



Accounting Acquirer vs Legal Acquirer

USGAAP Evaluation Under a SPAC Transaction

Accounting Acquirer vs Legal Acquirer – USGAAP Evaluation Under a SPAC Transaction

When a Special Purpose Acquisition Company (SPAC) identifies a potential target for a business combination, the decisions made around the structure of the business combination can significantly affect both the SPAC (pre-combination) and the surviving entity (post-combination).

SPAC business combinations are typically structured using reverse merger recapitalization or forward mergers, both of which can have varying financial consequences or lack thereof for the current SPAC. This structure is preconditioned by many elements that factor into the evaluation of the accounting acquirer, which could be the SPAC itself or the target entity.

In a SPAC merger transaction, an imperative accounting judgment is the determination of which entity is the accounting acquirer. The accounting acquirer is the entity that obtains control of the reporting entity and may be different from the legal acquirer. If the transaction is between entities under common control (for example, the same entity or individual controls the target company and the combined entity after the transaction), acquisition accounting would not apply.

If the SPAC merger is effectuated primarily by transferring cash or other assets or by incurring liabilities, the SPAC is usually the accounting acquirer. If the target company is a variable interest entity (VIE), the entity that is the primary beneficiary and consolidates the VIE is the accounting acquirer (i.e., if the SPAC becomes the primary beneficiary as a result of the merger, the SPAC would be the accounting acquirer).

For accounting purposes, the acquirer is the entity that has obtained control of another entity (the “acquiree”) and consummated a business combination. While the SPAC is ordinarily the “legal” acquirer in the combination, it does not always meet the criteria to be classified as the accounting acquirer. This is because the determination of the accounting acquirer is driven by “control” of the post combination company, regardless of which entity is legally acquiring the other.



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If the voting interest model applies and the SPAC merger consideration is equity or a combination of cash and equity, it may not be clear which entity is the accounting acquirer and further evaluation may be required. These situations require consideration of all pertinent facts and circumstances. The guidance in ASC 805-10-55-11 through ASC 805-10-55-15 includes factors that may indicate which party is the accounting acquirer, including:

- Relative voting rights in the reporting entity,
- Existence and size of a single minority voting interest in the reporting entity,
- Composition of the governing body of the reporting entity,
- Composition of senior management of the reporting entity,
- Terms of the exchange of equity interests (entity that pays a premium), and
- Relative size of the entities.

No one factor is determinative. In some cases, determining the accounting acquirer may require significant judgment. If the SPAC is the accounting acquirer, it would recognize the assets and liabilities of the target company at fair value in accordance with ASC 805, Business Combinations.

The pro forma financial information included in the proxy statement will reflect purchase accounting and will require a valuation of the operating company's assets and liabilities. If an operating company is determined to be the accounting acquirer, the accounting for the transaction will be similar to a capital transaction. This is because the only asset of the SPAC is typically cash obtained from IPO investors.



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