

Advisory Services

Forensic Services:  
Government Contract Services

# Due diligence support results in favorable settlement of purchase price dispute

PwC's support helped the client receive more than \$600 million in compensation.

## Client's challenge

After acquiring a competitor's business unit for \$10 billion, a government contractor determined that the closing balance sheet was misstated, overstating net assets by \$1 billion. The purchase and sale agreement provided for an adjustment to the purchase price based on the difference between net assets at closing and a target price.

The net asset discrepancy was caused by a number of issues including inappropriate revenue recognition under the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP 81-1), Accounting for Performance of Construction-Type and Certain Production-Type Contracts, overstated billed & unbilled receivables, overstated inventory, and understated liabilities, including reserves related to contract losses, defective pricing, and compliance with Federal Acquisition Regulation (FAR) and Cost Accounting Standards (CAS). The government contractor sought assistance from PricewaterhouseCoopers (PwC) to provide due diligence support related to accounting issues arising from the purchase price dispute.

## PricewaterhouseCoopers' Advisory solution

PwC compiled a team with knowledge and experience across a broad range of areas, including transaction services and dispute analysis. The team evaluated more than 200 items in the closing balance sheet for conformance with US generally accepted accounting principles (GAAP), and then reviewed the provisions in the purchase and sale agreement.

Based on a thorough review of books and records, as well as interviews with client personnel, the team developed written positions with detailed supporting documentation for each disputed item. PwC then helped the government contractor develop its legal strategy and supported the client in their negotiations with the seller.

## Impact on client's business

As a result of PwC's due diligence support, the government contractor received more than \$600 million in compensation after negotiation with the seller for settlement of the final purchase price.

### For more information:

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