

# Purchase Method

When one firm buys out another, it can account for that acquisition in one of two ways, the purchase method or the pooling of interests method.

The pooling of interest method is the simpler of the two methods. Under the pooling of interests method, the firms' accounts are simply merged. If the acquired firm's assets were on the books at prices that were dramatically below their true market value, then those assets will be recorded in the books of the newly formed firm at those same erroneous prices.

Under the purchase method, the acquiring firm records the assets it purchased at whatever the market price was when it purchased the firm. If the acquiring firm pays a price above the estimated market price of the assets, it records that additional amount as "Goodwill."