

19 BUSINESS ACCOUNTING STANDARD “PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS, AND EVENTS AFTER THE BALANCE SHEET DATE”

(“Valstybės žinios” (Official Gazette), 2004, No. 20-616; 2006, No. 95-3756; 2007, No. 1-56).

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how provisions, contingent liabilities, contingent assets and events after the balance sheet date shall be measured, accounted for and presented in financial statements.

2. The present Standard shall be applied to:

2.1. all provisions, contingent liabilities, and contingent assets, excluding those:

2.1.1. resulting from financial instruments that are carried at fair value;

2.1.2. resulting from executory contracts, except where the contract is onerous;

2.1.3. arising in insurance entities from contracts with policyholders;

2.1.4. separately covered by other Business Accounting Standards.

2.2. events after the balance sheet date.

II. KEY DEFINITIONS

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

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

Liability – an obligation arising from performed economic transactions or other events, which will require future settlements and the amount of which can be measured reliably.

Financial liability – an obligation to deliver cash or another financial asset.

Contingent liability – a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or an obligation that arises from past events but is not recognised because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent asset – a possible asset that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

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

Events after the balance sheet date – economic events that occur between the balance sheet date and the date on which financial statements are presented for approval and signed by the head of the entity.

Restructuring – activities planned and controlled by the entity’s management and related to the change of the type of economic activity, modernisation of production, improvement of work organisation, full or partial disposal of the entity’s assets, taking over the assets of other merged or split entities, that are undertaken according to the programme (plan) applying technical, economic or organisational measures.

III. PROVISIONS

3. In financial statements provisions shall be disclosed separately from other liabilities.

4. Provisions shall not be used for adjusting the value of asset items.

5. On the basis of expected settlement terms of liabilities, provisions are classified as current and non-current. Provisions, which are intended for settling liabilities of one financial year, are presented in "Current amounts payable and liabilities" balance sheet part. Provisions formed for settling liabilities of more than one financial year are presented in "Non-current amounts payable and liabilities" balance sheet part.

6. Provisions shall be recognised only when they satisfy all of three general recognition criteria:

6.1. an entity has a legal or constructive obligation as a result of past events;

6.2. it is probable that an outflow of resources will be required for settling the legal or constructive obligation;

6.3. a reliable estimate can be made of the amount of the obligation.

7. Provisions shall be recognised if they result from past events and exist at the balance sheet date (paragraph 6, item 1). Past events confirming a legal obligation may be concluded agreements, court judgements and passed laws. Examples of past events confirming a constructive obligation may be previous activities of the entity providing evidence that it fulfils assumed obligations, or publicly announced entity's obligations relied upon by other market participants. Obligations recognised as provisions may also include due penalties or costs of compensating the environmental damage, which will be incurred regardless of the future actions of the entity (for example, an entity recognises the amount of a provision for costs of decommissioning an oil installation or a nuclear power station). In order to operate successfully in the future, an entity may form provisions for future costs, which are likely to be incurred according to legal requirements. When an entity is capable of avoiding future costs by its future actions, for example, by changing its method of operation, it does not have an obligation for such future costs and no provisions shall be recognised. Decisions to purchase assets or incur other costs in future are events related to future obligations and therefore shall not be recognised as provisions. Obligations shall be recognised as provisions only if future costs are unavoidable irrespective of the entity's future actions.

8. According to the provisions recognition criterion referred to in paragraph 6, item 2, it should be probable that the settlement of a legal or constructive obligation will require an outflow of assets. If it is unlikely that assets will have to be used for this purpose, contingent liabilities which are not included in the balance sheet shall be recognised instead of provisions, providing respective disclosures in explanatory notes.

9. According to the provisions recognition criterion referred to in paragraph 6, item 3, an entity should have sufficient evidence in order to estimate reliably the amount of provisions. If it is impossible to reliably estimate the amount of provisions, they shall not be recognised. Such liabilities shall be considered as contingent and disclosed in explanatory notes.

10. The amount of provisions shall reflect the amount of reliably estimated costs necessary for covering a legal or constructive obligation at the balance sheet date. The amount of provisions is determined on the basis of experience gained in carrying out similar activities, findings of experts, events after the balance sheet date, etc. Taking into account the collected information, the entity's management shall estimate the cost of settling present obligations related to provisions at the balance sheet date and estimate their expected present value. The amount of provisions shall be estimated on the basis of the prudence principle and with regard to the risk factors and uncertainties. The amount of provisions shall not be overestimated.

11. If the amount of provisions is significantly affected by the changes in the value of money, provisions shall be discounted to their present value. The discount rate should reflect the current market assessments of the time value of money and the risks specific to the liability.

12. For the purpose of determining the amount of provisions, the possible events after the balance sheet date shall be taken into account, if the entity's management has objective evidence that

such events are probable (for example, it might be probable that future costs are likely to decrease or increase as a result of introducing new technologies or issue of new legal acts).

13. At each balance sheet date provisions shall be revised and adjusted taking into consideration new events and circumstances. If it becomes clear that it will not be necessary to use assets for settlement of obligations, related provisions shall be eliminated by reducing the balance sheet item "Provisions" and expenses related to provisions in the income statement.

14. Each provision shall be used only for purposes for which it was formed.

15. Only obligations that meet the general recognition criteria of provisions may be recognised as provisions, for example:

15.1. to pay likely penalties;

15.2. to meet guarantee obligations;

15.3. to compensate the environmental damage;

15.4. to clean up the environment after termination of production;

15.5. to compensate costs resulting from the execution of existing onerous contracts;

15.6. to restructure operations, if there is enough evidence that the restructuring will take place.

16. A provision for restructuring may be formed if the following specific recognition criteria derived from the general criteria applicable to provisions are met:

16.1. a detailed plan for the restructuring is prepared and approved by the authorised managerial body of the entity identifying the business or part of a business concerned, the principal locations and functions affected, the approximate number of employees who will be compensated for terminating their services, the expenditures that will be undertaken; and the date when the plan will be implemented;

16.2. a valid expectation is raised in those affected that the restructuring plan will be carried out (for example, by starting to implement that plan, or announcing the detailed plan for the restructuring and obligation to implement it to those affected by it, or concluding agreements regarding the transfer of the business or implementation of the restructuring plan);

16.3. those affected are notified that the entity undertakes to commence the implementation of the restructuring plan as soon as possible and complete it when due. In case of an expected long period of restructuring, the obligation to implement it shall not be recognised as present obligation and the provision shall not be formed;

16.4. a provision for restructuring shall comprise only direct costs incurred in the course of restructuring that are not related to the ongoing operations of the entity. The restructuring provision excludes costs for regular retraining or reallocation of personnel, marketing and investments into new systems and distribution networks.

17. If the entity is capable of avoiding costs for settling possible liabilities by its future actions, such liabilities shall not be recognised as provisions.

18. Provisions for future impairment of assets shall not be recognised, since they do not meet the definition of the liability and the general recognition criteria applicable to the provisions.

IV. CONTINGENT LIABILITIES

19. Obligations that do not meet the recognition criteria applicable to liabilities and provisions are contingent liabilities. They comprise future liabilities likely to result from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Such liabilities are not recognised in the balance sheet because their amount cannot be reliably estimated or it is not likely that they will have to be settled.

20. Contingent liabilities shall be presented neither in the income statement nor in the balance sheet, and information about them shall be disclosed in explanatory notes.

21. If transactions being concluded provide that the responsibility for settling part of the liabilities will rest upon other entities, that part of liabilities which is assumed by the entity itself shall

be recognised by it as provisions, whereas the remaining part, which is expected to be settled by other entities, shall be disclosed by the entity as contingent liabilities.

22. Contingent liabilities shall be subject to regular reviews. If the probability that a contingent liability will require an outflow of assets becomes greater than the probability that such outflow will be avoided and if the settlement amount can be reliably estimated, the liability shall be presented in the balance sheet.

V. CONTINGENT ASSETS

23. A contingent asset is a possible asset that might be held by the entity and generate economic benefits for it as a result of events that are out of control of the entity (for example, a legal process is under way concerning an asset which might be awarded to the entity).

24. Contingent assets shall not be recognised in financial statements until the entity is certain that such assets will generate economic benefits for it. A contingent asset shall be disclosed in explanatory notes when an inflow of economic benefits to the entity is probable.

25. When the entity is certain that a contingent asset will generate economic benefits for it, such asset together with the related income and expenses shall be presented in the balance sheet and income statement of the period.

VI. EVENTS AFTER THE BALANCE SHEET DATE

26. Depending on the significance of events after the balance sheet date financial statements shall be either adjusted or not.

27. Financial statements shall be adjusted if events after the balance sheet date directly affect the data of financial statements that have not been approved yet.

28. Examples of events after the balance sheet date that should result in adjustments of financial statements are:

28.1. a court judgement confirming that the entity will have to settle a liability not specified in the balance sheet but present at the balance sheet date;

28.2. the receipt of additional information indicating that the carrying amount of assets in the balance sheet had to be estimated differently at the balance sheet date;

28.3. errors made in preparing financial statements are discovered after the balance sheet date;

28.4. the entity's failure to pursue the principle of going concern is expected or discovered.

29. Some events after the balance sheet date have no effect on the financial position or performance of the entity at the balance sheet date, therefore financial statements shall not be adjusted. Examples of such events include post balance sheet date changes in the market value of investments which in the balance sheet are stated at the market value. When a nondisclosure of events after the balance sheet date is likely to result in wrong decisions taken by the users of financial statements, information about such events shall be provided in explanatory notes. Examples of such events are as follows:

29.1. a major business combination after the balance sheet date or a disposal of a major subsidiary;

29.2. significant acquisitions and disposals of assets;

29.3. significant production facilities destroyed by fire after the balance sheet date;

29.4. the announcement of the restructuring plan;

29.5. significant financing transactions, for example, receipt or repayment of a loan;

29.6. abnormally large changes in asset values and foreign exchange rates after the balance sheet date;

29.7. changes in tax rates or tax laws passed and announced after the balance sheet date, which had a significant influence on current and deferred tax assets and liabilities;

29.8. assumption of significant obligations or contingent liabilities (for example, issuance of significant guarantees);

29.9. commencing major litigation arising out of events that occurred after the balance sheet date.

VII. DISCLOSING INFORMATION IN FINANCIAL STATEMENTS

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

30.1. for each provision:

30.1.1. the carrying amount at the beginning of the financial year, additional provisions formed during the period including increases to existing provisions, amounts used or written down during the year;

30.1.2. a brief description and expected settlement periods.

30.2. a brief description of each contingent liability and possible effects on the financial position of the entity;

30.3. a brief description of each contingent asset and possible effects on the financial position of the entity;

30.4. a brief description of significant events after the balance sheet date the nondisclosure of which is likely to significantly affect the decision making of the users of financial statements of the entity.

VIII. FINAL PROVISIONS

31. If upon the first-time application of this Standard the entity does not have the comparative information of the previous financial year or it is impractical to prepare such information (although it is recommended), it is not necessary to provide such information. The effect of application of this Standard on financial statements of previous periods is shown by adjusting the opening balance of retained earnings (losses) of the previous year and providing necessary explanations in explanatory notes to financial statements.

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