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Cash Generating Units
What should the size be?

The investment community and mining and oil and gas companies are at odds as to what the optimal size of a cash generating unit (CGU) should be and this may have an influence on whether impairments are made and how often these are made.

The CGU is the smallest group of assets that can generate a cash flow independently.

Investors typically motivate for smaller and smaller units, since they prefer a more granular view of the companies that they invest in.

Mining and oil and gas companies, however, traditionally try and motivate for larger cash generating units, with some companies including all assets and smelters in a CGU, and others including all assets and a sales unit in a CGU.

Typically, auditors then make a decision as to whether the size of the CGU is appropriate for the business that they are auditing and use the concept to determine whether a CGU should be impaired.

For investors, the concern is that a larger CGU will mask non-profitable mines, gas fields and units since the lower cash flows will be hidden by the higher cash flows of the more profitable assets.

But this concern is not justified, say industry role players. The financials will highlight the contributions of the non-profitable assets, they say.

Nonetheless, it is worrying that companies prefer to have larger CGUs, says Venmyn Deloitte MD Andy Clay.

“We would prefer that smaller units are made CGUs, and that the values of these assets can be more transparent,” he states.

“This is crucial for a sound appreciation of the company’s intrinsic value.”

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Kind regards,
Andy Clay

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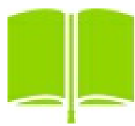
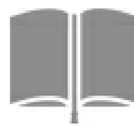
Tracking the Trends 2016  Mozambique's Mineral Industry  Nigeria's Mineral Industry

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