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
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8 BUSINESS ACCOUNTING STANDARD “EQUITY”

(“Valstybės žinios” (Official Gazette), 2004, No. 20-616; 2005, No. 57-1995; 2006, No. 80-3175; 2007, No.1-47).

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how information related to equity formation and changes shall be recorded in accounting and presented in financial statements.
2. This Standard establishes the requirements for recording economic transactions and events related to formation, increases, reductions or changes in the structure of equity.
3. In this Standard the term “entity” is used when the requirements of this Standard apply to all profit seeking limited civil liability legal persons. When the requirements of this Standard apply to public limited liability companies and private limited liability companies, the term “company” is used; when the requirements apply to state and municipal enterprises, the term "state enterprise" is used.
4. The term “owners” used in this Standard in case of public limited liability companies and private limited liability companies shall mean shareholders, in case of state and municipal enterprises – an institution authorised to implement rights and obligations of the owner of these enterprises, and in case of other entities – participants, holders of member shares and other legal or natural persons having the owner’s rights.

II. KEY DEFINITIONS

Shares – securities evidencing the right of their holders to participate in the management of the entity.

Share premium – a difference between the par value and emission price of shares.

Paid up authorised capital – a paid up portion of subscribed par value of shares.

Owner’s capital of state and municipal enterprise – 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.

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

Retained earnings – accumulated and not yet distributed profit of an entity.

Retained losses – accumulated and not yet covered losses of an entity.

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

Statement of changes in equity – a financial statement presenting information about changes in equity during the reporting period.

Revaluation reserve (results) – changes in equity resulting from revaluation of non-current tangible and financial assets.

Legal reserve – a reserve formed in the manner established by laws and assigned for covering losses of an entity.

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

Reserve for acquiring own shares – a reserve formed for acquisition of own shares equal to at least the acquisition cost of planned to acquire own shares of an entity.

Own shares – shares acquired by the issuing limited liability company.

Capital corresponding to assets which 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,

Assets which under laws can be owned only by the State – assets, the exclusive ownership right of which belongs to the State.

III. EQUITY STRUCTURE OF A COMPANY

5. The equity of a company comprises:

5.1. paid up portion of authorised capital;

5.2. share premium;

5.3. revaluation reserve (results);

5.4. legal reserve;

5.5. reserve for acquiring own shares;

5.6. other reserves;

5.7. retained earnings (losses).

IV. ACCOUNTING FOR AUTHORISED CAPITAL

6. A company can issue shares of one or several classes. If shares of several classes are issued, each class of shares shall be registered separately.

7. Upon establishment of a new company, a subscribed authorised capital is recorded in accounting after the company is registered in the manner established by laws.

8. For accounting purposes a subscribed authorised capital is recorded in full in the authorised capital account irrespective of the paid up portion. The unpaid portion of shares is recorded in the account contrary to the authorised capital account.

9. If the settlement for issued shares is made in assets (including shares of another company), the emission price of shares is equal to the fair value of assets received for them.

10. Only the par value of shares is registered in the authorised capital account.

11. If the emission price of shares exceeds their par value, the excessive amount is recorded in the share premium account.

12. If the shareholders pass a decision to increase (reduce) the authorised capital, the increase (reduction) of the authorised capital is recorded after the registration of amendments to the Articles of Association of the company in the manner established by laws.

13. If the decision of shareholders to increase (reduce) the authorised capital has already been approved, but amended Articles of Association of the company have not yet been registered, information about the decision to increase (reduce) the authorised capital shall be disclosed in explanatory notes to financial statements.

14. An authorised capital can be reduced only in the manner established by laws.

V. ACCOUNTING FOR SHARE PREMIUM

15. Share premium is a component of the company’s equity. Share premium arises when the emission price of shares exceeds their par value.

16. If upon an issue of new shares of a company there are costs directly attributable to the emission of these shares, in accounting share premium is recorded reduced by such costs.

17. In accounting records the amount of share premium is reduced:

17.1. when the authorised capital is increased by the amount of share premium;

17.2. when losses of the company are covered by the decision of shareholders.

VI. ACCOUNTING FOR REVALUATION RESERVE (RESULTS)

18. If an entity revalues its non-current tangible assets, the amount of the increase in asset value is registered in assets and equity accounts. In the equity part this amount is recorded in the account of revaluation reserve (results).

19. When a deferred tax liability is recognised due to revaluation of assets, in accounting revaluation reserve (results) is recorded at the amount of the revaluation reserve (results) less the deferred tax liability.

20. In accounting records the revaluation reserve (results) is reduced:

20.1. when the authorised capital is increased by this reserve or by a part thereof;

20.2. upon impairment of revalued assets;

20.3. upon write-off of revaluated assets;

20.4. upon disposal of revaluated assets;

20.5. when revaluated assets are transferred to another entity gratis;

20.6. when revalued assets are depreciated;

20.7. when investment property, which is accounted for at its acquisition cost and which was transferred into the investment property class from other classes of non-current tangible assets where it was accounted for at the revalued amount, is depreciated or impairs, as long as a portion of the revaluation reserve (results) attributed to this property remains.

20.8. when assets are transferred from other classes of non-current tangible assets, where they were accounted for at the revalued amount, into the investment property class, where they will be accounted for at fair value, if a portion of revaluation reserve (results) is attributed to these assets at the time of the transfer.

21. If revaluation reserve (results) is reduced due to impairment of previously revalued assets, the revaluation reserve (results) is reduced by the amount of assets impairment. If the amount of asset impairment exceeds the amount of revaluation (results) reserve attributed to this asset, a reduction of revaluation reserve (results) and impairment loss shall be recorded in accounting.

22. When revaluation reserve (results) is reduced as a result of a write-off, disposal or other transfer of revalued assets, in accounting records the revaluation reserve (results) is reduced only by the amount attributed to particular assets. The amount, by which the revaluation reserve (results) is reduced, is added to retained earnings (deducted from losses).

23. When revalued assets are depreciated, in accounting records revaluation reserve (results) is reduced. This reserve (results) is reduced by the amount, by which depreciation expenses have increased due to revaluation of assets. The amount, by which revaluation reserve (results) is reduced, is added to retained earnings (deducted from losses).

24. The portion of revaluation reserve (results) attributed to non-current assets of indefinite useful life cannot be reduced, except for cases when such assets impair, are disposed or transferred to another entity, or the authorised capital is increased by the revaluation reserve (results). Therefore, accounting entries made upon reducing the portion of revaluation reserve (results) attributed to non-current assets of indefinite useful life are the same as upon reducing the portion of revaluation reserve (results) attributed to assets of finite useful life.

25. If revaluation reserve (results) is reduced due to depreciation of investment property, which is accounted for at the acquisition cost and which was transferred into the investment property class from other classes of non-current tangible assets where it was accounted for at the revalued amount, in accounting records revaluation reserve (results) is reduced by the amount, by

which depreciation expenses increased due to revaluation of assets. The amount, by which revaluation reserve (results) is reduced, is added to retained earning (deducted from losses).

26. If revaluation reserve (results) is reduced due to impairment of investment property, which is accounted for at the acquisition cost and which was transferred into the investment property class from other classes of non-current tangible assets where it was accounted for at the revalued amount, in accounting records revaluation reserve (results) is reduced by the amount of impairment of assets. If the amount of impairment exceeds the amount of revaluation (results) reserve attributed to this property, a reduction of revaluation reserve (results) and impairment loss shall be recorded in accounting.

27. If revaluation reserve (results) is reduced due to selection of the fair value method for accounting for investment property when assets are transferred from other classes of non-current tangible assets, where they were accounted for at the revalued amount, into the investment property class, in accounting records revaluation reserve (results) is reduced by the remaining portion of revaluation reserve (results) attributed to the transferred assets. The amount by which the revaluation reserve (results) is reduced is added to retained earning (deducted from losses).

VII. ACCOUNTING FOR LEGAL RESERVE

28. A legal reserve is formed from distributable profit. This reserve is formed and used in the manner established by laws. Upon formation of the reserve, a reduction in retained earnings and an increase in the legal reserve are recorded in accounting. Having used the reserve for covering losses, a reduction in losses and legal reserve is recorded in accounting. When a legal reserve is reduced in other cases established by legal acts, a reduction of the legal reserve and increase in retained earnings is recorded.

VIII. ACCOUNTING FOR RESERVE FOR ACQUIRING OWN SHARES

29. After determining the amount payable for planned acquisition of own shares, a reserve for acquiring own shares is formed in the manner established by laws. For the purpose of recording this reserve in accounting, retained earnings are reduced by the same amount by which the reserve for acquiring own shares is increased.

30. In accounting acquired own shares are recorded in the account which is contrary to the authorised capital account, respectively recording a reduction in cash or other assets, or a liability.

31. If after acquisition of own shares the reserve for acquiring own shares exceeds the acquisition cost of acquired shares, it can be reduced in the manner established by laws. For the purpose of recording the reduction of this reserve in accounting, retained earnings are increased respectively.

32. The reserve for acquiring own shares cannot be distributed as long as a company holds its own shares. After annulment or disposal of own shares, the reserve for acquiring own shares is reduced in the manner established by laws. When the decision is taken to cancel the reserve, the reduction of the reserve for acquiring own shares and the increase of retained earnings are recorded in accounting.

33. Profit or loss resulting from disposal of own shares is registered in the account of retained earnings (losses).

IX. ACCOUNTING FOR OTHER RESERVES

34. Other reserves are formed, increased and reduced in the manner established by laws and Articles of Association of an entity. Once the owners pass a decision to form or cancel reserves, an increase (reduction) of reserves is recorded in accounting, simultaneously reducing (increasing) retained earnings by the same amount.

35. When the total amount (or a part) of bonuses, tantiemes and other payments, for which the reserve was formed by the decision of owners, is computed, it is included into expenses and presented in the income statement of the reporting period, while the reserve is cancelled by increasing retained earning upon a decision of owners.

X. ACCOUNTING FOR RETAINED EARNINGS

36. In accounting retained earnings are reduced when recording losses of the reporting period; when owners pass a decision on profit distribution; when own shares are sold at a price lower than their acquisition price; when recording effects of correction of material errors and changes of accounting policies; when recording the amount of expenses directly attributable to emission of shares that exceeds the amount of share premium related to it; and in other cases established by legal acts.

37. Profit distribution is recorded when the owners pass a respective decision regardless of the profit earning period.

38. In accounting retained earnings are increased when recording net profit of the reporting period; upon passing a decision to reduce or cancel previously formed reserves; when own shares are sold at a price exceeding their acquisition price; when recording effects of correction of material errors and changes of accounting policies; by the amount of revaluation reserve attributable to the depreciated portion of revalued assets; and in other cases established by legal acts.

39. In accounting retained losses are reduced when recording net profit of the reporting period; upon receipt of owners' contributions to cover the losses; when a decision is passed to cover losses from reserves or to reduce the authorised capital by the amount of losses; when recording effects of correction of material errors and changes of accounting policies; and by the amount of revaluation reserve attributable to the depreciated portion of revalued assets.

40. In accounting retained losses are increased when recording losses of the reporting period; recording effects of correction of material errors and changes of accounting policies; also when recording the amount of expenses directly attributable to emission of shares that exceeds the amount of share premium related to it.

XI. EQUITY OF STATE ENTERPRISES

41. Equity of a state enterprise comprises:

41.1. owner's capital;

41.2. capital corresponding to assets which under laws can be owned only by the State;

41.3. revaluation reserve (results);

41.4. legal reserve;

41.5. other reserves;

41.6. retained earnings (losses).

42. In accounting the equity of a state enterprise is recorded as follows:

42.1. owner's capital – as established by this section;

42.2. capital corresponding to assets which under laws can be owned only by the State – as established by this section;

42.3. revaluation reserve (results) – as established by section VI of this Standard;

42.4. legal reserve – as established by section VII of this Standard;

42.5. other reserves – as established by section IX of this Standard;

42.6. retained earnings (losses) – as established by section X of this Standard.

43. Upon establishment of a state enterprise, its owner's capital is recorded in accounting after the enterprise is registered in the manner established by laws. The owner's capital is equal to the value of assets transferred to the entity, excluding grants and assets which under laws can be owned only by the State, that is specified in the transfer-acceptance deed.

44. In accounting the owner's capital is increased if a cash contribution and (or) assets, excluding grants and assets which under laws can be owned only by the State, are transferred to the state enterprise in the manner established by legal acts. An increase in the owner's capital is equal to the amount of the cash contribution and (or) the value of assets specified in the transfer-acceptance deed.

45. In accounting the owner's capital is reduced if the assets previously transferred to the state enterprise are returned to the owner or upon the owner's instruction are transferred to another party in the manner established by legal acts.

46. The capital corresponding to assets which under laws can be owned only by the State comprises only the value of assets, which under laws can be owned only by the State and which were transferred to the enterprise in a manner established by laws to manage, use and dispose under trust right, or a cash contribution to construct such assets. The acquisition cost of assets received under the trust right, which under laws can be owned only by the State, is equal to that specified in the transfer-acceptance deed.

47. Upon establishment of a state enterprise, its capital corresponding to assets which under laws can be owned only by the State is recorded in accounting when such assets or a cash contribution to construct them is transferred under the trust right to the enterprise in the manner established by laws. The capital corresponding to assets which under laws can be owned only by the State is recorded in accounting only after the state enterprise is registered in the manner established by laws.

48. Upon the decision of the owner of a state enterprise to transfer to it under the trust right assets which under laws can be owned only by the State, or to transfer a cash contribution to construct such assets, or to increase the value of such assets by the amount of repair work, an increase in the capital corresponding to these assets is recorded in accounting when the assets or the cash contribution are transferred or the work leading to the increase in their value is finished in the manner established by laws. The increase in this capital is equal to the amount of the cash contribution and (or) the value of assets and (or) finished work leading to the increase in the value of assets, as specified in the transfer-acceptance deed.

49. In accounting a reduction of capital corresponding to assets which under laws can be owned only by the State is recorded:

49.1. when assets, which under laws can be owned only by the State, are depreciated if such assets are not directly used to earn income of the enterprise;

49.2. upon impairment of assets, which under laws can be owned only by the State, if such assets are not directly used to earn income of the enterprise;

49.3. when assets, which under laws can be owned only by the State, are returned to the owner or are transferred to another party following the instruction of the owner;

49.4. when assets, which under laws can be owned only by the State, are recognised as obsolete and are written off in the manner established by legal acts, if such assets are not directly used to earn income of the enterprise;

49.5. when a cash contribution to construct assets, which under laws can be owned only by the State, is used improperly and (or) is returned to the owner of the enterprise.

50. If assets, which under laws can be owned only by the State, were received under the trust right and included into the owner's capital of a state enterprise before the reporting period when this Standard was adopted, then upon the first-time application of this Standard the owner's capital shall be reduced by the carrying amount at the beginning of the reporting period of assets received under the trust right, which under laws can be owned only by the State, and the capital corresponding to these assets shall be increased respectively, if legal acts do not establish otherwise.

51. If before the adaptation of this Standard depreciation of assets, which under laws can be owned only by the State, was registered in off balance sheet accounts, the accumulated depreciation amount at the beginning of the reporting period is recorded in accounting by increasing the accumulated depreciation of these assets and reducing the capital corresponding to assets which under laws can be owned only by the State, if legal acts do not establish otherwise.

XII. DISCLOSING INFORMATION IN FINANCIAL STATEMENTS

52. The following information shall be presented in complete explanatory notes:
52.1. the structure of authorised capital of a company specifying all classes of shares;
52.2. the following information shall be provided about each class of shares:
52.2.1. the number of shares;
52.2.2. the par value of shares;
52.2.3. if there was a new issue of shares during the reporting period:
52.2.3.1. the emission price of shares;
52.2.3.2. the amount and nature of expenses directly attributable to the new issue of shares;
52.2.4. the number of shares issued and paid up;
52.2.5. the number of shares issued and not yet paid up;
52.2.6. rights and (or) restrictions related to shares;
52.2.7. the number of shares held by subsidiaries;
52.2.8. the number of shares held by associates;
52.2.9. the number of own shares.
52.3. changes, if any, and the reasons for such changes in the owner's capital of a state enterprise or in the capital corresponding to assets which under laws can be owned only by the State;
52.4. dividends on cumulative preference shares, which cannot be paid from the portion of the profit allocated for the payment of dividends;
52.5. a draft profit distribution;
52.6. the purpose of formation, nature and restrictions for use of each reserve.

XII. FINAL PROVISIONS

53. The revised version of this Standard shall be effective for financial statements covering periods beginning on or after 1 January 2006. It may also be applied in preparing financial statements of the earlier reporting period.