APPROVED

by Resolution No. 1 of 18 December 2003 of the Standards Board of the Public Establishment the Institute of Accounting of the Republic of Lithuania
(Revised version of Order No. VAS-17 of 20 December 2006 of the Director of the Public Establishment the Institute of Accounting of the Republic of Lithuania)

1 BUSINESS ACCOUNTING STANDARD “FINANCIAL STATEMENTS”

Version effective as from 31 December 2006 (“Valstybės žinios” (Official Gazette), 2004, No. 20-616; 2006, No. 143-5448).

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out a procedure of preparing annual financial statements and requirements to be observed in order to ensure comparability of the entity’s financial statements with its own financial statements of the previous reporting periods and with financial statements of other entities.

2. This Standard shall be applied in preparing and presenting annual financial statements in accordance with Business Accounting Standards.

3. This Standard sets out a presentation procedure and composition of financial statements as well as general requirements for the contents of the statements. Preparation of financial statements, recognition of economic transactions and other economic events, measurement and disclosure are covered by other Business Accounting Standards.

II. KEY DEFINITIONS

Explanatory notes – a financial statement explaining amounts presented in other financial statements and disclosing additional material information that is not presented in such other financial statements.

Accounting policies – accounting principles, accounting methods and rules applied by an entity in keeping its accounting records and preparing financial statements.

Reporting period – a period for which financial statements are prepared.

Balance sheet – a financial statement presenting all assets, equity and liabilities of an entity as of the last day of the reporting period.

Balance sheet date – the last day of the reporting period.

Reporting date – a date, on which prepared financial statements are signed by the head of the entity and registered in its register of documents, if such registration is required under internal procedural documents of the entity or legal acts.

Financial statements’ approval date – a date of approval of an entity's financial statements by its owners.

Entity – a profit-seeking business entity.

Annual financial statements – financial statements prepared on the basis of the generalized data for the financial year of an entity.

Statement of changes in equity – a financial statement presenting information about changes in equity during the reporting period.

Income statement – a financial statement presenting all earned income, incurred expenses and achieved results of an entity during the reporting period.

Cash flow statement – a financial statement presenting inflows and outflows of cash and cash equivalents of an entity during the reporting period.

III. PURPOSE OF FINANCIAL STATEMENTS

4. The purpose of financial statements shall be to satisfy the needs of information users with regard to receiving correct information about financial position, performance and cash flows of an entity.

5. Financial statements shall provide disclosures on:

5.1. assets;

5.2. equity;

5.3. liabilities;

5.4. income and expenses;

5.5. cash flows.

IV. COMPOSITION OF FINANCIAL STATEMENTS

6. A complete set of financial statements shall comprise:

6.1. a complete balance sheet;

6.2. a complete income statement;

6.3. a statement of changes in equity;

6.4. a cash flow statement;

6.5. complete explanatory notes.

7. A condensed set of financial statements shall comprise:

7.1. a condensed balance sheet;

7.2. a condensed income statement;

7.3. a statement of changes in equity;

7.4. condensed explanatory notes.

8. On the basis of values of indicators specified in the Law on Financial Statements of Entities of the Republic of Lithuania (“Valstybės žinios” (Official Gazette), 2001, No. 99-3516), entities are required to select the forms of financial statements from those presented in Annexes to Business Accounting Standards.

V. ELEMENTS OF FINANCIAL STATEMENTS

9. According to their economic nature economic transactions and economic events taking place in entities are grouped into broad classes, which are called elements of financial statements. Elements of financial statements are used to assess the financial position and performance of an entity:

9.1. elements presented in a balance sheet – assets, liabilities and equity – describe the entity’s financial position;

9.2. elements presented in an income statement – income and expenses – are used to measure the entity’s performance.

10. Assets – tangible, intangible and financial resources managed, used and (or) disposed by an entity in order to obtain economic benefits from such use:

10.1. Assets are used for providing services or producing goods, after sale of which it is expected to receive larger amounts of cash than those spent. Assets may generate economic benefits not only from their sale, but also from exchanging them for other assets, or transferring to settle liabilities.

10.2. Assets may not have a physical form (for example, patents and copyrights are also assets if they are controlled by an entity and are expected to generate economic benefits). Economic benefits gained by an entity are not always related to ownership. An entity may receive economic benefits from assets it does not own; however, it enjoys economic benefits generated by such assets.

10.3. As a rule assets are recorded in accounting when the costs of their acquisition are incurred. Nevertheless, there are instances when assets are recognised without incurring costs (for example, assets received gratis, assets received in the form of government grants, etc.). Requirements for assets accounting are established by 13 Business Accounting Standard "Intangible Assets", 12 Business Accounting Standard "Non-Current Tangible Assets", 18 Business Accounting Standard "Financial Assets and Financial Liabilities", 9 Business Accounting Standard "Inventories", and other Business Accounting Standards.

11. Liabilities are obligations of an entity arising from performed economic transactions and other events, which the entity is expected to settle in future from its assets and the amount of which can be measured reliably:

11.1. As a rule, liabilities are documented by an agreement (for example, remuneration to employees payable under employment contracts, amounts payable for goods and services received under supply or services contracts).

11.2. Liabilities are classified into present and future liabilities. Normally present liabilities that arise when an entity assumes an obligation to pay for a delivered asset or enters into an irrevocable agreement to acquire an asset are recorded in accounting. Decisions of the entity's managers to acquire assets in future represent future liabilities that are not recorded in the balance sheet. Present liabilities may be settled through cash payments, transfer of assets, provision of services, replacement by other liabilities, or transferring liabilities to equity. In certain cases unsettled liabilities may expire (for example, when it is impossible to settle them, on agreement between the parties, upon liquidation of the debtor).

11.3. Certain liabilities may be determined by way of calculations, using certain estimates. Such liabilities are called provisions (for example, provisions for guarantee repairs, provisions for pension liabilities, etc).

12. Equity is the portion of an entity's assets remaining after deducting all its liabilities. Requirements for equity accounting are established by 8 Business Accounting Standard "Equity".

13. The key measure of the economic performance of an entity is profit. As a rule, it is used as a basis for calculating other performance indicators. The main elements related to the measurement of profit are income and expenses:

13.1. Income is an increase in economic benefits in the form of inflows or enhancements of assets or decreases in liabilities during the reporting period, which results in an increase in equity, other than that relating to additional owners' contributions.

13.2. Expenses are a decrease in economic benefits in the form of outflows or depletions in assets or incurrence of liabilities during the reporting period, which results in the decrease in equity, excluding direct reduction thereof.

13.3. In an income statement income and expenses are presented in different ways. Presentation depends on the nature of the entity's operations. In Business Accounting Standards items of income and expenses from ordinary activities of an entity are distinguished from extraordinary items. An entity decides at its own discretion which items shall be attributed to ordinary activities. A standard classification of income and expenses is given in 3 Business Accounting Standard “Income Statement”.

14. The definition of income covers income earned from ordinary activities of an entity and its extraordinary income. Income from ordinary activities of an entity is usually classified into sales revenue, income from other activities, income from financing and investing activities:

14.1. The procedure of recognising sales revenue is established by 10 Business Accounting Standard “Sales Revenue”.

14.2. Attribution of income to income from other, financing or investing activities is described in 3 Business Accounting Standard “Income Statement”. Income from other, financing and investing activities is recognised in the period when it is earned, regardless of the time of the receipt of cash.

15. The definition of expenses covers expenses that arise in the course of ordinary activities of an entity and extraordinary losses. Expenses that arise in the course of ordinary activities comprise cost of sales, operating expenses, expenses for other activities, financing activities, investing activities and income tax expenses:

15.1. The procedure of recognising cost of sales and operating expenses is described in 11 Business Accounting Standard “Cost of Sales and Operating Expenses”.

15.2. Classification of expenses into expenses for other, financing or investing activities is established by 3 Business Accounting Standard “Income Statement”. Expenses for other, financing and investing activities are recognised in the period when they are incurred, regardless of the payment of cash.

15.3. Calculation of income tax expenses is based on the accrual principle.

VI. MEASURING ELEMENTS OF FINANCIAL STATEMENTS

16. Measurement is the process of determining monetary amounts at which the elements of financial statements shall be recognised and carried in financial statements. The elements of financial statements can be measured using a variety of methods:

16.1. Historical cost, when an asset is measured at the fair value of consideration paid at the moment of acquisition, and liabilities - at the receivable or payable amount of cash or cash equivalents expected to be received or paid in the normal course of business.

16.2. Fair value, when an asset or a liability is measured at the amount for which the assets or services could be exchanged or the liability settled in an arm’s length transaction between knowledgeable, willing parties seeking to acquire (sell) the assets or settle the liability. A fair value of an asset or a liability can be reliably measured when their fair value changes inconsiderably, or when likely changes in various measurements can be precisely predicted and assessed.

16.3. Net realizable value, when an asset is carried at its selling price in the normal course of business less estimated costs of completion of production and sale of goods.

16.4. Net selling price, when an asset is carried at the selling price in the normal course of business less estimated costs of sale.

16.5. Present value, when an asset is carried at the present discounted value of net inflows of future periods that are expected to be generated by the item in the normal course of business. Liabilities are carried at the present discounted value of net outflows of future periods that are expected to be required to settle the liabilities in the normal course of business.

16.6. Value in use, when an asset is carried at the present value of future cash flows to be derived from using the asset and from its transfer at the end of its useful life.

16.7. Amortised cost, when a non-current financial asset is carried at its historical cost, reduced by the recovered portion of the amount and impairment of such asset and upon recognition of cumulative amortisation of the difference between the historical cost and maturity amount, whereas a non-current financial liability – at the historical cost reduced by the repaid portion of the amount and upon recognition of cumulative amortisation of the difference between the historical cost and maturity amount.

17. The greatest majority of elements of financial statements are carried by entities at historical cost, however, there are certain elements of financial statements for which other Business Accounting Standards establish other measurement methods. Entities shall measure the elements of financial statements using the methods provided for by Business Accounting Standards, and where such methods are not established, the entities are free to select them at their own discretion.

VII. PRINCIPAL REQUIREMENTS FOR FINANCIAL STATEMENTS

18. Information presented in financial statements shall be interrelated.

19. Financial statements shall present fairly the financial position, assets, equity, liabilities, performance and cash flows of an entity.

20. Disclosures in annual financial statements shall be provided in a clear and understandable form to enable their users to make sound decisions.

21. Disclosures in financial statements shall be neutral and reliable. Additions to assets, distortions of income, expenses or other items shall not be allowed.

22. When due to changes in accounting policies information in financial statements of the reporting period is not comparable to that of the previous periods, disclosures shall be made following the procedure established by 7 Business Accounting Standard "Changes in Accounting Policies and Accounting Estimates and Correction of Errors".

23. If annual financial statements are not prepared according to Business Accounting Standards, the reasons for that shall be disclosed in explanatory notes. Departure from Business Accounting Standards is permitted only in order to achieve a fair presentation of the entity's financial position and performance.

24. Entities may print the forms of annual financial statements by themselves omitting those items which are not compulsory under Business Accounting Standards and which have zero totals. Compulsory items may be supplemented by insertion of additional lines when this is necessary to achieve a fair presentation of the entity's financial position, performance and cash flows.

25. Annual financial statements shall be presented on the basis of the selected accounting policies and in accordance to general accounting principles.

VIII. ACCOUNTING POLICIES

26. An entity shall select and apply such accounting policies, which guarantee that its financial statements present fairly the financial position, performance and cash flows of the entity.

27. Where Business Accounting Standards do not establish a procedure regulating recognition and presentation of a certain economic transaction or event, an entity shall apply an accounting policy which ensures that disclosures in financial statements:

27.1. are valuable to their users;

27.2. present fairly the entity's financial position, performance and cash flows;

27.3. reflect the economic substance of such economic transactions and events, rather than just comply with formal presentation requirements;

27.4. are unbiased and neutral;

27.5. are prepared according to general accounting principles;

27.6. are complete in all material respects.

IX. GENERAL ACCOUNTING PRINCIPLES

28. When handling their accounting records and preparing financial statements, entities shall observe the following general accounting principles:

28.1. entity's concept;

28.2. going concern;

28.3. periodicity;

28.4. consistency;

28.5. monetary measure;

28.6. accrual;

28.7. comparability;

28.8. prudence;

28.9. neutrality;

28.10. substance over form.

29. The entity's concept means that each entity which prepares financial statements is treated as a separate unit of accounting and that the entity's financial statements shall reflect only its assets, equity, liabilities, income, expenses and cash flows.

30. The principle of going concern means that:

30.1. Financial statements are prepared assuming that an entity will continue in operation for the foreseeable time and is not going to be liquidated; consequently when preparing financial statements, the entity's management shall assess its ability to continue in operation.

30.2. Financial statements shall be prepared on a going concern basis, unless the entity's owners decide or are obliged to liquidate the entity or suspend its activities.

30.3. If in the course of preparing financial statements the entity's management is aware of facts which might raise doubts as to its ability to continue as a going concern, such doubts shall be disclosed in explanatory notes. For the purpose of deciding whether the principle of going concern can be applied, all available information shall be taken into consideration.

30.4. When financial statements are not based on the principle of going concern, the reason for that shall be disclosed in the entity's explanatory notes.

30.5. If due to certain reasons the principle of going concern is disregarded, all assets and liabilities of such entity become current assets or current liabilities. Assets shall be carried at net realizable value, and liabilities – at estimated amounts of final settlement.

31. The principle of periodicity means that:

31.1. Financial statements shall be prepared on the basis of data as of the last day of the reporting period. Economic transactions and other events occurring later are included in accounting and reflected in financial statements of the next reporting period. Therefore decisions of an entity's owners concerning profit distribution and other matters taken when approving financial statements of the previous financial year are attributed to transactions of the reporting period, during which they were taken, and are reflected in the financial statements of that period. If laws regulating the entity's activities or its Articles of Association establish the obligation on the administration or other managerial body of the entity to prepare a draft of profit distribution, this draft shall be presented in explanatory notes to financial statements submitted for approval. However, the distribution of profit is recognised as a transaction which has taken place only after the entity's owners approve the distribution of profit in the manner established by laws.

31.2. Financial year normally lasts for 12 months. In particular circumstances, however, when an entity begins its economic activities, is being reorganised, liquidated or a decision is taken to change the beginning of a financial year, the duration of one financial year may be other than 12 months. It may be shorter or longer than 12 months, but shall not exceed 18 months. Financial year of an entity that commences its economic activities is a period between the date of its establishment and the end of the financial year. The end of a financial year of an entity which changes its financial year coincides with the end of the new financial year, provided the period between the beginning of the financial year and the end of the new financial year does not exceed 18 months. Where this period is longer, the transitional financial year shall be introduced, the beginning of which corresponds to the end of the previous financial year, and the end – to the beginning of the new financial year. If the financial year of an entity is shorter or longer than 12 months, the reasons for changing the reporting period of financial statements shall be disclosed in explanatory notes including the note specifying that the data in the income statement, statement of changes in equity and cash flow statement is not comparable to the data contained in the financial statements of the previous reporting period.

32. The principle of consistency means that an entity shall apply the selected accounting method continuously or for a sufficiently long time, unless some material events or circumstances predetermine the change of the accounting policies. Classification of financial statement items or the method of presenting information may be altered only when it becomes clear that applied accounting methods prevent from presenting fairly the entity's performance and financial position.

33. The principle of monetary measure means that for the purpose of financial statements all assets, equity and liabilities of the entity are stated in monetary terms.

34. The accrual principle of accounting means that economic transactions and other events are recorded in accounting when they occur and are presented in financial statements of such periods, irrespective of the receipt or payment of cash. Under the accrual principle income is recorded when earned.

35. The principle of comparability means that:

35.1. Income earned during the reporting period is related to expenses incurred to earn such income. Financial statements shall be prepared so as to enable their users to compare them with those of other reporting periods and those of other entities and correctly assess the changes in the financial position of the entity. Therefore, the accounting policies selected by entities shall provide for the application of new methods of accounting without violating the principle of comparability of financial statements.

35.2. All financial statements shall provide disclosures covering the current reporting year and at least one previous financial year (comparative disclosures). In the event of change in the presentation or classification of items of financial statements, amounts of the previous financial year to be compared with the amounts of the current reporting year shall be reclassified, except where such reclassification is impracticable. When amounts of the previous financial year are reclassified, the nature, causes and amounts of each reclassified item or group of items shall be disclosed in explanatory notes. Where reclassification of amounts of the previous financial year is impracticable, the reason for which the amounts have not been reclassified shall be disclosed in addition to the nature of adjustments which would have been introduced in the event of such reclassification.

36. The principle of prudence means that:

36.1. The entity shall select such accounting methods that prevent from unjustified overstatement or understatement of the value of assets, equity, liabilities, income and expenses.

36.2. When preparing financial statements, it is necessary to verify all subjective estimates, for example, doubtful debts, various provisions, reserves. Persons preparing financial statements shall ensure that financial statements are reliable and neutral, i.e. that assets and income are not overstated (understated) and liabilities and expenses are not understated (overstated).

37. The principle of neutrality means that information in financial statements is expected to be objective and free from bias. Presentation of information shall not depend on attempt to make the users of accounting information take decisions that are favourable to the entity.

38. The principle of substance over form means that in registering economic transactions and other events the greatest attention shall be paid to their substance and economic nature, rather than just formal presentation requirements. Economic transactions and other events have to be recorded in accounting and presented in financial statements according to their substance and economic nature even when the presentation differs from legal documents (for example, according to existing documents the entity transferred an asset and its legal ownership to another entity, however, it entered into an additional agreement on the basis of which the entity would continue to enjoy the future economic benefits of such asset. As the registration of a transfer of the asset in accounting will result in the misstatement of the substance of the transaction in financial statements, such asset should be further presented in the entity's balance sheet).

X. MATERIALITY OF INFORMATION

39. Information is material if its omission or misstatement is likely to influence the decisions taken by the users of financial statements.

40. Materiality is determined in consideration of both the size and the nature of an item. Any criterion may be significant in decision-making. In financial statements each material item shall be presented separately. Insignificant amounts may be aggregated with the amounts of similar nature or purpose and shall not be shown separately.

XI. OFFSETTING

41. In financial statements assets and liabilities shall not be offset, unless so established in another Business Accounting Standard, or when both of the following conditions are met:

41.1. Assets and liabilities are related to the same person.

41.2. Assets and liabilities may be offset or otherwise eliminated in the manner established by laws (e.g., income tax paid in advance and (or) excess payment of income tax may be offset with the payable income tax), or when the offsetting of such assets and liabilities is provided for in an agreement, or an arrangement with regard to offsetting such assets and liabilities exists.

42. In financial statements income and expenses shall be presented separately, however, in cases provided for by other Business Accounting Standards, the items of income and expenses may be offset presenting only the net result (e.g., net result may be recorded upon disposal of non-current assets, receipt of compensation for suffered losses or in the event of foreign exchange rate fluctuations).

XII. IDENTIFICATION OF FINANCIAL STATEMENTS

43. Financial statements shall be clearly identified and distinguished from other information announced by an entity. Financial statements are prepared in accordance with Business Accounting Standards, consequently, it is very important that the users are able to

distinguish information prepared according to Business Accounting Standards from other information, which may be useful, but is prepared in observance of other rules.

44. The following disclosures shall be made in each of the presented financial statements:

44.1. the name, address, and code of the reporting entity;

44.2. whether these are the financial statements of a separate entity or group of entities (consolidated financial statements);

44.3. the reporting period of the financial statements, balance sheet date, reporting date and financial statements' approval date;

44.4. the reporting currency;

44.5. the degree of accuracy of figures disclosed in the financial statements. Disclosures in financial statements may be in units of the reporting currency or in thousands of units. Disclosures in thousands of units are acceptable as long they do not result in the omission of material information.

XIII. BALANCE SHEET

45. Requirements for presentation of a balance sheet and its standard forms are established by 2 Business Accounting Standard “Balance Sheet”.

XIV. INCOME STATEMENT

46. Requirements for presentation of an income statement and its standard forms are established by 3 Business Accounting Standard “Income Statement”.

XV. STATEMENT OF CHANGES IN EQUITY

47. Requirements for the presentation of a statement of changes in equity and its standard forms are established by 4 Business Accounting Standard “Statement of Changes in Equity”.

XVI. CASH FLOW STATEMENT

48. Requirements for a cash flow statement and its standard forms are established by 5 Business Accounting Standard “Cash Flow Statement”.

XVII. EXPLANATORY NOTES

49. General requirements for the contents of explanatory notes and minimum requirements for condensed explanatory notes are established by 6 Business Accounting Standard “Explanatory Notes”. Complete explanatory notes shall be prepared in accordance with requirements of all other Business Accounting Standards applicable to disclosures of information.

XVIII. FINAL PROVISIONS

50. The revised version of this Standard shall be effective for financial statements covering periods beginning on or after 1 January 2006.