

APPROVED

by Resolution No. 1 of 18 December 2003 of the Standards Board of the Public Establishment the Institute of Accounting of the Republic of Lithuania

(Revised version of Order No. VAS-17 of 20 December 2006 of the Director of the Public Establishment the Institute of Accounting of the Republic of Lithuania)

6 BUSINESS ACCOUNTING STANDARD “EXPLANATORY NOTES”

Version effective as from 31 December 2006 (“Valstybės žinios” (Official Gazette), 2004, No. 20-616; 2006, No. 143-5449).

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out what information shall be presented in explanatory notes in order to provide a fairer understanding of the information contained in other financial statements and to disclose additional material information excluded from such other statements.

2. The Standard establishes general requirements for the contents of explanatory notes and minimum requirements for the condensed explanatory notes.

II. KEY DEFINITIONS

Explanatory notes – a financial statement explaining amounts disclosed in other financial statements and disclosing additional material information that is not presented in such other financial statements.

Accounting policies – accounting principles, accounting methods and rules applied by an entity in keeping its accounting records and preparing financial statements.

Change in accounting policies – a change of accounting principles, accounting methods and rules applied by an entity in keeping its accounting records and preparing financial statements.

Comments of explanatory notes – tables (statements) and (or) text explaining material items of financial statements.

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.

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

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

III. CONTENTS OF EXPLANATORY NOTES

3. Entities preparing complete financial statements shall prepare complete explanatory notes. Entities that have a right to prepare condensed financial statements shall prepare either condensed or complete explanatory notes. The term “explanatory notes” shall be used in cases when provisions of this Standard apply to both condensed and complete explanatory notes.

4. Condensed explanatory notes shall present information required by 1 Business Accounting Standard “Financial Statements”, and the present Standard, as well as other material information that discloses the nature of the entity’s operations, performance and financial position and is not provided in other financial statements.

5. Complete explanatory notes shall present information required by this and other Business Accounting Standards as well as other material information that discloses the nature of the entity’s operations, performance, financial position and cash flows and is not provided in other financial statements.

6. Explanatory notes shall comprise the following parts:

- 6.1. a general part;
- 6.2. accounting policies;
- 6.3. comments.

IV. GENERAL PART OF EXPLANATORY NOTES

7. The general part of explanatory notes shall provide general information about the entity:

7.1. The entity’s registration date.

7.2. If the entity belongs to a group of entities, the names, codes and head offices of the parent and principal parent entity.

7.3. If the entity holds an interest in a legal person of unlimited civil liability, the name, code, head office and legal form of such legal person.

7.4. The number of branches and representative offices of the entity; the names, codes and head offices of subsidiaries, associates and jointly controlled entities.

7.5. A brief description of the entity’s activities.

7.6. An average number of employees during the current and previous reporting year, or a number of employees at the end of the current and previous reporting year.

V. ACCOUNTING POLICIES

8. Explanatory notes shall state that the financial statements have been prepared in accordance with Business Accounting Standards. In addition other legal acts followed for the purposes of keeping accounting records and preparing financial statements shall be specified.

9. Explanatory notes shall disclose information about accounting policies applied by the entity for keeping accounting records and preparing financial statements, which is likely to influence the decisions of the users of information provided in the financial statements.

10. This part of explanatory notes shall specify and briefly describe the main accounting principles, methods and rules, which have been applied to material items and in accordance to which the entity has kept its accounting records and prepared financial statements.

11. If the entity’s accounting policies change in the course of the reporting year, such fact shall be stated in this part of explanatory notes, indicating the reasons for the change of accounting policies, and specifying and describing the changed accounting principles, methods and rules applicable to material items. In the event of prospective application of changes in accounting policies the reasons for such application shall be disclosed.

VI. COMMENTS OF EXPLANATORY NOTES

12. Comments of explanatory notes shall be numbered in sequential order. The number of a comment shall be indicated next to the item of the financial statement which is explained in that comment.

13. Comments of explanatory notes shall disclose the information of the reporting period and at least one previous reporting period (comparative information). Comments of

explanatory notes shall explain only the material amounts of financial statements and reasons for their changes.

14. Comments of condensed explanatory notes shall disclose information required by section VII of this Standard and other material information. In addition, information required by other Business Accounting Standards may be provided.

15. When preparing complete explanatory notes, their comments shall be presented in accordance with the requirements set by other Business Accounting Standards.

VII. COMMENTS OF CONDENSED EXPLANATORY NOTES

16. If other financial statements do not disclose all or part of the comparative information, the reasons for that shall be specified.

17. In the event of significant changes in accounting estimates or adjustments of comparative information, explanatory notes shall include information required by 7 Business Accounting Standard "Changes in Accounting Policies, Accounting Estimates and Correction of Errors".

18. If a particular asset is related to more than one item of the assets part of the balance sheet, the total carrying amount of such asset and amounts stated in separate items shall be disclosed.

19. If the amount of a particular liability is related to more than one item of the liabilities part of the balance sheet, the total carrying amount of such liability and amounts stated in separate items shall be disclosed.

20. The following information shall be disclosed about intangible assets:

20.1. If the value of intangible assets has decreased and impairment losses have been recognised in the income statement, the amount of such impairment shall be disclosed, provided that it has not been stated in a separate line of the income statement.

20.2. If as a result of a change in circumstances the amount of impairment of assets recognised in previous reporting periods has been reduced, the amount of such reversal of impairment shall be disclosed, provided that it has not been stated in a separate line of the income statement.

20.3. If a period of amortising intangible assets exceeds five years, such period shall be disclosed and reasons for determining such period shall be specified.

21. The following information shall be disclosed about non-current tangible assets:

21.1. If the value of non-current tangible assets has decreased and impairment losses have been recognised in the income statement, the amount of such impairment shall be disclosed, provided that it has not been stated in a separate line of the income statement.

21.2. If as a result of changes in circumstances the amount of the impairment of assets recognised in the previous reporting periods has been reduced, the amount of such reversal of impairment shall be disclosed, provided that it has not been stated in a separate line of the income statement.

22. The following information shall be disclosed about financial assets and financial liabilities carried at fair value:

22.1. the method and assumptions applied in determining the fair value of financial assets and financial liabilities;

22.2. changes in the fair value of each class of financial assets and financial liabilities during the reporting period, provided that they have not been stated in a separate line of the income statement.

23. If the entity holds derivative financial instruments, the following disclosures shall be provided about each class of derivatives:

23.1. a brief description;

23.2. changes in the fair value, provided that they have not been stated in a separate line of the income statement;

23.3. significant conditions, which may influence the amount of future cash flows, as well as their frequency and stability.

24. If the entity has subsidiaries and (or) associates, the following disclosures shall be provided:

24.1. the nature of activities of the subsidiary and (or) associate;

24.2. controlled share of the a subsidiary and (or) associate;

24.3. the amount of equity of a subsidiary and (or) associate;

24.4. operating result, i.e. profit (loss) of the reporting period of the subsidiary and (or) associate.

25. The following disclosures shall be provided for each class of inventories, provided that such information is not presented in other financial statements:

25.1. the carrying amount at the beginning and at the end of the reporting period;

25.2. the amount of writing down inventories to net realisable value;

25.3. the amount of reversal of write-downs of inventories.

26. The following disclosures shall be provided about the entity's authorised capital:

26.1. the number and par value of shares of each class;

26.2. the number and par value of shares issued during the reporting year, if the entity has increased its authorised capital during the reporting period.

27. If the entity has received loans with the maturity exceeding five years or loans secured by a collateral, the following disclosures shall be provided:

27.1. the amount and maturity of the loan;

27.2. the name and carrying amount of pledged assets;

27.3. other significant information related to the pledge of assets;

27.4. assets pledged separately to secure obligations of other persons.

28. The following disclosures shall be provided about each item of provisions:

28.1. a brief description of each provision;

28.2. the carrying amount at the beginning and at the end of the reporting year;

28.3. the amounts of provisions formed during the year;

28.4. the estimated period of use;

28.5. used or otherwise written off amounts during the year;

28.6. other significant information.

29. If the entity has issued a financial guarantee to secure obligations of another person, the following shall be disclosed:

29.1. the nature of such guarantee;

29.2. the amount of the guarantee;

29.3. a separate disclosure of financial guarantees issued to secure the obligations of subsidiaries, associates or jointly controlled entities.

30. For the purpose of explaining the income statement, the amount of each material item shall be specified and explained in detail.

31. Explanatory notes shall contain a proposed draft of profit (loss) distribution.

32. In order to explain the entity's relations with its key management personnel, the following information shall be disclosed:

32.1. the number of the entity's managers;

32.2. the total amount accruing thereon during the current and previous reporting periods and a detailed disclosure of payments related to employment relations, distinguishing salaries, severance pays, bonuses and outstanding balance at the end of the reporting year;

32.3. payments in shares, assets transferred or services provided gratis;

32.4. transactions with the key management personnel, indicating amounts of transactions, amounts of outstanding debts at the end of the reporting period, the interest rate, settlement and other transaction conditions, the recognised amount of doubtful debts, issued guarantees;

32.5. other significant disclosures.

VIII. FINAL PROVISIONS

33. The revised version of this Standard shall be effective for financial statements covering periods beginning on or after 1 January 2006.