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

22 BUSINESS ACCOUNTING STANDARD “CHANGES IN FOREIGN EXCHANGE RATES”

(“Valstybės žinios” (Official Gazette), 2004, No. 20-616; 2006, No. 80-3174; 2007, No.1-59)

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how transactions of an entity in foreign currencies and results of its foreign operations shall be recorded in accounting as well as how changes in foreign exchange rates shall be presented in financial statements.

2. This Standard shall be applied in:

2.1. accounting for transactions in foreign currencies;

2.2. translating financial statements of foreign operations for the purpose of consolidation and accounting for these investments under the equity method.

3. This Standard shall not apply to:

3.1. hedge accounting for foreign currency transactions;

3.2. restatement of ratios of financial statements in another currency for the convenience of users.

I. KEY DEFINITIONS

Reporting currency – the currency used in preparing financial statements of an entity.

Net investment in a foreign operation – the reporting entity's share in the equity of a foreign entity.

Foreign currency transaction – a transaction whereas amounts payable and (or) receivable are denominated in a currency other than the reporting currency.

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.

Foreign entity – a subsidiary, associate, jointly controlled entity or entity under common control that operates in a foreign country.

Foreign currency – a currency other than the reporting currency of the entity.

Currency items – cash and other financial assets in foreign currency as well as financial liabilities to be received or paid in a fixed or determinable number of units of foreign currency.

Exchange rate – the official ratio of exchange for the currency, that is used in registering economic transactions and events and preparing financial statements, and the foreign currency.

II. INITIAL RECOGNITION OF FOREIGN CURRENCY TRANSACTIONS

4. On initial recognition a foreign currency transaction shall be recorded in the reporting currency by applying the exchange rate at the date of the transaction.

5. In exceptional cases, when exchange rate fluctuations are insignificant and it is impractical to translate each separate transaction at the exchange rate of the transaction day, an average rate for a week or a month may be used.

6. Business trip expenditure incurred in foreign currency is translated into the reporting currency by applying the exchange rate of the day of departure.

III. TRANSLATING BALANCE SHEET ITEMS IN FOREIGN CURRENCY AT THE BALANCE SHEET DATE

7. In the balance sheet currency items shall be reported in the reporting currency applying the exchange rate at the balance sheet date.

8. Assets acquired for foreign currency and measured at the acquisition cost shall be reported in the balance sheet in the reporting currency applying the exchange rate at the time of initial recognition (the date of the transaction).

9. Assets whose fair value is measured in a foreign currency shall be reported in the balance sheet in the reporting currency applying the exchange rate at the date when the fair value was determined.

V. EXCHANGE RATE DIFFERENCES

10. Exchange rate differences arising on the settlement of amounts recorded in currency items at the exchange rate different from that at which they were recognised initially or at the date of the previous financial statements (if those currency items were recorded in the pervious financial year) shall be recognised as income or expenses in the reporting period in which they arise, with the exception of exchange rate differences related to net investments in foreign operations.

11. If debts in foreign currency are covered during the period other than the reporting period of initial recognition, the exchange rate difference shall be determined as from the date of the previous financial statements. When interim financial statements are prepared, currency items are translated in interim periods (for example, monthly), and the effects of changes in exchange rates shall be determined as from the last translation date of the currency item.

12. Exchange rate differences arising on a currency item that, in substance, forms a part of the entity's net investment in a foreign operation, shall be classified as equity and recognised as income or expenses only upon disposal of the net investment. Such exchange rate differences may arise when the currency items of the parent’s balance sheet include amounts receivable from, or payable to, the foreign entity, the receipt or payment of which is not planned in the nearest future. These items exclude the amounts of trade debts receivable from, or payable to, the foreign operation.

VI. EXCHANGE RATE DIFFERENCES OF A FOREIGN ENTITY

13. For the purpose of consolidating financial statements, the elements of financial statements of foreign entities shall be translated as follows:

13.1. assets, liabilities and equity (excluding the result of the reporting year) shall be translated at the exchange rate at the balance sheet date;

13.2. income and expenses shall be translated at exchange rates at the dates of the transactions;

14. All exchange rate differences resulting from translations of elements of financial statemens of the foreign entity shall be recorded in the balance sheet as equity until the disposal of the net investment.

15. If exchange rate fluctuations are insignificant, elements of financial statements of a foreign entity may be translated using the average exchange rate for the period, for example, of a month or quarter.

16. In the consolidated balance sheet, a respective part of exchange rate differences of translated financial statements of a foreign entity shall be attributed to the minority interest, where appropriate.

17. Goodwill arising on the acquisition of a foreign entity shall be translated applying the exchange rate of the acquisition day. The latter rate shall also be used for subsequent adjustments of the fair value related to the calculation of goodwill.

18. When performing consolidation procedures, exchange rate differences are not eliminated because they reflect the changes in income, expenses and equity of the parent.

19. For the purposes of the consolidated cash flow statement, cash flows of a foreign entity shall be translated at the exchange rate of the day on which the cash flows were generated.

20. If the balance sheet dates of the foreign entity and the parent differ, their financial statements can be consolidated only when such difference does not exceed three months (16 Business Accounting Standard “Consolidated Financial Statements and Investments in Subsidiaries”). In such case financial statements of the foreign entity shall be translated using the exchange rate at its balance sheet date. If any significant fluctuations in the exchange rate take place between the balance sheet date of the foreign operation and the parent, the financial statements may be adjusted.

21. When a foreign entity is disposed, the amount of exchange rate differences accumulated in the entity’s equity shall be recognised as income or expenses of that period. When only a part of the investment into a foreign entity is disposed, a part of exchange rate differences, determined in proportion to the disposed part of the investment, shall be included in income or expenses.

VII. DISCLOSING INFORMATION IN FINANCIAL STATEMENTS

22. Financing and investing activities item of the income statement shall present only the result of changes in exchange rates (profit or loss from changes in exchange rates).

23. Complete explanatory notes shall disclose the following information:

23.1. the amount of exchange rate differences attributed to income and expenses of the reporting period;

23.2. the opening and closing balance of the amount of exchange rate differences recorded in equity;

23.3. material exchange rate fluctuations which influence significantly the items of financial statements after the balance sheet date.

VIII. FINAL PROVISIONS

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