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

7 BUSINESS ACCOUNTING STANDARD "CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND CORRECTION OF ERRORS"

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I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how information about changes in accounting policies, accounting estimates and correction of errors of the entity shall be recorded in accounting and disclosed in financial statements.

2. This Standard shall be applied:

2.1. for recording in accounting and disclosing in financial statements the differences resulting from changes in accounting policies and accounting estimates;

2.2. for correcting errors of previous periods;

2.3. for differences arising upon the first-time application of Business Accounting Standards.

3. This Standard is not applicable for accounting of revaluation of non-current assets.

II. KEY DEFINITIONS

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

Accounting estimate – an assessment of changes in the value of an entity's assets, adequacy of depreciation or liabilities in accordance with Business Accounting Standards.

Change in accounting estimate – a change of the estimate on obtaining updated information.

Material error – an error discovered during the current reporting period due to which financial statements of one or more previous periods do not present fairly the financial position and performance of the entity.

Error – a misstatement resulting from wrong calculation, application of inaccurate accounting method, incorrect registration of an economic transaction or event, fraud or mistake.

Prospective application – whereas changes and adjustments are carried out as from the day on which the decision to apply them is taken and in future reporting periods.

Retrospective application – whereas changes and adjustments are carried out not only from the day on which the decision to apply them is taken and in future reporting periods, but also in previous reporting periods.

III. CHANGES IN ACCOUNTING POLICIES

4. The principle of consistency requires ensuring comparability of the entity's financial statements of different periods. Such comparability is necessary in order to observe variation tendencies of the entity's financial position, assets, income, expenses and cash flows; therefore the same accounting policies shall be applied for each reporting period.

5. Accounting policies may be changed in the following cases:

5.1. due to changes in laws or other legal acts;

5.2. due to requirements of Business Accounting Standards;

5.3. when the change results in providing reliable and more relevant information about an entity’s financial position and operating performance.

6. Changes in accounting policies shall be applied on a retrospective basis, except for cases when the amount of restatement of previous reporting periods cannot be reliably measured by applying new accounting policies. In such cases the prospective method may be applied.

7. Retrospective application means applying a change in accounting policies to economic transactions and other events as if that policy had been applied from the moment of their occurrence.

8. Following the retrospective method the balance of retained earnings (losses) is corrected. In addition, items of financial statements of previous periods are recalculated and restated, providing comparative information in explanatory notes to financial statements.

9. When the prospective method is applied, there is no need to adjust the financial statements of the previous period. Following this method, the new accounting policy is applied from the day on which the decision to apply it is taken and in future reporting periods. The effect of the change in accounting policies on results of the current and previous reporting periods is presented in financial statements of the current period and explained in explanatory notes to financial statements.

10. Not all new accounting policies are treated as changes in accounting policies.

11. The following cases are not the changes in accounting policies:

11.1. applying a new accounting policy to transactions and other events that differ in substance from those previously occurring;

11.2. applying a new accounting policy to transactions and events that have not occurred previously.

12. A change in accounting policies resulting from the first-time application of Business Accounting Standards shall be registered in accordance with the specific transitional provisions if they are set by Business Accounting Standards. If Business Accounting Standards do not provide transitional provisions, the change in accounting policies shall be registered in accordance with the requirements of this Standard. In such case the retrospective method shall be applied, and the balance of retained earnings (losses) at the beginning of the earliest reporting period presented in the financial statements shall be corrected, and comparative information of the previous reporting periods shall be adjusted.

IV. DISCLOSING CHANGES OF ACCOUNTING POLICIES IN FINANCIAL STATEMENTS

13. In the event of changes in accounting policies, explanatory notes to financial statements shall disclose the following information:

13.1. the fact of changing accounting policies;

13.2. reasons for changing accounting policies;

13.3. the amount (s) by which the financial statements of each reporting period are adjusted;

13.4. in case of the prospective application of changes in accounting policies, the reasons for such application shall be specified;

13.5. if due to certain reasons some comparative information has not been presented, these reasons shall be specified.

V. CHANGES IN ACCOUNTING ESTIMATES

14. Revising accounting estimates is an essential part of the accounting process. Revision is based on the latest information available (for example, based on new information, useful life of a non-current asset or recognition of doubtful debts can be changed).

15. Application of new accounting estimates does not have adverse effects on the reliability of financial statements, therefore for accounting purposes it is presented prospectively.

16. If it is difficult to determine whether a change is a change in accounting policies or a change in accounting estimates, such change is treated as a change in accounting estimates.

17. The effect of a change in an accounting estimate shall be included:

17.1. in the period of the change, if the change affects that period only;

17.2. in the period of the change and future periods, if the change affects both.

18. A change in an accounting estimate may influence only the reporting period or both the reporting and future periods. For example, a change in the estimate of the amount of doubtful debts concerns only the reporting period, therefore it is presented in the reporting period; whereas changes in the useful life or nature of economic use of non-current assets of finite useful life affects depreciation expenses of the reporting and future periods throughout the useful life of the assets. In both cases the effects of the change on the reporting period are recognised as income from, or expenses for, ordinary activities of that period. The effect, if any, on future periods is recognised in the future periods.

19. The effect of a change in an accounting estimate shall be included in the same line of the income statement where the initial estimate was recorded.

VI. DISCLOSING CHANGES OF ACCOUNTING ESTIMATES IN FINANCIAL STATEMENTS

20. The following information about significant changes in accounting estimates shall be presented in explanatory notes to financial statements:

20.1. the fact of changing the accounting estimate, and the reasons for the change;

20.2. the effect and nature of changing the accounting estimate;

20.3. the amount that affects the performance of the reporting period;

20.4. the amount that will affect future periods;

20.5. if there is no possibility to make computations, it shall be specified.

VII. CORRECTING ERRORS

21. Errors in financial statements of previous periods can be identified during the reporting period. Errors may occur as a result of inaccurate mathematic calculations, incorrect application of accounting policies or incorrect interpretation of facts, fraud or mistakes. If these errors are not material, they are corrected in the financial statements of the current period. Such error correction is recorded in the same line of the income statement where the error was made.

22. In some cases errors may have such a strong effect on financial statements of the previous or several previous periods that the financial statements of these periods do not present fairly the entity’s financial position and operating performance. Such errors are treated as material. An example of a material error can be the case when excessive amounts of contracts in progress and amounts receivable according to these contracts that are no longer executed were included in the financial statements of the previous period.

23. When correcting material errors of the previous periods, the retrospective method shall be applied, unless the effects of the error on financial statements of the previous periods cannot be measured reliably. In such case the prospective method may be applied.

24. Material errors shall be distinguished from changes in accounting estimates. Accounting estimates are anticipated amounts subject to review on obtaining updated information (for example, recognition of profit or losses after receiving new information and some fact, which could not be reliably assessed earlier, shall not be considered as an error).

25. The amount of correction of a material error of the previous period shall be presented in financial statements of the current period by adjusting the opening balance of retained earnings (losses). Simultaneously, the comparative information in the financial statements of the reporting period shall be adjusted. If it is not possible to present the comparative information, this shall be explained in explanatory notes to financial statements.

26. Financial statements, including the comparative information covering previous periods, shall be presented as if the material error had been corrected in the period when it was made. The amount of correction that relates to each previous period is included in the profit or loss of that period. The amount of correction relating to periods prior to those included in the comparative information in the financial statements is adjusted against the opening balance of retained earnings (losses) of the earliest reporting period presented in the financial statements.

VIII. DISCLOSING INFORMATION ABOUT CORRECTION OF ERRORS IN FINANCIAL STATEMENTS

27. The following information shall be disclosed in explanatory notes to financial statements:

27.1. the nature of errors;

27.2. the amount of adjustments of the reporting period and each previous reporting period;

27.3. the amount of adjustments relating to previous periods compared to the comparative information;

27.4. the fact that comparative information has been restated or that it is impracticable to do so.

IX. FINAL PROVISIONS

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