

## M&amp;A; EXECUTION PROGRAM

PART 12 OF 12 · PART 3: POST-MERGER INTEGRATION &amp; ACCOUNTING

# PART 12

## TAX & AUDIT POST-CLOSE WRAP-UP

*The final phase of the M&A; lifecycle: auditing the opening balance sheet, completing the NWC true-up, resolving post-close disputes, and managing the tax implications of the transaction. This session closes the loop on the entire program with an independent accountant arbitration role-play.*

## IN THIS PART

- Opening balance sheet audit under ASC 805
- The 90-day NWC true-up process
- Independent accountant arbitration mechanics
- Post-close tax compliance obligations
- Straddle period tax returns
- Final purchase price adjustment waterfall

## THREE CASE STUDIES

*Each session includes one fully worked case study with detailed calculations, negotiating dynamics, and CFO-level decision frameworks.*

### ■ SESSION 12: THE POST-CLOSE FINANCIAL WRAP-UP

## The Three Post-Close Financial Obligations Every CFO Must Own

The closing wire has been sent. The announcement has been made. The press releases are written. But for the CFO, the most technically demanding work of the M&A; process is just beginning. Three major financial obligations must be executed with precision in the 90 days following closing — and the consequences of getting them wrong can be measured in millions of dollars.

These three obligations are: (1) the **Opening Balance Sheet Audit** under ASC 805, which validates the PPA and the fair values assigned to all acquired assets and liabilities; (2) the **NWC True-Up**, which is the contractually specified reconciliation of actual closing NWC against the NWC peg; and (3) the **Post-Close Tax Return** process, which includes preparing straddle-period tax returns for the acquired entity and managing the transition of tax compliance

obligations.

## Obligation 1: The Opening Balance Sheet Audit

ASC 805 requires the acquirer to complete the PPA within a one-year **measurement period** after the acquisition date. During this period, the acquirer can adjust provisional fair values as new information about conditions that existed at the acquisition date becomes available. The opening balance sheet audit is the independent verification that the PPA was performed correctly.

OBS Audit Area	Auditor Focus	Common Findings	Impact
Fair value of PP&E;	Was a qualified independent appraiser engaged? Were all assets inspected?	Appraiser methodology not documented; FMV unsupported	Restatement of PP&E; goodwill adjustment
Intangible asset valuation	Discount rates, attrition rates, royalty rates — all assumptions documented?	Customer attrition rate too optimistic; royalty rate not benchmarked	Revaluation of intangibles; change in goodwill
Acquired liabilities	All contingent liabilities identified? Warranty reserves adequate?	Warranty reserve understated; pending litigation not accrued	Additional liabilities recorded; goodwill increases
Earnout (contingent consideration)	Probability-weighted FV calculation documented?	Earnout FV understated; probability weights not supportable	Earnout liability and goodwill both increase
Deferred taxes	All temporary differences identified? DTL on intangibles calculated?	DTL not established on stepped-up intangibles	Material DTL required; goodwill may decrease

## ◆ MEASUREMENT PERIOD ADJUSTMENT – OBS AUDIT

## OBS AUDIT – MEASUREMENT PERIOD ADJUSTMENT EXAMPLE

ORIGINAL PPA (Provisional, at close):

Customer Relationships: \$16,000,000

Goodwill: \$34,000,000

(Based on 8% customer attrition rate – management estimate)

## MEASUREMENT PERIOD ADJUSTMENT (Month 8):

Independent study reveals actual 3-yr attrition: 12.5%

(vs. 8% used in provisional PPA)

Revised Customer Relationship FV (at 12.5%): \$12,800,000

## ADJUSTMENT ENTRY (retrospective to acquisition date):

Dr: Goodwill: \$3,200,000

Cr: Customer Relationships: \$3,200,000

Revised Customer Relationships: \$12,800,000

Revised Goodwill: \$37,200,000

## IMPACT ON PRIOR PERIOD AMORTIZATION:

Original amortization (8 months):  $\$16\text{M}/10\text{yr} \times 8/12 = \$1,066,667$

Revised amortization:  $\$12.8\text{M}/10\text{yr} \times 8/12 = \$853,333$

Prior period amortization credit: \$213,334

Restated in earliest period presented

(Measurement period adjustments = restatement of opening BS  
not current period income adjustment)

## Obligation 2: The NWC True-Up

The NWC true-up is the post-close reconciliation that adjusts the closing wire based on the difference between estimated closing NWC (used at closing) and actual closing NWC (verified after closing when all information is available). The SPA specifies the timeline and process — typically 60-90 days for the buyer to prepare the closing statement and 30 days for the seller to dispute.

◆ NWC TRUE-UP MECHANICS

NWC TRUE-UP PROCESS AND TIMELINE

Day 0: CLOSING – estimated NWC used; wire based on estimate  
 Day 1-60: BUYER prepares actual closing statement  
 (verified AR aging, actual inventory count,  
 all accruals finalized, AP confirmed)  
 Day 60: BUYER delivers closing statement to SELLER  
 Day 61-90: SELLER reviews; may accept or issue dispute notice  
 Day 91: If no dispute: PAYMENT due (buyer or seller)  
 Day 91+: If dispute: NEGOTIATION period (30 days)  
 Day 121+: If unresolved: INDEPENDENT ACCOUNTANT appointed

EXAMPLE TRUE-UP CALCULATION:

Estimated Closing NWC (used at closing): \$5,200,000  
 NWC Peg (agreed): \$5,500,000  
 Estimated NWC shortfall: (\$300,000)  
 (Seller paid \$300K less at closing – held in escrow)

ACTUAL CLOSING NWC (per buyer's closing statement): \$4,650,000  
 NWC Peg: \$5,500,000  
**ACTUAL SHORTFALL: (\$850,000)**

**ADDITIONAL PAYMENT REQUIRED FROM SELLER:**  
 Actual shortfall: \$850,000  
 Less: already deducted at close: \$300,000  
**ADDITIONAL SELLER PAYMENT: \$550,000**  
 (Released from escrow or paid by seller directly)

### Obligation 3: Post-Close Tax Compliance

The tax obligations following an acquisition are numerous, technical, and time-sensitive. The CFO must coordinate with tax counsel and the acquired company's tax department to ensure all filings are accurate and timely.

Tax Obligation	Timing	Responsible Party	Key Issues
Pre-close straddle period federal return	Filed by normal deadline for pre-close short year	Seller (or shared for stock deals)	Allocating income/deductions between pre and post-close periods
Post-close short year return	First return for the stub period post-close	Buyer	Loss carryforward limitations (Section 382 for stock purchases)

Tax Obligation	Timing	Responsible Party	Key Issues
State and local tax registrations	Often within 30-60 days of close	Buyer	New nexus created by acquisition; may owe back taxes in new states
Section 338(h)(10) election filing	Within 8.5 months of acquisition date	Both parties (joint filing)	Miss deadline = election is permanently lost
Transfer taxes (if asset purchase)	Varies by state; often at or shortly after close	Typically seller; negotiable	State documentary stamp, deed transfer taxes on real property
HSR filing (if required)	Pre-close; waiting period must expire	Both parties	Failure to file = significant penalties (\$50K+/day)

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## CASE STUDY 1

**Pinnacle Components Inc.***Day 91 NWC Dispute — WIP Inventory Valuation Disagreement***Background**

Pinnacle Components Inc. manufactures precision aerospace parts under long-term government contracts. At closing, Pinnacle had \$3.8M of work-in-process (WIP) inventory on its books. The buyer, AeroGroup Holdings, delivered its closing NWC statement on Day 58, valuing the WIP at \$2.4M — a \$1.4M reduction from Pinnacle's carrying value. Pinnacle filed a dispute notice on Day 85. The dispute went to an Independent Accountant on Day 130.

**The Role-Play: Independent Accountant Arbitration**

The Independent Accountant (IA) is typically a Big 4 or large regional firm, jointly selected by buyer and seller. The IA's role is narrow but powerful: to determine the correct value of the disputed items **using the accounting principles specified in the SPA**. The IA is not a mediator. The IA issues a final, binding determination.

## ◆ INDEPENDENT ACCOUNTANT ARBITRATION – FULL ROLE-PLAY

PINNACLE – INDEPENDENT ACCOUNTANT ARBITRATION

DISPUTED ITEM: WIP INVENTORY VALUATION

AEROGROUP'S POSITION (\$2,400,000):

Government contract at risk of cancellation (10% prob)

SPA requires 'Net Realizable Value' for WIP

NRV = estimated selling price - costs to complete

Selling price: \$4,200,000 (contract price)

Costs to complete: \$1,800,000

NRV: \$4,200,000 - \$1,800,000 = \$2,400,000

(Buyer applying NRV rather than cost – depresses WIP value)

PINNACLE'S POSITION (\$3,800,000):

WIP should be valued at cost per GAAP (ASC 330)

SPA says 'consistent with Company accounting policies'

Company has always carried WIP at cost

No write-down required – NRV exceeds cost (\$2.4M NRV

is NET, meaning the contract IS profitable)

Cancellation risk is speculative; rep &amp; warranty covers it

INDEPENDENT ACCOUNTANT ANALYSIS:

SPA Definition: 'GAAP consistently applied, in accordance with the Company's historical accounting practices'

Company's historical policy: WIP at cost

NRV test: only applicable if NRV &lt; COST

Here, NRV (\$2.4M) &lt; COST (\$3.8M) → write-down IS required

Wait: NRV of \$2.4M represents NET value (after completion)

Costs to complete (\$1.8M) must be ADDED BACK to compare

Fair market value at close: \$4.2M - zero write-down trigger

IA DETERMINATION:

WIP valued at COST: \$3,800,000

Buyer's position REJECTED

PINNACLE WINS: \$1,400,000 additional payment from AeroGroup

Plus: IA fees (\$180,000) borne by AeroGroup (losing party)

**■ THE IA ARBITRATION LESSON**

The Independent Accountant's mandate is strictly limited to the accounting question — not the economic question. The IA must apply the accounting principles specified in the SPA and the company's historical practices. Buyers who try to use the IA process as a second bite at renegotiating the economic terms of the deal consistently lose. The best preparation for the IA process is a clear, precise SPA definition of every NWC component — written before closing, not after a dispute arises.

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2****CASE STUDY 2****Concord Financial Technologies**

*Straddle Period Tax Return — Allocating Gain Between Buyer and Seller*

**Background**

Concord Financial Technologies was acquired in a stock purchase on September 15. The corporation's fiscal year is calendar-year. This creates a 'straddle year': January 1 through September 15 is the seller's period; September 16 through December 31 is the buyer's period. Both periods must be tax-reported — but allocating income and deductions between them is not as simple as prorating by days.

## ◆ STRADDLE PERIOD TAX ALLOCATION

## CONCORD — STRADDLE PERIOD TAX ANALYSIS

Acquisition date: September 15 (day 258 of 365)

Seller's fraction:  $258/365 = 70.68\%$

Buyer's fraction:  $107/365 = 29.32\%$

## ALLOCATION METHODS (SPA specifies which to use):

METHOD 1: Ratable (pro-rata by days)

Full year taxable income: \$4,200,000

Seller's period:  $\$4,200,000 \times 70.68\% = \$2,968,560$

Buyer's period:  $\$4,200,000 \times 29.32\% = \$1,231,440$

METHOD 2: Closing of Books (preferred; more accurate)

Seller's period income (actual Jan 1-Sep 15): \$3,400,000

Buyer's period income (actual Sep 16-Dec 31): \$800,000

(Year weighted toward Jan-Sep; Q4 typically slower)

## TAX IMPACT OF METHOD CHOICE:

Method 1 (ratable): Seller pays tax on \$2,968,560

Method 2 (closing of books): Seller pays tax on \$3,400,000

ADDITIONAL SELLER TAX (Method 2 vs. 1):

$(\$3,400K - \$2,969K) \times 21\% = \$90,510$  more tax

SELLER NEGOTIATED: Ratable method (Method 1)

BUYER PREFERRED: Closing of books (more accurate Q4 deferral)

RESOLUTION: Closing of books used; seller compensated

for \$90,510 additional tax in price adjustment

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## CASE STUDY 3

## Meridian Capital Group

*Post-Close Tax Audit — Section 382 Loss Limitation Surprise*

**Background**

Meridian Capital Group acquired TechStart LLC, which had \$18M of accumulated net operating loss (NOL) carryforwards. The deal model assumed these NOLs would shield approximately \$18M of future income from federal tax, saving \$3.78M in cash taxes. Post-close, the buyer's tax team discovered that Section 382 of the IRC severely limited the annual utilization of these NOLs — because the acquisition constituted a change of ownership exceeding 50%.

## ◆ SECTION 382 NOL LIMITATION ANALYSIS

## SECTION 382 NOL LIMITATION — ANALYSIS

TechStart NOL carryforward at acquisition: \$18,000,000

Assumed tax savings (21% × \$18M): \$3,780,000

## SECTION 382 CALCULATION:

Acquisition price (equity value): \$28,000,000

Section 382 long-term tax-exempt rate: 3.84%

Annual Section 382 limitation:

$\$28,000,000 \times 3.84\% = \$1,075,200$

Maximum NOL usable per year: \$1,075,200

## IMPACT ON NOL VALUE:

At \$1.075M per year, \$18M NOL takes 16.7 years to use

PV of \$18M NOL shelter (21% rate, 12% discount, 16.7yr):

Annual tax shield:  $\$1,075,200 \times 21\% = \$225,792$

PV of \$225,792 for 16.7 years at 12%: \$1,636,000

vs. ASSUMED VALUE: \$3,780,000

VALUE DESTROYED BY 382 LIMITATION: (\$2,144,000)

DEAL MODEL ERROR: Tax team did not run 382 analysis pre-close

This was a due diligence failure — 382 analysis is standard

CFO lesson: ALWAYS request 382 analysis for any

acquisition of an entity with NOL carryforwards

The analysis takes 2 hours; the cost of missing it = \$2.1M

## ■ PROGRAM COMPLETION: THE CFO'S M&amp;A; MASTERY FRAMEWORK

## Twelve Sessions. One Complete Framework.

You have now completed the full M&A; Execution Program. The twelve sessions have walked you through the entire lifecycle of a transaction — from the first conversation about structure through the final post-close tax filing. The framework below summarizes the critical decision points at each stage and the CFO's primary responsibility.

Session	Topic	CFO's Primary Decision	Biggest Risk
01	Deal Structure	Asset vs. Stock vs. 338(h)(10)	Double-tax trap destroys seller value

Session	Topic	CFO's Primary Decision	Biggest Risk
02	LOI & Valuation	Anchor the valuation range; limit exclusivity	Re-trading after LOI exclusivity
03	QofE — Revenue	Identify non-recurring revenue; proof of cash	Channel stuffing inflates EBITDA
04	QofE — Expenses	Challenge every add-back; defend legitimate ones	SBC and run-rate adjustments are contested
05	NWC Peg	Set 12-month trailing average; define exclusions	Seasonal timing destroys value
06	NWC Components	Age AR; test inventory; verify accruals	AP stretching inflates NWC artificially
07	Purchase Agreement	Negotiate baskets, caps, survival periods	Environmental or IP breach exceeds cap
08	Earnouts & Rollovers	Design catch-up provisions; enforce CRE	Buyer sandbagging on earnout metrics
09	PPA / ASC 805	Commission valuation firm; document assumptions	Goodwill impairment if deal thesis fails
10	Consolidation	Execute elimination entries; manage FX	Intercompany balances not fully identified
11	First 100 Days	Separate integration costs from operations	EMR/system migration cost overruns
12	Post-Close Wrap-Up	NWC true-up; OBS audit; tax filings	Section 382 NOL limitation not analyzed

#### ■ THE GOLD STANDARD CFO

An M&A transaction is not a single event — it is a three-to-five-year financial project that begins with the strategy conversation and ends only when the last post-close adjustment is settled and the integration is complete. The CFO who understands every phase of this lifecycle — who can negotiate the deal structure, challenge the QofE, design the earnout, prepare the PPA, manage the consolidation, and resolve the NWC dispute — is the CFO who creates the most value for the organization and earns the trust of the board, the CEO, and the investment partners.

**This concludes the M&A; Execution Program — 12 sessions, 36 case studies, and a complete framework for CFO-level transaction mastery.**