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-5 of 29 June 2007 of the Director of the Public Establishment the Institute of Accounting of the Republic of Lithuania)

11 BUSINESS ACCOUNTING STANDARD “EXPENSES”

(“Valstybės žinios” (Official Gazette), 2004, No. 20-616; 2007, No. 76-3038).

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how expenses related to the entity’s operations shall be recognised and information about expenses incurred during the reporting period shall be presented.
2. This Standard establishes a procedure of recognising and accounting for expenses and disclosing the related information in complete explanatory notes.
3. This Standard is not applicable when accounting for expenses that are not recognised in the income statement.

II. KEY DEFINITIONS

Expenses of the reporting period – all expenses recognised during the reporting period.

Provision – a liability of uncertain amount or timing that can be estimated reliably.

Costs – outflows of assets or services and decreases in the value of assets during the reporting period.

Cost of sales – costs incurred during the reporting or earlier periods and related to services rendered and goods sold during the reporting period.

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

Expenses – a decrease in economic benefits during the reporting period arising from using, selling or losing assets or their depletions or from assuming liabilities, which results in a decrease in equity, other than its direct reduction.

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

Operating expenses – costs incurred during the reporting period and related to ordinary activities of an entity that are carried out irrespectively of its sales volume, except for financing, investing and other activities.

III. RECOGNITION OF EXPENSES

4. Expenses are recognised on the basis of the accrual and comparability principles in the reporting period during which the related income is earned, regardless of the time of spending the cash.
5. Only that portion of costs of the previous and reporting periods that is related to the income earned during the reporting period is recognised as expenses. Costs that are not related to income earned during the reporting period, but expected to generate future economic benefits, are recorded in

accounting and presented in financial statement as assets. The portion of assets which is intended for earning income in future periods shall be recognised as expenses when the associated income is earned. However, the application of the matching of income and expenses concept does not allow the recognition and presentation as assets in the balance sheet of items which do not meet the definition of assets.

6. When the use of certain assets will generate income over several future reporting periods and due to that the association between income and expenses can be determined only approximately, expenses are recognised using indirect recognition methods, for example depreciation and amortisation of non-current assets.

7. Expenses are recognised in the same reporting period when they are incurred in cases when it is impossible to directly relate them to particular income earned during the current reporting period and when they are not expected to generate any income during the coming periods.

IV. DETERMINING THE AMOUNT OF EXPENSES

8. Expenses shall be measured reliably at the fair value of the consideration paid or payable. In most cases payments are in the form of cash or cash equivalents, so the amount of expenses is equal to the paid or payable amount of cash or cash equivalents (less recoverable value added tax). But in certain cases the fair value is determined in a different way, for example, when goods are purchased on credit with a long settlement period without interest. The fair value of such expenses is calculated by discounting the settlement amount at the market interest rate. The difference shall be recognised as expenses for financing activities.

9. In case of an exchange or swap, expenses are estimated as the fair value of received assets and services.

V. COST OF SALES

10. The cost of sales comprises the portion of costs incurred during the current and previous reporting periods and related to the goods sold and services rendered during the current reporting period. This item shall include only the portion of costs that is related to services, products and goods sold during the reporting period.

11. The cost of sales comprises the cost of rendering services and the cost of resold goods and sold products.

VI. COST OF RENDERING SERVICES

12. The cost of rendering services shall be recognised, recorded in accounting and presented in financial statements during the reporting period when the revenue from rendering services was recognised. The cost of construction services provided by contractors, and the costs related to other long-term agreements are recognised in accordance with the requirements of 25 Business Accounting Standard “Construction and Other Long-Term Agreements".

13. The cost of rendering services comprises the cost of raw materials, components and other current assets used for the purpose, related labour expenses, depreciation (amortisation) expenses of non-current assets used when rendering services, expenses of services provided by third parties and similar costs.

14. The net cost of rendering services shall be presented in financial statements. It shall be reduced by received discounts. If inventories used for rendering services have impaired, the cost of rendering services shall include only the cost of inventories reduced by the impairment. The cost of

services also excludes value added tax paid by a VAT paying entity, excluding cases when this tax is not recoverable.

VII. COST OF SOLD FINISHED GOODS

15. The cost of sold finished goods shall be recognised, recorded in accounting and presented in financial statements during the reporting period when the goods produced by an entity are sold.

16. The cost of sold finished goods is estimated using the same calculation (on the constant or periodic basis) and appraisal methods (FIFO, LIFO, weighted average cost method, specific identification of cost or other), which are applied in accounting for the respective type of inventories, i.e. finished goods.

VIII. COST OF RESOLD GOODS

17. The cost of resold goods shall be recognised, recorded in accounting and presented in financial statements during the reporting period when the goods held for resale are sold.

18. The cost of resold goods is estimated using the same calculation (on the constant or periodic basis) and appraisal methods (FIFO, LIFO, weighted average cost method, specific identification of cost or other), which are applied in accounting for the respective type of inventories, i.e. goods for resale.

IX. OPERATING EXPENSES

19. Operating expenses reflect costs incurred during the reporting period and related to operating activities of an entity. Operating expenses can be classified into selling expenses and general and administrative expenses.

X. SELLING EXPENSES

20. Selling expenses comprise a portion of operating expenses of the reporting period related to the process of selling the goods. Selling expenses include expenses on rent and maintenance of commercial premises, expenses on storage of manufactured goods, traders' commissions, salaries and social insurance contributions of trading personnel, expenses on advertising services and goods, as well as other expenses of the reporting period related to activities intended to maintain and increase sales.

21. Selling expenses shall be recognised, recorded in accounting and presented in financial statements during the reporting period when they are incurred.

XI. GENERAL AND ADMINISTRATIVE EXPENSES

22. General and administrative expenses comprise a portion of operating expenses of the reporting period related to operating activities of an entity and intended for earning income of the reporting period. As a rule, the amount of these expenses is not related to sales volumes.

23. General and administrative expenses shall be recognised, recorded in accounting and presented in financial statements during the reporting period when they are incurred.

24. General and administrative expenses may include such costs incurred during the reporting period:

24.1. maintenance, rent, depreciation and derecognition of administrative and general use premises;

24.2. impairment of assets;

24.3. expenses for representation of the entity;

24.4. charity and financial support;

24.5. social expenses,

24.6. miscellaneous taxes related to operating activities (real estate tax, excise duties if they have not been included into the cost of sales, unrecoverable value added tax, etc.), except for corporate income tax;

24.7. salaries and social insurance contributions of managerial and servicing personnel of the entity and its subdivisions;

24.8. penalties for breaches of agreements or bad quality of production;

24.9. doubtful debts;

24.10. provisions formed at the end of the reporting period (19 Business Accounting Standard “Provisions, Contingent Liabilities and Assets and Events after the Balance Sheet”) unless by their nature and substance they should be attributed to the cost of sales;

24.11. other expenses related to operating activities of the entity.

XII. EXPENSES FOR UNTYPICAL ACTIVITIES

25. Expenses for untypical activities comprise expenses for other, financing and investing activities, if these are not attributed to operating activities of an entity.

26. Expenses for untypical activities are recognised on the basis of the same criteria as expenses for operating activities. If other Business Accounting Standards allow offsetting income and expenses, net result of an economic transaction can be recognised as expenses for other activities (for example, loss resulting from a sale of a non-current asset).

27. Expenses for financing and investing activities comprise expenses and losses 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”. Expenses for financing and investing activities also include decreases 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”. Expenses for financing and investing activities arising from applying the equity method for investments accounting are recognised in accordance with the requirements of 15 Business Accounting Standard “Investments in Associates”.

28. Interest, royalties and dividend expenses that are incurred through payment for the use of assets of third entities or persons or for the permission to use them, are recognised when:

28.1. it is probable that the expenses will be incurred;

28.2. the amount of expenses can be measured reliably.

29. Interest expenses shall be recognised on the accrual basis using the effective interest rate method.

30. Royalties shall be recognised as expenses on the accrual basis in accordance with the terms of the copyright or other relevant agreements.

31. Fines and interest on overdue payments are recognised as expenses when the obligation to pay them arises, and the probability of not paying them is low, or when the cash is paid.

XIII. EXTRAORDINARY LOSSES

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

XIV. CORPORATE INCOME TAX EXPENSES

33. Corporate income tax expenses of the reporting period are calculated in accordance with the requirements of legal acts on the corporate income tax and other taxes based on the taxable profit and are recognised on the accrual basis. Deferred income tax expenses are recognised in accordance with the requirements of 24 Business Accounting Standard "Income Tax", if an entity applies the requirements of this Standard.

XV. DISCLOSING INFORMATION IN FINANCIAL STATEMENTS

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

34.1. the accounting policy for recognising expenses;

34.2. expenses related to salaries, social insurance contributions and pension contributions of the personnel;

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

34.4. other significant amounts of expenses.

XVI. FINAL PROVISIONS

35. 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.