

Insights into IFRS 3

Disclosures under IFRS 3: Understanding the requirements



A business combination often results in a fundamental change to an entity's operations. The nature and extent of the financial statement disclosures have a significant bearing on a user's ability to assess the effects of the acquisition on the consolidated financial statements. Accordingly, the disclosure requirements for business combinations under IFRS 3 'Business Combinations' are quite extensive.

Our 'Insights into IFRS 3' series summarises the key areas of the Standard, highlighting aspects that are more difficult to interpret and revisiting the most relevant features that could impact your business.

This article covers IFRS 3's disclosure requirements. An illustrative disclosure is provided at the end of this article, including insights on certain disclosure areas. Please be aware that these disclosures are not meant to be exhaustive of all scenarios, and readers should refer to the detailed requirements of IFRS 3 when preparing their disclosures.

General objectives of the disclosure requirements

The acquirer discloses information that enables users of its financial statements to evaluate:

- the nature and financial effect of a business combination
- the financial effects of adjustments recognised in the current reporting period that relate to business combinations that occurred in the period or previous reporting periods.

“The nature and extent of the financial statement disclosures have a significant bearing on a user's ability to assess the effects of the acquisition on the consolidated financial statements.”

Business combinations that require disclosures

IFRS 3's disclosures are required for:

- each material business combination that occurred during the current reporting period
- individually immaterial business combinations that occurred during the reporting period that are collectively material (disclosures are made on an aggregate basis)
- business combinations occurring after the reporting period but before the financial statements are authorised for issue.

Minimum disclosure requirements

It is helpful to divide IFRS 3's disclosure requirements into three types:

- disclosures applicable to most business combinations
- specific disclosures for contingent consideration, indemnification assets and contingent liabilities arising from a business combination
- disclosures applicable only to certain business combinations.

Although IFRS 3 specifies the minimum disclosure requirements, management should use judgement to determine the adequacy of the disclosures and should not be limited by those specified by IFRS 3. In line with the general requirements of IAS 1 'Presentation of Financial Statements', additional information should be provided if it will help the users of the financial statements better understand the effects of the business combination. This principle will also be unchanged on transition to the new IFRS 18 'Presentation and Disclosure in Financial Statements', which becomes effective for reporting periods starting on or after 1 January 2027.

For business combinations that are individually immaterial, but are collectively material, the disclosures set out below should be provided in aggregate.

If the acquisition date for a business combination occurs after the end of the reporting period, but prior to the issue of the financial statements, the acquirer must also make the required disclosures set out below unless the accounting for the business combination is incomplete when the financial statements are authorised for issue (refer to our article '**Insights into IFRS 3 – Business combinations where the accounting is incomplete at the reporting date**'). In this case the acquirer will describe which disclosures could not be made, and explain why they could not be made.

Required disclosures applicable to most business combinations

Presented below is a summary of the required disclosures applicable to most business combinations. The acquirer is required to disclose this information in the reporting period the business combination occurred or, in certain cases, in the subsequent reporting period.

Disclosure area	Required Disclosures
Details of the business combination	<ul style="list-style-type: none"> name and description of the acquiree acquisition date percentage of voting equity interests acquired primary reasons for the acquisition and a description of how the acquirer obtained control of the acquiree
Details of goodwill	<ul style="list-style-type: none"> qualitative description of the factors that make up the goodwill recognised, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors total amount of goodwill that is expected to be deductible for tax purposes refer to our article 'Insights into IFRS 3 – Recognising and measuring goodwill or gain from a bargain purchase'
Fair value of consideration transferred	<ul style="list-style-type: none"> acquisition-date fair value of the total and each major class of consideration, such as: <ul style="list-style-type: none"> cash other tangible or intangible assets, including a business or subsidiary of the acquirer liabilities incurred, for example, liability for contingent consideration equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of determining the fair value of those instruments or interests refer to our article 'Insights into IFRS 3 – Consideration transferred'
Details of assets acquired and liabilities assumed	<ul style="list-style-type: none"> amounts recognised at the acquisition date for each major class of assets acquired and liabilities assumed additional disclosures for each major class of acquired receivables: <ul style="list-style-type: none"> fair value of the receivables gross contractual amounts receivable the best estimate at the acquisition date of the contractual cash flows not expected to be collected refer to our article 'Insights into IFRS 3 – Recognition principle'
Details of transactions recognised separately from the business combination	<ul style="list-style-type: none"> description of each transaction and how it was accounted for amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised if the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount
Acquisition-related costs	<ul style="list-style-type: none"> amount of acquisition-related costs, including the: <ul style="list-style-type: none"> amount recognised as an expense and the line item or items in the statement of comprehensive income in which those expenses are recognised amount of any issue costs not recognised as an expense and how they were recognised
Operating results of the new subsidiary included in the consolidated statement of comprehensive income for the reporting period	<ul style="list-style-type: none"> amounts of revenue and profit or loss of the new subsidiary for the current reporting period since the acquisition date revenue and profit or loss of the combined entity for the current reporting period as though the acquisition occurred at the beginning of the reporting period if disclosure of any of this information is impracticable, disclose that fact and explain why it is impracticable

Disclosure area	Required Disclosures
Reconciliation of the carrying amount of goodwill balance	<ul style="list-style-type: none"> the gross amount and accumulated impairment losses at the beginning and end of the reporting period with details of the movements in the reporting period, showing separately: <ul style="list-style-type: none"> additional goodwill recognised (except goodwill included in a disposal group classified as held for sale on the acquisition date) adjustments resulting from the subsequent recognition of deferred tax assets goodwill included in a disposal group classified as held for sale and goodwill derecognised (without having previously been included in a disposal group classified as held for sale) impairment losses recognised in accordance with IAS 36 'Impairment of Assets' (IAS 36 requires disclosure of other information in addition to this requirement) net exchange rate differences any other changes in the carrying amount the gross amount and accumulated impairment losses at the end of the reporting period
Material gains or losses recognised in the reporting period	<ul style="list-style-type: none"> the amount and an explanation of any gain or loss recognised in the current reporting period that both: <ul style="list-style-type: none"> relates to identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements
Cash flow disclosures <p>Note: These are included in IAS 7 'Statement of Cash Flows' rather than IFRS 3, but they are still relevant for business combinations</p>	<ul style="list-style-type: none"> in respect of obtaining and losing control of subsidiaries or other businesses during the period, an entity shall disclose, in aggregate, the following: <ul style="list-style-type: none"> total consideration paid or received (note: this is reported in the statement of cash flows net of cash and cash equivalents acquired or disposed of) the portion of the consideration consisting of cash and cash equivalents the amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost the amount of assets and liabilities other than cash and cash equivalents in the subsidiaries or businesses over which control is obtained or lost, summarised by each major category the aggregate cash flows are classified in the investing category in the statement of cash flows

Specific disclosures for contingent consideration, indemnification assets and contingent liabilities arising from a business combination

IFRS 3 requires disclosure of specific items recognised as part of the business combination as follows (also refer to our article ‘Insights into IFRS 3 – Specific recognition and measurement provisions’):

	Disclosure area	Required disclosures
Contingent consideration arrangements (asset or liability) and indemnification assets:	In reporting period when the business combination occurred	<ul style="list-style-type: none"> amount recognised as of the acquisition date description of the arrangement and the basis for determining the amount of the payment estimate of the range of outcomes (undiscounted) <ul style="list-style-type: none"> if it cannot be estimated, disclose that fact and the underlying reason if amount of the payment is unlimited, disclose that fact
	Continuing disclosures	<p>The following disclosures are required until the parent collects, sells or otherwise loses the right to a contingent consideration asset, or until a contingent consideration liability is settled, cancelled or expires:</p> <ul style="list-style-type: none"> any changes in the recognised amounts, including any differences arising upon settlement any changes in the range of outcomes (undiscounted) and the reasons for those changes the valuation techniques and key model inputs used to measure contingent consideration
Contingent liabilities	In reporting period when the business combination occurred	<ul style="list-style-type: none"> the information required by IAS 37 ‘Provisions, Contingent Liabilities and Contingent Assets’ for each contingent liability recognised, such as: <ul style="list-style-type: none"> nature of the obligation and the expected timing of outflows of economic benefits indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, the entity shall disclose the major assumptions made concerning future events amount of any expected reimbursement and any related asset that has been recognised if a contingent liability is not recognised because its fair value cannot be measured reliably, disclose the underlying reason and the information required by IAS 37, as follows: <ul style="list-style-type: none"> nature of the contingent liability where practicable, an estimate of the financial effect and indication of the uncertainties relating to the amount or timing of any outflow where practicable, the possibility of any reimbursement
	Continuing disclosure of the details of the contingent liability and reconciliation of the balance of contingent liability	<p>The following disclosures are required until contingent liability is settled, cancelled or expires:</p> <ul style="list-style-type: none"> information required by IAS 37 discussed above further information required by IAS 37 as follows: <ul style="list-style-type: none"> the carrying amount at the beginning and end of the period additional contingent liabilities recognised in the period, including increases to existing contingent liabilities amounts used (ie incurred and charged against the contingent liability) during the period unused amounts reversed in the period the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate

Disclosures applicable only to certain business combinations

In certain situations, IFRS 3 requires specific additional disclosures:

	Disclosure area	Required disclosures
Business combinations accounted using provisional amounts	Details of provisional amounts used	<ul style="list-style-type: none">the reasons why the initial accounting for the business combination is incompletethe particular assets, liabilities, equity interests or items of consideration for which the initial accounting is incompletethe nature and amount of any measurement period adjustments recognised during the reporting period
Business combinations resulting in a gain from a bargain purchase	Details of a bargain purchase	<ul style="list-style-type: none">the amount of any gain recognised and the line item in the statement of comprehensive income in which the gain is recogniseda description of the reasons why the transaction resulted in a gainrefer to our article 'Insights into IFRS 3 – Recognising and measuring goodwill or gain from a bargain purchase'
Business combinations where less than 100% interest is acquired	Details of Non-controlling Interest (NCI)	<ul style="list-style-type: none">the amount of the NCI recognised at the acquisition date and the measurement basis used (ie fair value or proportionate interest model)for each NCI measured at fair value, the valuation techniques and key model inputs used for determining that valuerefer to our article 'Insights into IFRS 3 – Recognising and measuring non-controlling interests'
Business combinations achieved in stages	Details of business combination achieved in stages	<ul style="list-style-type: none">the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition datethe related amount of any gain or loss recognised related to the remeasurement to fair value of such equity interest and the line item in the statement of comprehensive income in which that gain or loss is recognised

Illustrative Disclosure

The extract below has been taken from our **2024 example financial statements** and provides an example of the type of disclosures required by IFRS 3. It is not intended to illustrate all of the required disclosures in all circumstances. The form and content of the disclosures will depend on the specifics of each business combination. Accordingly, these illustrative disclosures should be amended, amplified or abbreviated to reflect such specific circumstances.

The illustrative disclosures presented below are excerpts from the 31 December 2024 consolidated financial statements of a fictional entity, Illustrative Corporation and its subsidiaries ('the Group'). The Group is a manufacturer and distributor of household appliances and has two reportable segments, retail and wholesale segments.

1. Significant accounting policy disclosures

1.1 Business combinations

IFRS 3.4 IFRS 3.37	The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.
IFRS 3.42	If the Group acquires a controlling interest in a business in which it previously held an equity interest, that equity interest is remeasured to fair value at the acquisition date with any resulting gain or loss recognised in profit or loss or other comprehensive income, as appropriate.
IFRS 3.B52	Consideration transferred as part of a business combination does not include amounts related to the settlement of pre-existing relationships. The gain or loss on the settlement of any pre-existing relationship is recognised in profit or loss.
IFRS 3.18	Assets acquired and liabilities assumed are measured at their acquisition-date fair values.

Disclosure of the business combination transaction

2. Acquisitions and disposals

2.1 Acquisition of Goodtech GmbH in 2024

IFRS 3.B64 (a-d)	On 31 March 2024, the Group acquired 100% of the equity instruments of Goodtech GmbH (Goodtech), a Hamburg (Euroland) based business, thereby obtaining control. The acquisition was made to enhance the Group's position in the online retail market for computer and telecommunications hardware in Euroland. Goodtech is a significant business in Euroland in the Group's targeted market.
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Guidance note: Cross-referencing to external information is a way an entity can refer readers to complementary data outside the financial statements, eg on the Group's website. This information is not necessary to comply with its statutory requirements; it is there as additional information which complements the financial statements. An entity does not need to state this when providing the cross-reference, it should be obvious from the nature of the information.

Signposting to information outside the financial statements can include:

- standing data (eg share option terms)
- additional information supporting financial statement disclosures, and
- other connected but not financial data.

The details of the business combination as follows:

IFRS 3.B64(f)	FAIR VALUE OF CONSIDERATION TRANSFERRED	
IFRS 3.B64(f)(i)	Amount settled in cash	16,058
IFRS 3.B64(f)(iii)	Fair value of contingent consideration	600
IAS 7.40(a)	Total	16,658
IFRS 3.B64(i)	RECOGNISED AMOUNTS OF IDENTIFIABLE NET ASSETS	
IAS 7.40(d)	Property, plant and equipment (Note 12)	4,622
	Intangible assets (Note 11)	5,255
	Investment property (Note 14)	75
	Total non-current assets	9,952

IAS 7.40(c)	Inventories	8,995
	Trade and other receivables	7,792
	Cash and cash equivalents	567
	Total current assets	17,354
	Borrowings	(3,478)
	Deferred tax liabilities	(632)
	Total non-current liabilities	(4,110)
	Provisions	(1,320)
	Other liabilities	(2,312)
	Trade and other payables	(5,344)
	Total current liabilities	(8,976)
	Identifiable net assets	14,220
	Goodwill on acquisition (Note 10)	2,438
IAS 7.40(b)	Consideration transferred settled in cash	16,058
IAS 7.40(c)	Cash and cash equivalents acquired	(567)
IAS 7.42	Net cash outflow on acquisition	15,491
	Acquisition costs charged to expenses	223

Consideration transferred

IFRS 3.B64 (f)(i) The acquisition of Goodtech was settled in cash amounting to CU 16,058.

IFRS 3.B64 (g)(i-iii)
IFRS 3.B64(j)
IFRS 3.B64(m) The purchase agreement included an additional consideration of CU 1,310, payable only if the average profits of Goodtech for 2024 and 2025 exceed a target level agreed by both parties. The additional consideration will be paid on 1 April 2026. The CU 600 of contingent consideration liability recognised represents the present value of the Group's probability-weighted estimate of the cash outflow. It reflects management's estimate of a 50% probability that the targets will be achieved and is discounted using an interest rate of 4.4%¹. As at 31 December 2024, there have been no changes in the estimate of the probable cash outflow but the liability has increased to CU 620 due to the change in fair value.

Acquisition-related costs amounting to CU 223 are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss, as part of other expenses.

Identifiable net assets

IFRS 3.B64 (h)(i-iii) The fair value of the trade and other receivables acquired as part of the business combination amounted to CU 7,792, with a gross contractual amount of CU 7,867. As of the acquisition date, the Group's best estimate of the contractual cash flow not expected to be collected amounted to CU 75.

Goodwill

IFRS 3.B64(e)
IFRS 3.B64(k) Goodwill of CU 2,438 is primarily growth expectations, expected future profitability, the substantial skill and expertise of Goodtech's workforce and expected cost synergies. Goodwill has been allocated to the retail segment and is not expected to be deductible for tax purposes.

¹ The determination of the acquisition-date fair value of the contingent consideration should consider the expected outcome of the contingency. This example illustrates one possible approach in estimating the fair value of the contingent consideration.

Guidance note: If goodwill arising from a business combination has not been fully allocated to a cash-generating-unit or group of units, an entity shall disclose that fact together with the reason why that amount remains unallocated.

Goodtech's contribution to the Group results

IFRS 3.B64 (g)(i-ii)

Goodtech incurred a loss of CU 20 for the nine months from 31 March 2024 to the reporting date, primarily due to integration costs. Revenue for the nine months to 31 December 2024 was CU 24,800.

If Goodtech had been acquired on 1 January 2024, revenue of the Group for 2024 would have been CU 212,000, and profit for the year would have increased by CU 14,000.

2.2 Acquisition of Good Buy Inc. in 2023

IFRS 3.B64 (a-d)

On 30 June 2023, the Group acquired 100% of the equity instruments of Good Buy Inc. (Good Buy), a Delaware (USA) based business, thereby obtaining control. The acquisition of Good Buy was made to enhance the Group's position as an online retailer for computer and telecommunications hardware in the US market.

The details of the business combination are as follows:

IFRS 3.B64(f)

IFRS 3.B64(f)(i)
IAS 7.40(a)

FAIR VALUE OF CONSIDERATION TRANSFERRED	
Amount settled in cash	12,420

IFRS 3.B64(i)

IAS 7.40(d)

RECOGNISED AMOUNTS OF IDENTIFIABLE NET ASSETS	
Property, plant and equipment (Note 12)	3,148
Intangible assets (Note 11)	3,005
Total non-current assets	6,153

IAS 7.40(c)

Inventories	5,469
Trade and other receivables	5,200
Cash and cash equivalents	345
Total current assets	11,014

Deferred tax liabilities	(435)
Total non-current liabilities	(435)

Provisions	(1,234)
Other liabilities	(657)
Trade and other payables	(4,990)
Total current liabilities	(6,881)

Identifiable net assets	9,851
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Goodwill on acquisition (Note 10)	2,569
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IAS 7.40(b)

IAS 7.40(c)

IAS 7.42

Consideration transferred settled in cash	12,420
Cash and cash equivalents acquired	(345)
Net cash outflow on acquisition	12,075

Acquisition costs charged to expenses	76
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Consideration transferred

IFRS 3.B64 (f)(i) The acquisition of Good Buy was settled in cash amounting to CU 12,420.

IFRS 3.B64 (g)(i-iii)
IFRS 3.B64(j)
IFRS 3.B64(m) Acquisition-related costs amounting to CU 76 are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss, as part of other expenses.

Settlement of pre-existing relationship

IFRS 3.B64(l)(iv) The Group and Good Buy Inc. were parties to a long-term supply agreement. Good Buy Inc. provided services to entities within the Group at agreed contract rates. This pre-existing relationship was terminated at the acquisition date. The Group has determined that the fair value to settle the pre-existing relationship was CU 450. The fair value of the settlement has been determined based on an assessment of the difference between current market rates and the rates previously agreed in the long-term contract for the supply of services. This amount has been included within other expenses for the year.

Identifiable net assets

IFRS 3.B64 (h)(i-iii) The fair value of the trade and other receivables acquired as part of the business combination amounted to CU 5,200, with a gross contractual amount of CU 5,350. As of the acquisition date, the Group's best estimate of the contractual cash flow not expected to be collected amounted to CU 150.

Goodwill

IFRS 3.B64(e)
IFRS 3.B64(k) Goodwill of CU 2,569 is primarily the sales force and the sales know-how of key personnel. Goodwill has been allocated to the retail segment and is not expected to be deductible for tax purposes.

Good Buy's contribution to the Group results

IFRS 3.B64 (q)(i-ii) Good Buy contributed CU 9,540 of revenue and CU 400 to the consolidated profit for the six months from 1 July 2023 to 31 December 2023. If Good Buy had been acquired on 1 January 2023, revenue of the Group for 2023 would have been CU 196,000. However, due to lack of IFRS-specific data prior to the acquisition of Good Buy, pro-forma profit or loss of the combined entity for the complete 2023 reporting period cannot be determined reliably.

How we can help

We hope you find the information in this article helpful in giving you some insight into IFRS 3. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit www.grantthornton.global/locations to find your local member firm.



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