

APPROVED

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of the Director of the Public Establishment the
Institute of Accounting of the Republic of
Lithuania

30 BUSINESS ACCOUNTING STANDARD “RELATED PARTIES”

(“Valstybės žinios” (Official Gazette), 2006, No. 2-40; No. 38-1377)

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how information on related parties shall be presented in financial statements. Such information would help its users make a more reliable assessment of the entity’s performance, financial position and ability to continue as a going concern.

2. The Standard is the basis for determining who the related parties are and what information shall be provided about them and their transactions with the entity (group of entities) in financial statements.

3. This Standard shall be applied by entities that prepare a complete set of financial statements.

4. An entity, which voluntarily decides to provide information on related parties in its financial statements, shall follow this Standard.

5. Transactions with entities of the group are eliminated from consolidated financial statements, therefore, information provided therein shall be limited only to those related parties and transactions with them, which do not belong to the group of entities. In separate financial statements of the parent and subsidiaries information about related parties shall be disclosed and shall include transactions between the entities of the group.

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.

Close members of the family – family members who may influence, or be influenced by, the individual in their dealings with the entity. Close members of the family may be:

a) the individual’s spouse or domestic partner with whom the individual has registered the partnership and their children;

b) children of the individual, his (her) spouse or domestic partner;

c) dependants of the individual, his (her) spouse or domestic partner.

Jointly controlled operations – economic activities carried out by two or more natural or legal persons on the basis of an agreement on joint activities (partnership).

Jointly controlled assets – assets used by two or more natural or legal persons on the basis of an agreement on joint activities (partnership).

Joint control – control over economic activities documented in the form of an agreement on joint activities (partnership), which exists only when the strategic financial and operating decisions relating to the activities require the unanimous consent of all venturers sharing control.

Subsidiary – an entity that is controlled by another entity.

Key management personnel – the head of the entity’s administration, members of the board of directors and supervisory board, and other persons having authority for planning, controlling and directing the operations of the entity and (or) responsibility for ultimate decisions.

Joint venture – an arrangement of two or more parties documented in the form of an agreement on joint activities (partnership) to undertake economic activities that are subject to joint control. For the purposes of this Standard, joint venture may be defined as:

- a) jointly controlled operations;
- b) jointly controlled assets; or
- c) jointly controlled 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.

Jointly controlled entity – an entity subject to joint control of two or more natural or legal persons. Joint control shall be documented in the contractual form so as to prevent either of the controlling parties from individually taking ultimate decisions.

Parent – an entity exerting direct or indirect control over one or more subsidiaries.

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.

Related parties – legal and (or) natural persons related to an entity. A party is related to an entity if:

- a) the party directly or indirectly controls the entity or is controlled by it;
- b) the party has a significant influence over the entity;
- c) the party has joint control over a joint venture;
- d) the party and another entity are controlled by the same parent or by the same natural person (their group);
- e) the party is an associate;
- f) the party is a jointly controlled entity;
- g) the party is a member of the key management personnel of the entity or its parent;
- h) the party is a close member of the family of one of the individuals referred to under items a), b), c) or g);
- i) the party is an entity that is controlled, jointly controlled or significantly influenced by either of the individuals referred to under items g) or h); or
- j) the party is an entity accumulating and paying post-employment pensions and other benefits to the employees of the entity or other legal person related to the entity.

Related party transaction – a transfer of assets or liabilities or rendering of services between related parties, regardless of whether a price is charged.

Principal parent – a parent of a group of entities, which is not a subsidiary of any other parent entity.

III. IDENTIFICATION OF RELATED PARTIES

6. In its accounting policies the entity shall identify the individuals to be treated as related parties. For the purpose of identifying related parties, the entity shall take into consideration the form of legal relationships and the economic meaning thereof.

7. Legal persons related to an entity may include its parent, subsidiary, associate, entities exercising joint control over a joint venture, etc.

8. Natural persons related to an entity may include:

- a) persons who directly or indirectly have significant voting rights in the general meeting of shareholders;
- b) key management personnel of the entity;
- c) close family members of individuals having the authority to control an entity or exert a significant influence over it;
- d) close family members of key management personnel of the entity.

IV. DISCLOSING INFORMATION IN FINANCIAL STATEMENTS

9. Information on related parties and transactions with them shall be disclosed in explanatory notes.

10. If during the reporting period the entity had no transactions with related parties, only the information referred to in paragraphs 11 to 13 of this Standard shall be disclosed.

11. An entity preparing financial statements shall disclose the following information on related parties:

11.1. the name, head office, type of activities, controlled share, net profit (loss) of the reporting period and the amount of equity of each subsidiary and associate;

11.2. the name, head office, type of activities and controlled share of each joint venture;

11.3. the names and head offices of, and the share controlled by the parent or entities having a significant influence over it, and the principal parent. If an entity is controlled or significantly influenced by one or more natural persons, this fact as well as the share controlled by them shall be disclosed.

12. In its explanatory notes the entity shall specify the number of its key management personnel, the total amount accrued to them during the reporting period and the balance outstanding at the end of the reporting year, as well as the total amount accrued to other related natural persons during the reporting period and the balance outstanding at the end of the reporting year.

13. Amounts accrued to the key management personnel of the entity and other related natural persons shall be disclosed on the basis of their nature:

13.1. amounts related to employment relations, distinguishing base salaries, severance pays and bonuses;

13.2. share-based payment;

13.3. assets transferred or services rendered gratis;

13.4. other significant amounts.

14. If an entity had transactions with related parties, the entity shall additionally specify their nature and other information necessary for identifying potential effects of such transactions on the financial statements of the entity.

15. The following information on related party transactions shall be disclosed in explanatory notes:

15.1. the amounts of transactions of the current and previous reporting periods;

15.2. the amount of debt at the end of the reporting period and conditions of settlement;

15.3. the amount of doubtful debts recognised during the reporting period;

15.4. issued guarantees;

15.5. other significant information.

16. Information referred to in paragraphs 15 of this Standard about related party transactions, except for those the significance of which requires a separate disclosure of the information on such related party, shall be disclosed for each of the following categories:

16.1. the parent;

16.2. shareholders having a significant number of votes;

16.3. entities with joint control over the entity issuing financial statements;

16.3. subsidiaries;

16.4. associates;

16.5. entities jointly controlled by the entity under agreements on joint activities;

16.6. key management personnel of the entity;

16.7. other related parties.

17. Information about significant transactions between related parties under conditions different from those prevailing in arm's length transactions shall be disclosed separately.

V. FINAL PROVISIONS

18. This Business Accounting Standard shall be effective for financial statements covering periods beginning on or after 1 January 2006. The Standard may be applied in preparing financial statements for 2005.