

IAS 36 Impairment of Assets (November 2010)

Calculation of value in use

The Committee received a request for clarification on whether estimated future cash flows expected to arise from dividends, that are calculated using dividend discount models (DDMs), are an appropriate cash flow projection when determining the calculation of value in use of a cash generating unit (CGU) in accordance with paragraph 33 of IAS 36.

The Committee noted that paragraphs 30–57 and paragraphs 74–79 of IAS 36 provide guidance on the principles to be applied in calculating value in use of a CGU. The Committee observed that calculations using a DDM which values shares at the discounted value of future dividend payments, may be appropriate when calculating value in use of a single asset, for example when an entity applies IAS 36 in determining whether an investment is impaired in the separate financial statements of an entity. The Committee understands that some DDMs may focus on future cash flows that are expected to be available for distribution to shareholders, rather than future cash flows from dividends. Such a DDM could be used to calculate value in use of a CGU in consolidated financial statements, if it is consistent with the principles and requirements in IAS 36.

The Committee noted that the current principles in IAS 36 relating to the calculation of value in use of a CGU are sufficient and that any guidance that it could provide would be in the nature of application guidance. Consequently, the Committee decided not to add the issue to its agenda.