APPROVED

by Resolution No. 10 of 10 December 2003 of the Standards Board of the Public Establishment the Institute of Accounting of the Republic of Lithuania

15 BUSINESS ACCOUNTING STANDARD “INVESTMENTS IN ASSOCIATES”

(“Valstybės žinios” (Official Gazette), 2004, No. 43-1437, No. 46 (correction); 2005, No. 46-1532; 2006, No. 37-1326; 2007, No. 1-53).

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how investments in associates shall be recorded in the investor’s accounting and presented in financial statements.
2. This Standard shall be applied in accounting for investments in associates upon preparing separate financial statements of an entity and consolidated financial statements of a group of entities.

II. KEY DEFINITIONS

Associate – an entity over which another entity (investor) has a significant influence and which is neither a subsidiary, nor a jointly controlled entity, nor an entity under common control.

Subsidiary – an entity that is controlled by another entity.

Control – an entity’s power to have a significant influence over another entity, to govern the financial and operating policies thereof so as to obtain benefits from its activities. The control may be either direct or indirect.

Consolidated financial statements – financial statements of a group prepared and presented as those of a single entity.

Equity method – a method of accounting whereby the investment in shares is initially recorded at the cost of the shares and adjusted thereafter for the post acquisition change in the investor’s share of net assets of the investee. The income statement of the investor reflects the investor’s share of the net profit (loss) of the investee.

Significant influence – the power to participate in the financial and operating policy decisions of an entity without controlling the entity. Usually significant influence occurs when an entity holds shares in another entity entitling it to at least 20 per cent of the voting rights in the general meeting of shareholders.

Goodwill – the amount by which the price paid by the acquirer exceeds the value of the acquired interest in net assets of the acquiree and from which the acquirer expects to obtain future economic benefits.

Cost method – a method of accounting whereby the investment is recorded at its acquisition cost. The income statement reflects only dividends and other direct payments received as a result of distributing net profits of the investee.

III. IDENTIFYING SIGNIFICANT INFLUENCE

3. The existence of significant influence may be evidenced in one or more of the following ways:

3.1. representation on the governing bodies of the investee;
3.2. participation in operating policy making process of the entity;
3.3. interchange of managerial personnel;
3.4. provision of essential technical information;
3.5. material transactions between the investor and the investee.

IV. FINANCIAL STATEMENTS

4. The investment in an associate shall be presented in financial statements under the equity method, except when the investment is acquired and held exclusively with a view to its subsequent resale or when the operations of the associate are subject to significant restrictions.

5. In its separate financial statements an investor who has subsidiaries and prepares consolidated financial statements accounts for investments in subsidiaries and associates under the equity or cost method.

6. Where shares are acquired with a view to their subsequent resale, investments in such shares are recorded in accounting and presented in financial statements in the manner established by 18 Business Accounting Standard "Financial Assets and Financial Liabilities" for available-for-sale financial assets.

7. Where operations of the investee are subject to significant long-term restrictions, which prevent from realising the investor's decisions, investments shall be accounted for using the cost method.

8. An investor ceases applying the equity method when:

8.1. it ceases exerting significant influence over the associate despite the fact that it still holds all previously held shares or a part thereof;

8.2. significant restrictions on activities of the investee are placed, which limit the possibility of realising the investor's decisions.

V. EQUITY METHOD

9. An investor, who can exert significant influence over an investee, is to a certain extent responsible for the performance thereof. In such case the income from dividends does not reflect the actual result of the investor's activities and the profitability of investments. Therefore, the investor, who can exert significant influence, shall account for investments under the equity method.

10. The equity method is applied as from the date on which an investee meets the definition of an associate.

11. On initial recognition investments are recorded at acquisition cost. Subsequently they are accounted for in the manner established by 14 Business Accounting Standard "Business Combinations". In the balance sheet goodwill is not presented separately – it is a part of the amount of investments in associates.

12. Goodwill is amortised during the period determined by an entity. The value of investments in associates is adjusted by the amount of amortisation.

13. When preparing its financial statements, an investor includes a part of operating results of an associate calculated at the same date when the investor's financial statements are drawn.

14. Where an investor has entered into material transactions with an associate, the portion of profit or loss attributable to the investor from such transactions shall be eliminated for the purpose of computing the value of investments.

15. If the reporting dates of an investor and an associate are different, the associate shall prepare other financial statements for the use of the investor.

16. Where there is no possibility to prepare financial statements of an associate as of the same date as the reporting date of the investor, the latter may use the financial statements drawn up at a different reporting date. Under the consistency principle, any difference in the reporting dates of the investor and the associate shall be consistent from period to period.

17. Where financial statements with different reporting dates are used, adjustments shall be made for the effects of any significant transactions between the investor and the associate that occur between the reporting dates of the investor's and the associate's financial statements.

18. Where an investor and an associate apply different accounting policies, the investor shall make respective adjustments using the data of the associate's financial statements.

19. If an associate has outstanding dividends for cumulative preferred shares held by outside interests, the investor shall compute its share of profits or losses after adjusting for the amount of such dividends, irrespectively of whether or not the dividends have been declared.

20. If, under the equity method, an investor's share of losses of an associate exceeds the carrying amount of the investment, the investor's recognised amount of losses shall be equal to the amount of its investment. The investment is stated at zero value. Where the investor undertakes to partly cover the associate's losses or assumes other obligations, and the investments are already of a zero value, a liability is recorded in accounting. If there is neither an obligation to cover losses nor other obligations, then the losses exceeding the value of the investment are recorded in the off-balance sheet accounts.

21. If the associate reports profits, the investor resumes including its share of the profits in financial statements only after having covered the losses recorded in the off-balance sheet accounts.

22. Investments, that are recorded in accounting under the equity method, in financial statements shall be presented as non-current financial assets.

23. Separate financial statements of an investor shall reflect the investor's share of profits or losses of an associate in a separate line of financing and investing activities.

VI. COST METHOD

24. Under the cost method, investments in associates are recorded in accounting at their acquisition cost. The acquisition cost is adjusted only when the recoverable amount of investments decreases. Decrease in the value of investments is recorded in the manner established by 23 Business Accounting Standard "Impairment of Assets".

25. Under the cost method, dividends or other direct payments received from an associate are recognised as income from financing and investing activities and presented in the income statement.

VII. DISCLOSING INFORMATION IN FINANCIAL STATEMENTS

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

26.1. the list of associates;

26.2. the investor's percentage share in the capital of an associate and the number of votes awarded by the shares, if it is different from the total number of shares held;

26.3. the losses, if losses related to an associate are recorded in the off-balance sheet accounts.

VIII. FINAL PROVISIONS

27. This Standard shall be effective for financial statements covering periods beginning on or after 1 January 2004.

28. If an investor had acquired shares of an associate before the reporting period when this Standard was adopted and did not apply the equity method, upon the first-time application of this Standard the investor may calculate the difference between the acquisition cost of the investment and the value of the acquired interest in net assets of the associate on the basis of data as at the beginning of the reporting period when this Standard is first applied. The carrying amount of the investment is then adjusted by this difference. Retained earnings (losses) are adjusted respectively by recording profit (loss) not recognised in the income statement. This profit (loss) is presented in the statement of changes in equity of the reporting period.