audit guidance contained in 7-605.2 (f) and 8-413.3 for additional guidance.

The FAO cognizant of the selling contractor should also verify the amount of pension assets and liabilities transferred to the acquiring contractor. Actuarial reports, bank wire transfers and trust statements for the pension plan document the amount of assets and liabilities transferred. The FAO should confirm in writing the amounts transferred with the DCAA office cognizant of the acquiring contractor.

8-9 Organization and Reorganization References

a. Access to Records CAM 1-504

b. Advance Agreements FAR 31.109

c. Asset Valuation Resulting from Business Combinations FAR 31.205-52

d. Business Combinations FASB Statement No. 141

e. Capital Investment CAM 14-602

f. Capital Tangible Assets CAS 404

g. CAS Disclosure Statement 48 CFR 9903.2

h. Cash Disbursements CAM 14-304.2f

i. CAS Impact Statement 48 CFR 9903.3

j. Compensation FAR 31.205-6

k. Consultants FAR 31.205-33 & 37.203

l. Cost of money FAR 31.205-10; CAS 414

m. Depreciation FAR 31.205-11; CAS 409

n. Economic planning FAR 31.205-12

o. Gains and losses on assets FAR 31.205-16

p. Goodwill FAR 31.205-49

q. Insurance FAR 31.205-19; CAS 416

r. Intangible assets FASB Statement No. 142

s. Labor relations costs FAR 31.205-21

t. Pensions FAR 31.205-6(j); CAS 412 & 413

u. Plant Rearrangement CAM 9-703.9

v. Records Destroyed CAM 1-506

w. Sale and Leaseback CAM 9-703.11

x. SEC Current Report 3-2S1 (Form 8k)

y. Taxes FAR 31.205-41