Grant Thornton

Insights into MFRS 3

Disclosures under MFRS 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 MFRS 3 'Business Combinations' are quite extensive.

Our 'Insights into MFRS 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 MFRS 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 MFRS 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

MFRS 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 MFRS 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 MFRS 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 MFRS 3. In line with the general requirements of MFRS 101 '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 MFRS 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 MFRS 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	• 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	• 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 MFRS 3 – Recognising and measuring goodwill or gain from a bargain purchase**'
Fair value of consideration transferred	• acquisition-date fair value of the total and each major class of consideration, such as: – 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 MFRS 3 – Consideration transferred**'
Details of assets acquired and liabilities assumed	• 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: – 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 MFRS 3 – Recognition principle**'
Details of transactions recognised separately from the business combination	• 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	• amount of acquisition-related costs, including the: – 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	• 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	• 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: – 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 MFRS 136 'Impairment of Assets' (MFRS 136 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	• the amount and an explanation of any gain or loss recognised in the current reporting period that both: – 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 Note: These are included in MFRS 107 'Statement of Cash Flows' rather than MFRS 3, but they are still relevant for business combinations	• in respect of obtaining and losing control of subsidiaries or other businesses during the period, an entity shall disclose, in aggregate, the following: – 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

MFRS 3 requires disclosure of specific items recognised as part of the business combination as follows (also refer to our article '**Insights into MFRS 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**	• 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)
		  – if it cannot be estimated, disclose that fact and the underlying reason
		  – if amount of the payment is unlimited, disclose that fact

	Continuing disclosures	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: • 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**	• the information required by MFRS 137 'Provisions, Contingent Liabilities and Contingent Assets' for each contingent liability recognised, such as:
		  – 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 MFRS 137, as follows:
		  – 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	The following disclosures are required until contingent liability is settled, cancelled or expires:
		• information required by MFRS 137 discussed above
		• further information required by MFRS 137 as follows:
		  – 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, MFRS 3 requires specific additional disclosures:

	Disclosure area	Required disclosures
Business combinations accounted using provisional amounts	**Details of provisional amounts used**	• the reasons why the initial accounting for the business combination is incomplete • the particular assets, liabilities, equity interests or items of consideration for which the initial accounting is incomplete • the 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**	• the amount of any gain recognised and the line item in the statement of comprehensive income in which the gain is recognised • a description of the reasons why the transaction resulted in a gain • refer to our article '**Insights into MFRS 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)**	• 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 value • refer to our article '**Insights into MFRS 3 – Recognising and measuring non-controlling interests**'
Business combinations achieved in stages	**Details of business combination achieved in stages**	• the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date • the 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

How we can help

We hope you find the information in this article helpful in giving you some insight into MFRS 3. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact.

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