

International Financial Reporting Standards

Expected value and other measures of uncertain future cash flows

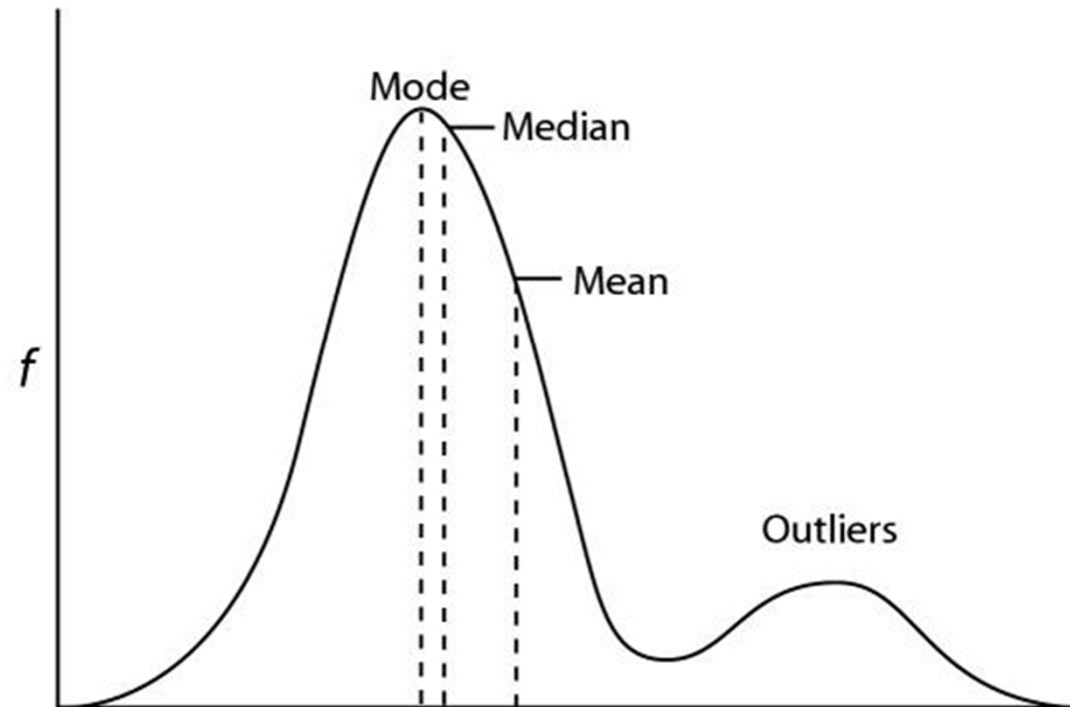
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extensive due process and deliberation.

Central estimates

Accounting description	Alternative statistical term
Expected value	= mean
Maximum amount more likely than not to occur	≅ median
Most likely outcome	= mode

Skewed distributions?



Properties

- implicit in estimates of value
 - fair value
 - value in use
- long run outcome \Rightarrow no net gain or loss on settlement
- includes outliers and sensitive to changes in outliers
- no cliff edges
- sum of parts = whole

Useful estimate if...

- most relevant measure is current value
- transactions recur frequently
- outliers are important to investors
- two likely outcomes with similar probabilities
- specifying unit of account would be difficult

Maximum amount more likely than not to occur

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Properties

- minimises average gains and losses on settlement
- excludes outliers and insensitive to changes in outliers
- no need to estimate outliers
- implicit 50% recognition threshold
- cliff edges
- sum of parts \neq whole

Useful estimate if...

- transactions do not recur frequently
- outliers are not important to investors
- outliers subject to greater estimation uncertainty than central outcomes
- benefits of expected value do not outweigh greater costs

Most likely outcome

Properties

- not necessarily a central estimate
- lower probability, but higher amounts, of gains and losses on settlement
- sensitive to interval width
- cliff edges
- sum of parts \neq whole
- easiest to estimate

Useful estimate if...

- distribution approximately symmetrical about most likely outcome
- benefits of other measures do not outweigh greater costs