

APPROVED
by Order No. VAS-12 of 29 December 2005 of
the Director of the Public Establishment the
Institute of Accounting of the Republic of
Lithuania

35 BUSINESS ACCOUNTING STANDARD “TRANSFORMATION OF ENTITIES”

(“Valstybės žinios” (Official Gazette), 2006, No.5-188; No. 81 (correction))

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how economic transactions and events related to the entity's transformation shall be recorded in accounting and how financial statements of the entity under transformation shall be prepared.

2. This Standard shall apply when transforming the entity of one legal form into another:

2.1. a state enterprise into a municipal enterprise and a municipal enterprise into a state enterprise;

2.2. a state or municipal enterprise into a public or private limited liability company;

2.3. a partnership or individual enterprise into a public or private limited liability company;

2.4. a public or private limited liability company into an individual enterprise or partnership.

3. This Standard shall not apply to accounting for reorganisation of entities and business combinations.

II. KEY DEFINITIONS

Entity owner's capital – a value of assets transferred to a state and municipal enterprise by its owner excluding grants and assets which under laws can be owned only by the State.

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

Authorised (subscribed) capital – a sum of par values of subscribed shares.

Equity – a portion of entity's assets remaining after deducting all its liabilities from all its assets.

Revaluation reserve (results) – changes in equity resulting from revaluation of non-current tangible and financial assets. Revaluation reserve (results) in the balance sheet for transformation purposes means the result of revaluing all assets of the entity under transformation, including current assets, obtained upon property valuation.

Transformation – a process of changing the legal form of an entity lasting from the day of taking the decision on the entity's transformation until the registration of the new legal form of the entity in the Register of Legal Persons. After registration in the Register of Legal Persons, the entity of a new legal form shall take over all rights and obligations of the transformed entity.

Balance sheet for transformation purposes – a balance sheet prepared for the purpose of taking a decision on the entity's transformation and determining the amount of authorised capital of the entity of a new legal form that will be functioning after the transformation. It shall present the entity's assets valued by an independent property valuer, equity and liabilities.

Reserve – a temporary (specified) restriction of profit use intended for purposes set by owners.

Owners' contributions – the value of assets previously held by the owner (owners) under the right of ownership and transferred to an individual enterprise or partnership.

Assets – tangible, intangible and financial resources managed, used and (or) disposed by an entity in order to obtain economic benefits from such use.

Capital corresponding to assets which by under laws can be owned only by the State – a value of assets, which under laws can be owned only by the State, that were transferred to an entity in the manner established by laws to manage, use and dispose under the trust right.

Property valuation date – the day the data of which is used for property valuation.

III. TRANSFORMATION OF A STATE ENTERPRISE INTO A MUNICIPAL ENTERPRISE AND OF A MUNICIPAL ENTERPRISE INTO A STATE ENTERPRISE

4. Upon transformation of a state enterprise into a municipal enterprise or a municipal enterprise into a state enterprise, the entity of a new legal form shall take over all obligations, rights and duties of the transformed entity.

5. The entity of a new legal form shall take over the assets and liabilities of the transformed entity in the manner established by legal acts. The equity of the entity of a new legal form shall remain the same as the equity of the entity which operated before transformation.

6. Upon the change of the owner of a state or municipal enterprise, the value of assets, equity and liabilities in accounting of the transformed entity shall not change due to the transformation.

IV. TRANSFORMATION OF A STATE OR MUNICIPAL ENTERPRISE INTO A PUBLIC OR PRIVATE LIMITED LIABILITY COMPANY

7. Before taking the decision on the transformation of a state or municipal enterprise into a public or private limited liability company (hereinafter, a company), the assets of the enterprise shall be valued by an independent property valuer except for the assets which under laws can be owned only by the State.

8. After valuation of assets, the balance-sheet for transformation purposes shall be prepared on the basis of the data on the property valuation day. Entity's assets in the balance-sheet for transformation purposes shall be presented at the value specified in the independent property valuer's report as of the property valuation day.

9. In order to present fairly the retained profit (loss) of the enterprise under transformation in the balance sheet for transformation purposes and to establish the amount of authorised capital of the entity of a new legal form that will continue in operation after the transformation, the income statement shall be prepared alongside the balance sheet for transformation purposes. The statement shall be prepared for the period ending on the property valuation day.

10. If the value of non-current and current assets established by an independent property valuer exceeds the carrying amount of such assets, the value of assets in the balance sheet for transformation purposes shall be increased by respectively increasing revaluation reserve (results).

11. If the value of non-current and current assets established by an independent property valuer is lower than the carrying amount of such assets, the value of assets in the balance sheet for transformation purposes shall be reduced by respectively reducing revaluation reserve (results). If the decrease in the value of assets exceeds revaluation reserve (results) of the balance sheet for transformation purposes, the amount of the decrease in the balance sheet for transformation purposes shall be recorded as a negative revaluation reserve (-). Such negative revaluation reserve is possible only in the balance sheet for transformation purposes.

12. If before registration of the Articles of Association of the entity of a new legal form in the Register of Legal Persons any new facts are established that lead to a change in the amount of authorised capital of the entity of a new legal form to be functioning after transformation determined on the basis of the data of the balance sheet for transformation purposes, the decision on the entity's transformation shall be adjusted. For example, when an entity which has the status of the entity under transformation, acquires assets under the trust right, the entity owner's capital shall be increased by the value of received assets.

13. If the transformation period exceeds 12 months from the property valuation day, the property valuation shall be performed anew.

14. Before the registration of the entity of a new legal form in the Register of Legal Persons, economic transactions and events of the entity under transformation shall be registered, classified and summarised in the regular manner without recording the property valuation results in accounting.

15. Upon registration of the Articles of Association of the entity of a new legal form with the authorised capital equal to that specified in the decision on transformation of the entity, in accounting the data on existing assets shall be adjusted on the basis of asset revaluation amounts. Retained profit (loss) shall be adjusted by the difference resulting from the revaluation of assets.

16. Calculation of depreciation and amortisation of revalued non-current tangible and intangible assets shall be adjusted as from the day of registration of the entity of a new legal form.

17. For the purpose of preparing the first annual financial statements after transformation, disclosure of the comparative information of the previous financial year shall not be compulsory.

18. Information presented in the first annual income statement prepared after transformation shall be arranged in two columns: specifying the data of the reporting year as a whole in one column and the data from the day of registration of the entity of a new legal form until the end of the year – in the second column.

19. When preparing the first annual statement of changes in equity after transformation, it shall additionally include information on the increase (decrease) in the value of assets due to property valuation for the purpose of the entity's transformation and on formation of authorised capital.

20. When preparing the first annual financial statements after transformation, comments of explanatory notes shall include detailed information on the entity's transformation. For example:

20.1. the circumstances and date of taking the decision on the entity's transformation;

20.2. the date of property valuation and submission of the valuation report, valuation results and implications of asset value adjustments on the items of financial statements;

20.3. the balance sheet for transformation purposes as of the property valuation day and income statement for the period ended on the property valuation day;

20.4. the date of registering the Articles of Association of the entity of a new legal form;

20.5. changes in accounting policies after the entity's transformation;

20.6. other significant relevant information related to the entity's transformation, which affected the entity's operations and the change of its authorised capital.

V. TRANSFORMATION OF A PARTNERSHIP OR INDIVIDUAL ENTERPRISE INTO A PUBLIC OR PRIVATE LIMITED LIABILITY COMPANY

21. Assets of a partnership and individual enterprise being transferred in exchange for the company's shares shall be valued by an independent property valuer before taking the decision on transformation of a partnership or individual enterprise into a public or private limited liability company.

22. After valuation of assets a balance sheet for transformation purposes shall be prepared on the basis of the data on the property valuation day. Entity's assets being transferred in exchange for the company's shares in the balance-sheet for transformation purposes shall be presented at the value specified in the independent property valuer's report as of the property valuation day.

23. If the assets of a partnership or individual enterprise less total liabilities are lower than the minimum amount of authorised capital established for a public or private limited liability company in the Company Law, the amount of the additional contribution shall be registered as owners' contributions. Additional non-monetary contribution shall be valued by an independent property valuer.

24. If before taking the decision on transformation, a partnership or individual enterprise did not prepare financial statements in the manner established by Business Accounting Standards, a balance sheet for transformation purposes shall be prepared according to the standard form of a balance sheet provided for in 36 Business Accounting Standard "Record keeping and financial reporting of unlimited civil liability legal persons". Assets being transferred in exchange for shares

shall be stated in the balance sheet for transformation purposes at the value specified in the property valuation report and owners' contributions shall be adjusted respectively.

25. If before taking the decision on transformation, a partnership or individual enterprise used to prepare its financial statements in the manner established by Business Accounting Standards, in the balance sheet for transformation purposes property valuation results shall be presented as follows:

25.1. if the value of assets being transferred in exchange for shares specified in the property valuation report exceeds their carrying amount, the value of assets in the balance sheet for transformation purposes and revaluation reserve (results) thereof shall be increased;

25.2. if the value of assets in the property valuation report is lower than the carrying amount of such assets, the value of assets shall be reduced by respectively reducing revaluation reserve (results) in the balance sheet for transformation purposes;

25.3. if the decrease in the value of assets exceeds revaluation reserve (results) in the balance sheet for transformation purposes, the amount of decrease in the balance sheet for transformation purposes shall be presented as a negative revaluation reserve (-).

26. In order to present fairly the retained profit (loss) of enterprises referred to in paragraph 25 of this Standard in the balance sheet for transformation purposes and to establish the amount of authorised capital of the entity of a new legal form that will continue in operation after the transformation, an income statement may be prepared alongside the balance sheet for transformation purposes. The statement shall be prepared for the period ending on the property valuation day.

27. Before the registration of the entity of a new legal form in the Register of Legal Persons, economic transactions and events of the entity under transformation shall be registered, classified and summarised in the regular manner without recording the property valuation results in accounting.

28. Upon registration of the entity of a new legal form, in accounting the data on existing assets shall be adjusted on the basis of asset values specified in the report of the independent property valuer. Retained profit (loss) shall be adjusted by the difference resulting from the revaluation of assets.

29. Upon registration of the Articles of Association of the entity of a new legal form with the authorised capital specified in the decision on the entity's transformation:

29.1. when the authorised capital specified in the decision on the entity's transformation equals to the value of assets being transferred in exchange for the shares, the total amount of owners' contributions shall be transferred to the authorised capital;

29.2. when the authorised capital specified in the decision on the entity's transformation is lower than the value of assets being transferred in exchange for the shares, the difference shall be presented in the share premium account.

30. Calculation of depreciation and amortisation of revalued non-current tangible and intangible assets shall be adjusted as from the day of registration of the entity of a new legal form.

31. For the purposes of accounting and preparation of financial statements, the entity of a new legal form shall follow Business Accounting Standards.

32. For the purpose of preparing the first annual financial statements after transformation in accordance to Business Accounting Standards, disclosure of the comparative information of the previous financial year shall not be compulsory.

33. A partnership or individual enterprise, which before the registration of the entity of a new legal form did not prepare financial statements in the manner established by Business Accounting Standards, for the purpose of preparing the first annual income statement after transformation, shall provide information arranged in one column specifying in it the data covering the period from the day of registration of the entity of a new legal form until the end of the financial year. A partnership or individual enterprise, which before the registration of the entity of a new legal form used to prepare financial statements in the manner established by Business Accounting Standards, for the purpose of preparing the first annual income statement after transformation, shall provide information arranged in two columns: specifying the data of the reporting year as a whole in one column and the data from the day of registration of the entity of a new legal form until the end of the year in the second column.

34. When preparing the first annual statement of changes in equity after transformation, information shall be provided on the increase (decrease) in the value of assets due to owners' contributions or revaluation of assets for the purpose of the entity's transformation and on formation of authorised capital.

35. When preparing the first annual financial statements after transformation, comments of explanatory notes shall include detailed information on the entity's transformation. For example:

- 35.1. the circumstances and date of taking the decision on the entity's transformation;
- 35.2. the date of property valuation and submission of the valuation report, valuation results and implications of asset value adjustments on the items of financial statements;
- 35.3. the balance sheet for transformation purposes as of the property valuation day and income statement, where applicable, for the period ended on the property valuation day;
- 35.4. the date of registering the Articles of Association of the entity of a new legal form;
- 35.5. other significant relevant information related to the entity's transformation, which affected the entity's operations and the change of its authorised capital.

VI. TRANSFORMATION OF A PUBLIC OR PRIVATE LIMITED LIABILITY COMPANY INTO A PARTNERSHIP OR INDIVIDUAL ENTERPRISE

36. Upon transformation of a public or private limited liability company into an individual enterprise or partnership, assets and liabilities of the public or private limited liability company in accounting of the individual enterprise or partnership shall be recorded as assets and liabilities of that individual enterprise or partnership.

37. The structure of equity of an individual enterprise or partnership shall be established by the decision of the entity's owners.

38. Individual enterprises and partnerships shall keep their accounting records and prepare their financial statements in the manner established by legal acts.

VII. ACCOUNTING POLICIES AFTER ENTITY'S TRANSFORMATION

39. An entity of a new legal form may select different accounting policies than those applied by the entity before transformation.

40. Upon selection of a new accounting policy, it shall be applied as from the day of registration of the entity of a new legal form.

41. Revaluation of assets upon the entity's transformation shall not be treated as a change in accounting policies.

VIII. FINAL PROVISIONS

42. This Business Accounting Standard shall be effective for recording in accounting economic transactions and events related to transformation of entities and preparing financial statements of entities the transformation whereof commenced on and after 1 January 2006. It may be applied for recording in accounting economic transactions and events related to transformation of entities and preparing financial statements of entities the transformation whereof commenced in 2005.