APPROVED
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of the Standards Board of the Public
Establishment the Institute of Accounting
of the Republic of Lithuania

20 BUSINESS ACCOUNTING STANDARD "OPERATING LEASE, FINANCE LEASE AND LOAN-FOR-USE"

("Valstybės žinios" (Official Gazette), 2004, No. 20-616; 2007, No. 1-57).

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how a finance lease, operating lease and loan-for-use shall be recorded in accounting and presented in financial statements.

2. The present Standard shall be applied to:

2.1. operating lease, finance lease and loan-for-use agreements of all types;

2.2. all agreements under which the right to control and use assets is transferred even though maintenance and operation services are provided by the lessor.

3. The present Standard shall not be applied to:

3.1. operating lease, finance lease and loan-for-use agreements to explore for or use natural resources;

3.2. agreements regarding patents and copyrights.

II. KEY DEFINITIONS

Lessor's gross investment in the lease – the aggregate of the minimum lease payments and any unguaranteed residual value.

Economic life – the period over which an asset is expected to generate economic benefits to one or more users or the number of production units or services.

Guaranteed residual value for a lessee – a part of the residual value that is guaranteed by the lessee or by a third party related to the lessee.

Guaranteed residual value for a lessor – a part of the residual value that is guaranteed by the lessee or by a third party unrelated to the lessor.

Lessor's net investment in the lease – gross investment in the lease less unearned finance income.

Recoverable fees – fees and other costs, the compensation of which is agreed upon by the parties.

Finance lease – a type of lease that transfers substantially all risks and rewards incident to the ownership of an asset. Title may or may not eventually be transferred.

Lessor – a person who legitimately possesses an asset or acquires an asset specified by the lessee and transfers it for use to the latter.

Lessee – a person who uses the asset owned by a lessor in the course of own business.

Lease term – the period for which the lessee has contracted to lease the asset together with any subsequent terms for which the lessee has the option to continue the lease agreement, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise such option.

Lease payments – the sum of minimum lease payments, recoverable fees and contingent rent.

Minimum lease payments – the payments over the lease term that the lessee makes or can be required to make (during this term), including the guaranteed residual value and excluding contingent rent and recoverable fees to be paid by the lessee. If the lease agreement establishes that the lessee has an option to purchase the asset upon expiration of the lease term at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable and, at the inception of the lease, it is reasonably certain that the option will be exercised, the minimum lease payments comprise the amount payable upon the acquisition of assets at the end of the lease term.

Useful life – the period of time over which an entity expects to use an asset of a finite useful life or the number of production or similar units expected to be produced (obtained) from the asset by the entity.

Contingent rent – the contractual portion of the lease payments that is not fixed over the lease term but is based on other factors (e.g., percentage of produced goods, market interest rates, price index, etc.).

Unguaranteed residual value – a portion of the residual value of the leased asset the realisation of which by the lessor is not assured; or is guaranteed by a third party related to the lessor.

Unearned finance income – a portion of interest set by the lease agreement but not yet received. If the interest rate is not specified in the lease agreement, unearned finance income is the difference between the aggregate of the minimum lease payments, including any unguaranteed residual value, and the present value of the above payments.

Operating lease – the right to possess and use an asset for an agreed period of time conveyed for consideration by the operating lessor to the operating lessee.

Operating lessee – a legal or natural person who possesses and uses the asset transferred by the operating lessor under the operating lease agreement.

Operating lessor – a legal or natural person who leases the asset under the operating lease agreement.

Inception of an operating or finance lease – the moment of transferring an asset or the date specified in the lease agreement from which the calculation of lease payments is commenced.

Loan-for-use – the right to possess and use an asset gratis for an agreed period conveyed by the lender.

Lender – a legal or natural person who transfers the asset to the loan recipient under the loan-for-use agreement.

Loan recipient – a legal or natural person who possesses and uses the asset transferred by the lender under the loan-for-use agreement.

Inception of a loan-for-use – the moment of transferring an asset or the date specified in the agreement.

Risks – possibilities of losses from technological obsolescence, idle capacity, changing economic conditions, loss or malfunction of assets.

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.

Amount of asset value coverage – the value of assets specified in the lease agreement or payment schedule, excluding interest, costs of services, recoverable fees and contingent rent.

III. FINANCE LEASE

4. Whether a lease is a finance lease or an operating lease depends on the contents and economic substance of the transaction rather than on the form of the agreement.

5. A lease is classified as a finance lease when at least one of the following criteria exists in the agreement:

5.1. the lease transfers ownership of the asset to the lessee by the end of the lease term;

5.2. the lessee has the option to purchase the asset at the end of the lease term at a price which is expected to be sufficiently lower than its fair value, and at the inception of the lease it is reasonably certain that the option will be exercised;

5.3. the lease term is for the major part of the economic life of the asset even if the title is not transferred. This term should account for at least 75 per cent of the economic life of the asset;

5.4. at the inception of the lease the present value of the minimum lease payments is equal to the fair value of the leased asset or amounts to at least 90 per cent of its fair value;

5.5. the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

6. If having assessed the asset on the basis of the criteria listed in paragraph 5 hereof it is still not clear how the transaction should be treated for accounting purposes, the following additional criteria specified in this paragraph shall be taken into account. A lease shall be classified as a finance lease if at least one of the following criteria exists in the agreement:

6.1. the lessee can cancel the lease only when the lessor's losses associated with the cancellation are borne by the lessee;

6.2. gains or losses from the fluctuation in the fair value of the asset accrue to the lessee;

6.3. the lessee has the right to extent the agreement for a secondary period at a rent which is substantially lower than the market rate.

7. Lease classification is made at the inception of lease. If at any time during the lease term the parties agree to change the provisions of the lease agreement (excluding the case of extension) in a manner that would have resulted in a different classification of the lease, the revised agreement is regarded as a new agreement.

8. Changes in accounting estimates, such as economic life or residual value, do not result in a new classification of a lease for accounting purposes.

IV. ACCOUNTING IN THE LESSEE'S ENTITY

9. Upon the receipt of assets under the finance lease agreement, the lessee records non-current assets and non-current liabilities at the amount of asset value coverage, and where the interest is not set – at the amount of minimum lease payments discounted applying the average market interest rate. If prior to receiving the asset the lessee has made a prepayment, non-current liabilities are recognised at the amount of asset value coverage reduced by the amount of the prepayment.

10. Costs related to concluding the finance lease agreement and preparing the assets, that are incurred before the assets are brought into use, are included in the value of assets received under the finance lease agreement. Interest expenses are not regarded as such costs.

11. Depreciation of assets used under the finance lease agreement is calculated on the basis of the same accounting policy applied for calculating the depreciation of own assets.

12. If the agreement does not provide that the lessee will obtain the title at the end of the lease term or if the lessee does not intend to acquire the assets at the end of the lease term, the assets shall be depreciated over the lease term set in the finance lease agreement.

13. Lease payments recorded in accounting shall be differentiated specifying the amount of asset value coverage, interest and other payments (recoverable fees, contingent rent). Interest is included into expenses for financial and investing activities on the accrual basis. The amount of asset value coverage is subtracted from amounts payable under the finance lease agreement, and recoverable fees and contingent rent are included into operating expenses of the reporting period unless they are included in the acquisition (production) cost of other assets.

14. Upon termination of the finance lease agreement losses of lessee incurred due to its obligation to compensate the costs of terminating the agreement are included into operating expenses of the reporting period.

15. Amounts of impairment and reversals of impairment of assets used under the finance lease agreement as well as their repair and maintenance costs are recognised in the manner established by 12 Business Accounting Standard "Non-current Tangible Assets" and 23 Business Accounting Standard "Impairment of Assets".

16. Lessees shall record the data on the interest due over the lease term in their off balance sheet accounts.

V. ACCOUNTING IN THE LESSOR'S ENTITY

17. Upon transferring the assets under the finance lease agreement, the lessor records in accounting amounts receivable after one year at an amount equal to the net investment in the lease.

18. The lessor recognises payments received according the finance lease agreement as the repayment of debt (at the amount of asset value coverage) and sales revenue (at the amount of interest) or income from other activities when finance leasing is not the primary activity of the lessor.

19. Interest income shall be recorded on the accrual basis. Interest shall be allocated to periods to make it possible to determine the fixed rate of interest for covering the remaining portion of assets.

20. If the agreement does not specify the amount of interest, but indicates its the interest rate, the amount of interest calculated according to that interest rate shall be recorded as income. If the agreement does not specify an interest rate, or the interest rate is very low, the principle of fixed interest rate equal to the average market interest rate at the inception of the lease shall be observed.

21. The estimated unguaranteed residual value used in computing the lessor's gross investment in the lease shall be reviewed on a regular basis. If there has been a reduction in the estimated unguaranteed residual value, the income allocation over the lease term is revised and any reduction in the value is attributed to expenses.

22. Initial direct costs arising upon entry into the finance lease agreement (legal fees, levies, commissions, etc.) are recognised as operating expenses at the inception of the lease. Costs of subsequent periods related to assets transferred under the finance lease agreement are recognised as expenses in the periods when they are incurred.

23. Recoverable fees paid by the lessor are recorded as operating expenses of the payment period, and when the lessee compensates them, operating expenses of the given period are respectively reduced.

24. Assets returned to the lessor upon termination of the finance lease agreement are recorded in the lessor's accounting at the amount equal to the outstanding amount of asset value coverage.

25. A lessor shall record the data on unearned finance income in its off balance sheet accounts.

26. When the fair value of assets produced by the lessor and transferred under the finance lease agreement differs from their production cost, it is considered that the lessor earns sales revenue and interest income from such transaction. Sales revenue and the cost of sale are recognised at the date of the transaction according to the accounting policies applied by the entity to ordinary sales transactions. Interest income is recorded overt the entire lease term. If artificially low interest rate is set, the provisions of paragraph 20 of the present Standard shall be applied.

27. When a lessor possesses the assets transferred under the finance lease agreement but is not their manufacturer and if the carrying amount of such assets due to some reasons differs from their fair value, the lessor recognises the sales revenue and interest income in the manner established by paragraph 26 of this Standard.

VI. DISCLOSING INFORMATION ABOUT FINANCE LEASES IN FINANCIAL STATEMENTS

28. In complete explanatory notes lessees shall provide the following information:

28.1. for each group of assets, the carrying amount of assets used under the finance lease agreement at the balance sheet date;

28.2. the amount of minimum lease payments due under the finance lease agreement for each of the following periods:

28.2.1. within one year;

28.2.2. within five years;

28.2.3. later than five years;

28.3. the amount and reasons for payment of contingent rent, where applicable;

28.4. the total of future minimum sublease payments, where applicable;

28.5. a general description of the lease agreement and changes thereof, where applicable.

29. In complete explanatory notes lessors shall provide the following information:

29.1. the total of gross investments in the lease and receivable interest for each of the following periods:

29.1.1. within one year;

29.1.2. within five years;

29.1.3. later than five years;

29.2. unearned finance income;

29.3. unguaranteed residual values;

29.4. contingent rent recognised as income;

29.5. a description of significant lease agreements.

VII. ACCOUNTING IN THE OPERATING LESSEE’S ENTITY

30. Lease payments under the operating lease agreement shall be recognised as expenses, if they are not recognised as the production cost of goods being manufactured or the cost of non-current assets, or if the provisions of paragraph 31 hereof do not apply to them.

31. If an operating lessor in order to promote concluding an operating lease agreement agrees to cover a part of operating lessee’s costs, the latter shall reduce lease expenses during the term of the operating lease or promotion.

32. Repair and maintenance costs of assets used under the operating lease are recognised in the manner established by 12 Business Accounting Standard “Non-current Tangible Assets”.

33. Insurance costs of assets used under the operating lease are recognised as expenses over the period of validity of the insurance contract, if the operating lessor does not compensate such costs. If insurance costs are compensated, the expenses recognised are reduced accordingly.

34. Depreciation of assets used under the operating lease is calculated and recognised as expenses by the owner of such assets.

VIII. ACCOUNTING IN THE OPERATING LESSOR'S ENTITY

35. Assets leased out under the operating lease agreement are recorded in the operating lessor’s balance sheet on the basis of the type of assets.

36. Income calculated according to the operating lease agreement is recognised in the period when it is earned, excluding the cases when provisions of paragraph 37 apply.

37. If an operating lessor in order to promote concluding an operating lease agreement covers a part of operating lessee’s costs, the lessor shall reduce the lease income during the term of the operating lease or promotion.

38. Costs related to leased out assets, including depreciation of assets, are recognised as expenses in the period when they are incurred.

39. Costs related to concluding an operating lease agreement and other costs arising due to the intention to earn income from the operating lease of assets may be accrued and recognised as expenses over the lease term of the assets or in the period when they are incurred.

40. Depreciation of assets leased out shall be calculated using the same accounting policy that the entity applies to other assets of the same group.

41. Impairment and reversals of impairment of leased out assets are recorded according to the provisions of 12 Business Accounting Standard “Non-current Tangible Assets” and 23 Business Accounting Standard “Impairment of Assets”.

42. An operating lessor who leases out internally produced assets shall not record any sales revenue, because such transaction, in terms of its contents and economic substance, is not a sale.

IX. DISCLOSING INFORMATION ABOUT OPERATING LEASES IN FINANCIAL STATEMENTS

43. In complete explanatory notes an operating lessee shall disclose the significant data about the amounts of lease payments, the terms of operating leases, and other relevant information about operating lease agreements.

44. In complete explanatory notes an operating lessor shall disclose the following information:

44.1. the values of assets leased out;

44.2. the terms of leases;

44.3. the possibility to extend the terms of leases;

44.4. other significant information about operating lease agreements.

X. LEASEBACK

45. An operating or a finance leaseback transaction involves the sale of an asset by the vendor and the leasing back of the same asset (transfer under a finance lease agreement) to the same vendor. The amounts of lease payments and the sale price are usually interdependent as they are negotiated as a package. The treatment of these transactions depends upon the type of lease involved.

46. If a leaseback transaction of a sold asset by its contents and economic substance results in a finance lease, any profit from the sale of the asset shall not be immediately recognised in the period of the sale. Instead, it shall be deferred and amortised over the lease term. The economic substance of a finance leaseback agreement can be compared to financing with collateral whereby the lessor lends cash to the lessee using acquired and leased assets as collateral.

47. If a leaseback transaction of a sold asset by its contents and economic substance results in an operating lease, any profit from sale shall be recognised applying the same accounting policies as that applicable to other sales transactions of non-current assets, i.e. the profit or loss is recognised immediately.

XI. DISCLOSING INFORMATION ABOUT LEASEBACKS IN FINANCIAL STATEMENTS

48. In complete explanatory notes an operating lessee and an operating lessor shall provide the same information about operating leaseback transactions as specified in paragraphs 43 and 44 of this Standard.

49. In complete explanatory notes a lessor and a lessee shall provide the same information about finance leaseback transactions as specified in paragraphs 28 and 29 of this Standard.

XII. ACCOUNTING IN THE LOAN RECIPIENT'S ENTITY

50. Repair and maintenance costs of assets used under the loan-for-use agreement are recognised in the manner established by 12 Business Accounting Standard “Non-current Tangible Assets”.

51. Insurance costs of assets used under the loan-for-use agreement are recognised as expenses over the period of validity of the insurance contract if the lender does not compensate such costs.

XIII. ACCOUNTING IN THE LENDER’S ENTITY

52. In the balance sheet the lender shall record assets transferred under the loan-for-use agreement on the basis of the type of assets.

53. Costs related to assets transferred under the loan-for-use agreement, including depreciation of assets, shall be recognised as expenses in the period when they are incurred.

54. Costs related to concluding the loan-for-use agreement are recognised as expenses in the period when they are incurred.

55. Depreciation of assets transferred under the loan-for-use agreement shall be calculated using the same accounting policy that the entity applies to other assets of the same group.

56. Impairment or reversals of impairment of assets transferred under the loan-for-use agreement shall be recognised in the manner established by 12 Business Accounting Standard “Non-current Tangible Assets” and 23 Business Accounting Standards “Impairment of Assets”.

57. A lender who transfers internally produced assets shall not record any sales revenue, because such transaction, in terms of contents and economic substance, is not a sale.

XIV. DISCLOSING INFORMATION ABOUT LOANS-FOR-USE IN FINANCIAL STATEMENTS

58. In complete explanatory notes a loan recipient shall disclose the following information:

58.1. the loan-for-use term and the possibility of its extension;

58.2. other significant information about the loan-for-use agreement.

59. In complete explanatory notes a lender shall disclose the following information:

59.1. the value of assets transferred under the loan-for-use agreement, the loan-for-use term and the possibility of its extension;

59.2. other significant information about the loan-for-use agreement.

XV. FINAL PROVISIONS

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