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
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10 BUSINESS ACCOUNTING STANDARD "INCOME"

("Valstybės žinios" (Official Gazette), 2004, No. 20-616; 2007, No. 1-49; No. 75-2978; No. 99 (correction).

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how to recognise revenue from the sale of goods and rendering of services and other income, and how to present the information about income earned during the reporting period.
2. This Standard establishes a procedure of recognising, accounting for and disclosing information about revenue from the sale of goods and rendering of services as well as other income for entities that keep their accounts on the accrual basis.
3. This Standard is not applicable when accounting for income that is not recognised in the income statement.

II. KEY DEFINITIONS

Income - an increase in economic benefits during the reporting period arising from using, selling, transferring assets or their enhancements or from decreases of liabilities, which results in an increase in equity, other than that relating to additional owners' contributions.

Reliable measurement - measurement based on comprehensive, fair, true and unbiased information.

Transfer of risk - the moment, from which the seller ceases managing and controlling the goods, and the buyer becomes responsible for the goods and enjoys the benefits associated with the ownership of the goods.

Fair value - the amount for which an asset or a service could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

III. RECOGNITION OF INCOME

4. Income is recognised on the basis of the accrual principle of accounting, i.e. it is registered when it is earned, irrespective of when the cash is received.
5. Income includes only increases in economic benefits of the entity received or receivable on its own account. Amounts collected on behalf of third parties and value added tax are not recognised as income, since they are not attributed to economic benefits earned by the entity and do not result in increases in equity.

IV. MEASUREMENT OF INCOME

6. Income shall be measured at the fair value of the consideration received or receivable.
7. The amount of income is usually determined by agreement between the entity and the client. It is measured at the fair value of consideration taking into account granted and planned

discounts, rebates and returns of sold goods.

8. In most cases, the consideration is in the form of cash or cash equivalents and the amount of sales revenue can be estimated as the amount of cash or cash equivalents received or receivable (less VAT) for a particular good (service). However, when the payment of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash or cash equivalents receivable. For example, an entity may provide interest free credit to the buyer or accept a note receivable bearing a below-market interest rate from the buyer as a consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest.

9. The imputed rate of interest is either:

9.1. the prevailing rate for a similar financial instrument of an issuer with a similar financial credit rating; or

9.2. a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services on the market.

10. The difference between the fair value and the nominal amount of the consideration is recognised as interest income.

11. When goods are swapped or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction, which generates income. The income is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents received (receivable) or paid (payable) during the exchange or swap transaction. When goods or services are exchanged or swapped for goods or services, which are of a similar nature and value, the exchange is not regarded as a transaction which generates income (for example, a case with similar oil products where suppliers exchange or swap inventories in various locations to satisfy the demand in particular locations).

V. SALE OF GOODS OF OPERATING ACTIVITIES

12. Goods include goods purchased for resale and goods produced by the entity for the purpose of sale.

13. Revenue from the sale of goods shall be recognised, registered in accounting and presented in financial statements when the goods have already been sold and the amount of revenue can be measured reliably.

14. Goods are sold when all the following conditions have been satisfied:

14.1. the selling entity has transferred to the buyer the risks and rewards of ownership of the goods;

14.2. the entity retains neither continuing managerial involvement nor effective control over the goods sold;

14.3. it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of revenue can be measured reliably;

14.4. the costs related to the sale transaction can be measured reliably.

15. The transfer of risk takes place at the time when the seller ceases managing and controlling the goods, and the buyer becomes responsible for the goods and takes over the rewards of their ownership. This point of time (paragraph 14, item 1) is stated in a sale - purchase agreement. In most cases the risk is transferred together with passing the ownership of goods, however, the time of transferring risk and the moment of conveying ownership rights may be different.

16. If the entity retains risks related to goods being sold, the transaction is not considered as a sale and revenue is not recognised. Examples: when goods are shipped or collected subject to full completion or preparation for use, and such completion or preparation for use is a significant part of the agreement which has not yet been completed by the entity; when a sale-purchase agreement specifies the reasons which entitle the buyer to rescind the purchase, and the entity is uncertain about receiving the consideration specified in the agreement; or receiving of revenue is contingent

on the derivation of revenue by the client from the sale of the goods.

17. If an entity transfers the risk related to goods being sold, the transaction is treated as a sale and revenue is recognised, provided the conditions set in paragraph 14 are satisfied (for example, a seller may retain the right to recapture goods if the buyer fails to effect full settlement for them, nevertheless, such goods shall be considered as sold, because the risk has already been transferred).

18. Revenue is recognised only when it is probable that the economic benefits associated with the sale transaction will flow to the entity (paragraph 14, item 3). In some cases, this may not be probable until consideration is received or until an uncertainty is removed. For example, it may be uncertain that a foreign governmental authority will grant permission to remit the consideration from a sale in a foreign country. When the permission is granted, the uncertainty is removed and the revenue is recognised. However, when an uncertainty arises about the possibility to collect the amount already included in revenue, the amount of debts in respect of which recovery has ceased to be probable is recognised as expenses of the reporting period, regardless of the revenue recognition period (the previous or current).

19. According to the comparability principle of accounting, revenue and expenses that relate to the same transaction are recognised during the same reporting period. Expenses can be recognised after they earn corresponding revenue. However, revenue cannot be recognised if the expenses cannot be measured reliably. In such circumstances, any consideration already received for the sale of the goods is recognised as a liability or deferred income.

VI. RENDERING OF SERVICES OF OPERATING ACTIVITIES

20. The rendering of services typically involves the performance by an entity of a contractually agreed task for earning revenue.

21. Revenue from rendering services is recognised in different ways depending on whether the outcome of the transaction can be estimated reliably or not. The outcome of a transaction can be estimated reliably when all the following conditions are met:

21.1. the amount of revenue can be measured reliably;

21.2. the transaction is finished or the stage of completion of the transaction at the balance sheet date can be measured reliably;

21.3. it is probable that the economic benefits associated with rendering the services will flow to the entity; and

21.4. the costs incurred for the transaction of rendering the services and the costs to complete the transaction can be measured reliably.

22. If a transaction of rendering services is finished during the same period when it was started, revenue is recognised in the same period and measured at the amount specified in the agreement.

23. When according to the service agreement services are provided over more than one reporting period, revenue is allocated proportionally to periods in which the services are rendered. Revenue earned from construction and other long-term agreements is recognised on the percentage of completion method in accordance with the requirements of 25 Business Accounting Standard “Construction and Other Long-Term Agreements".

24. Revenue is recognised only when it is probable that the economic benefits associated with the rendered services will flow to the entity. However, when an uncertainty arises about the possibility to collect the amount already included in revenue, the uncollectible amount, or the debt in respect of which recovery has ceased to be probable, is recognized as expenses of the reporting period, regardless of the revenue recognition period (the previous or current).

25. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable. Profit is not recognised.

26. When the outcome of a service rendering transaction cannot be estimated reliably and it is not probable that costs will be recovered, costs incurred are recognised as expenses. Revenue is not

recognised.

27. When the uncertainties that prevented the outcome of the transaction being estimated reliably no longer exist, revenue is recognised in accordance with paragraph 21.

VII. INCOME FROM UNTYPICAL ACTIVITIES

28. Income from untypical activities comprises income from other, financing and investing activities if it is not included into operating activities of an entity.

29. Income from untypical activities is recognised on the basis of the same criteria as the income from operating activities. If other Business Accounting Standards allow offsetting income and expenses, net result of an economic transaction can be recognised as income from other activities, e.g. profit earned from the sale of a non-current asset.

30. Income from financing and investing activities comprises income and gains related to financial assets and financial liabilities that are recognised in accordance with the requirements of 18 Business Accounting Standard “Financial Assets and Financial Liabilities", 22 Business Accounting Standard “Changes in Foreign Exchange Rates” and 26 Business Accounting Standard “Derivative Financial Instruments”. Income from financing and investing activities also includes increases in the fair value of the investment property that are recognised in accordance with the requirements of 12 Business Accounting Standard “Non-Current Tangible Assets”. Income from financing and investing activities arising from applying the equity method for investments accounting is recognised in accordance with the requirements of 15 Business Accounting Standard “Investments in Associates”.

31. Income arising from interest, royalties and dividends, that is received for the use of the entity’s assets or the permission to use them, is recognised when:

31.1. it is probable that the economic benefits will flow to the entity;

31.2. the amount of income can be measured reliably.

32. Income from interest shall be recognised on the accrual basis using the effective interest rate method.

33. Income from royalties shall be recognised on the accrual basis in accordance with the terms of the copyright or other relevant agreements.

34. If investments into other entities are accounted for and presented in financial statements at the acquisition cost or fair value, income from dividends shall be recognised when the shareholders’ right to receive cash are confirmed. If the investments are accounted for and presented in financial statements applying the equity method, income from dividends is not recognised, and the amount of dividends received reduces the carrying amount of the investments.

35. Fines and interest on overdue payments are recognised as income when the evidence supporting their receipt in future is received and the probability of not receiving them is low, or when the cash is received.

VIII. EXTRAORDINARY GAINS

36. Extraordinary gains comprise income or gains from non-recurring transactions or events that cannot be attributed to ordinary activities. In the income statement extraordinary gains are presented as income increasing the profit or reducing the loss before tax.

IX. INCOME FROM CORPORATE INCOME TAX

37. Income from corporate income tax is recognised on the accrual basis and comprises income arising from recognising a deferred income tax asset or using a deferred income tax liability. Income from deferred income tax is recognised in accordance with the requirements of 24 Business Accounting Standard "Income Tax" if an entity applies the Standard.

X. DISCLOSING INFORMATION IN FINANCIAL STATEMENTS

38. In complete explanatory notes the following information shall be disclosed:

38.1. accounting policies adopted for the recognition of income including the methods adopted to determine the stage of completion of transactions involving the rendering of services;

38.2. the amount of income from exchange of goods or services;

38.3. the amount and types of revenue from the sale of goods and services;

38.4. the amount and types of income from financial and investing activities;

38.5. the nature and amount of extraordinary gains, except for the case when their amount is not significant for assessing the performance of the entity;

38.6. other significant income.

XI. FINAL PROVISIONS

39. The revised version of this Standard shall be effective for financial statements covering periods beginning on or after 1 January 2008. The Standard can be applied in preparing financial statements for 2007.