Analysis of Financial Reporting in Lithuania

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ABSTRACT The adoption of the International Financial Reporting Standards (IFRS) is supported in many countries inside and outside the European Union because it may improve the quality and comparability of financial reporting. In addition to the use of IFRS by listed companies and in some countries also by unlisted companies, many countries have developed their own national accounting standards based on the international ones. Although the national standards are based on IFRS, they are not identical. This paper analyses financial reporting in Lithuania and the Lithuanian Business Accounting Standards (LBAS) for the preparation and presentation of financial statements. Moreover, it discusses the main differences and similarities between International Accounting Standard 1 'Presentation of Financial Statements' and the first six LBAS related to the preparation and presentation of financial statements in Lithuania.

1. Introduction

The growth in international trade and free flow of capital have become the major driver for harmonization of financial statements and the convergence of national and international accounting standards. Fully compatible financial reporting standards would significantly improve the efficiency of global capital markets [1,2,3]. The European Union (EU) Regulation 1606/2002 requires all listed companies of the member states to prepare consolidated financial statements based on the International Financial Reporting Standards (IFRS) for accounting periods beginning on or after 1

January 2005 [4]. Aside from this, many countries inside and outside the EU have seen the value of voluntarily adopting IFRS and developing their own national accounting regulations based on the international standards and in conjunction with the International Accounting Standards Board (IASB) to facilitate the convergence of accounting standards [9, 14].

Since the restoration of independence in 1990, Lithuania has been rapidly moving to the worldwide market. Its accounting system has changed considerably. In 1997, when the International Accounting Standards (IAS) were translated into Lithuanian by the Accounting Institute of the Republic of Lithuania, an active campaign regarding the preparation of national accounting standards based on the international ones was launched. On 6 November 2001, the Seimas (parliament) of the Republic of Lithuania passed three Laws regulating the accounting system: the Republic of Lithuania Accounting Law, the Law on Financial Statements of Entities and the Law on Consolidated Financial Statements [6,7,8].

In May 2004 Lithuania joined the European Union. The adoption of the International Financial Reporting Standards has considerably influenced Lithuanian accounting legislation and practice. The Republic of Lithuania Accounting Law prescribes that entities, whose securities are traded on a EU regulated market from 1 January 2005, have to prepare their financial statements in accordance with IAS/IFRS (Republic of Lithuania Accounting Law, Article 3) [6].

Lithuania has also prepared the national accounting standards that are called the Lithuanian Business Accounting Standards (LBAS) [5]. Since 2002 thirty-seven Lithuanian Business Accounting standards have been developed; twenty-nine of them are based on IFRS. According to the Republic of Lithuania Accounting Law (Article 4), since 1 January 2004, limited liability profit-seeking entities are required to comply with the LBAS [6].

2. Financial Reporting and the LBAS Regulating its Preparation

The LBAS are principle-based standards and their principal provisions are consistent with IAS/IFRS. They prescribe main requirements for financial statements and accounting policies for particular accounting areas. The Republic of Lithuania Law on Financial Statements of Entities (RL LFSE) sets up the following financial statements: Balance Sheet; Profit (Loss) Statement; Cash Flow Statement; Statement of Changes in Equity; and Explanatory Notes. The RL LFSE also establishes the main requirements for the compilation of financial statements [7].

According to the Republic of Lithuania Law on Financial Statements of Entities, there are the following requirements for the compilation of financial statements:

1. At the beginning of financial reports, the following particulars must be given:
   a) Name, code and address of the registered office of an entity;
   b) Date of financial statements;
   c) The level of precision used in the presentation of figures (indicators) in financial statements (it shall be specified whether the indicators are expressed in litas, thousands of litas, etc).

2. The financial statements of an entity must preserve headings of the items given in sample reports, numbering and ordering thereof.
3. Entities shall draw up annual financial statements at the end of their financial year.
4. Entities shall draw up interim financial statements where necessary or on a periodic basis specified by other legal acts. Newly registered entities shall draw up a balance sheet of the commencement of economic activities indicating the assets, equity and liabilities of an entity at the commencement of activities.
5. Financial statements shall be drawn up using the monetary unit of the Republic of Lithuania (the litas).
6. Financial statements shall be drawn up in the Lithuanian language and, where necessary, in a foreign language.
7. All economic operations and economic events of an entity must be accounted prior to the drawing up of financial statements.
8. Accounting data shall be based on the data of the stocktaking of assets and liabilities. The procedure for stocktaking shall be set forth by the Government or an institution authorised by it.
9. The financial year of an entity shall last 12 months. Entities shall select the financial year by taking account of the nature of their activities. The financial year may be changed due to a change of the nature of activities of an entity (not more than once per five years) or due to consolidation of financial statements (in this case, a subsidiary undertaking shall be allowed to change the financial year and to agree it with the financial year of a parent undertaking) [7].

The Framework for the preparation and presentation of financial statements in Lithuania is LBAS 1 'Financial Statements'. It is very similar to the IASB Framework for the preparation and presentation of financial statements. It prescribes the basic concepts by which financial statements are prepared, and provides definitions, short descriptions of the financial statements, evaluation methods of the elements of statements and reference to other standards, where accounting requirements for the above financial statements are determined. However, it does not define main users of financial reporting.

According to LBAS 1 (Article 16), the elements of financial statements can be measured by using a number of different measurement bases:

1. Historical cost;
2. Fair value;
3. Net realizable value;
4. Net selling price;
5. Present value;
6. Value in use;
7. Amortised cost.

In financial statements the majority of elements are carried by entities at historical costs, unless the Business Accounting Standards establish otherwise. The entities are

free to select the measurement bases of the elements of financial statements on their own discretion if such methods are not established by the LBAS.

More detailed provisions for each statement are written in separate standards such as LBAS 2 'Balance Sheet', LBAS 3 'Income Statement', LBAS 4 'Statement of Changes in Equity', LBAS 5 'Cash Flow Statement' and LBAS 6 'Explanatory Notes'. Note that LBAS 6 defines Explanatory Notes as a separate statement, whereas according to IAS 1 'Presentation of Financial Statements', Explanatory Notes only explain and analyse items in Balance Sheet, Income Statement, Statement of Changes on Equity, and Cash Flow Statement. According to the both standards LBAS 6 and IAS 1, Explanatory Notes comprise three parts: general part, accounting policy and notes. However, the requirements for Explanatory Notes in LBAS 6 are more detailed than in IAS 1. In contrast to IAS 1, LBAS 6 prescribes what information should be disclosed in each part of Explanatory Notes.

LBAS 2, LBAS 3, LBAS 4, LBAS 5 and LBAS 6 include requirements for the preparation and presentation of annual financial statements, composition and general requirements for their scope. For instance, LBAS 2 'Balance Sheet' prescribes how the information about the company's assets, equity and liabilities has to be presented, classified and disclosed on the balance sheet. Furthermore, it gives detailed definitions of a balance sheet, an asset, non-current assets, reserves, a revaluation reserve etc. In addition, LBAS 2 prescribes different forms of a balance sheet for different types of entities and also provides the examples of the following balance sheet forms:

1. Complete form of the balance sheet (86 items)
2. Short form of the balance sheet (21 items)
3. Agriculture company's complete form of the balance sheet (94 items)
4. Agriculture company's short form of the balance sheet (25 items)
5. State and municipality entity form of the balance sheet (78 items)

The standard also gives the possibility to present additional line items in the balance sheet if necessary.

The important difference between IAS 1 'Presentation of Financial Statements' and LBAS 2 'Balance Sheet' is that the former does not prescribe the format of a balance sheet and the order in which balance sheet items need to be presented. According to LBAS 2 'Balance Sheet', it is compulsory that assets and liabilities are grouped into non-current assets, current assets, non-current liabilities and current liabilities (the Complete Form of the Balance Sheet can be found in Appendix I). Whereas according to IAS 1, there is also a possibility to apply exception when the presentation of items in a balance sheet is based on liquidity providing information that is reliable and more relevant. We believe that differences in disclosure and the presentation of what is disclosed between companies make it difficult to compare financial statements of companies.

IAS 1 prescribes requirements only for a complete set of financial statements, while the LBAS define not only a complete set of financial statements, but also a short one that does not include Cash Flow Statement. The short set of financial statements comes from the Law on Financial Statements of Entities of the Republic of Lithuania. According to this Law (Article 24), the short form of financial statements can be presented by entities that do not exceed the limit of two of the following criteria on the Balance Sheet day within two years:

1. Balance sheet total: 5 million litas;
2. Net income: 7 million litas;
3. Average number of employees during the financial year: 10 people.

Please note that the litas was pegged to the Euro on 2 February 2002 at a fixed exchange rate 3,4528 litas per 1 Euro[15]. Additionally, entities compiling a short set of financial reports may also prepare short Explanatory Notes.

There is also a difference between IAS 1 'Presentation of Financial Statements' and LBAS 3 'Income Statement'. LBAS 3 gives only one structure of Income statement, whereas according to IAS 1, entities may present an analysis of expenses using classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant and encourages entities to present information on the face of Income Statement, and also allows presenting some information in notes. There are also other differences between IAS 1 and the LBAS, for instance, according to LBAS 4 'Statement of Changes in Equity', all entities are required to provide Statement of Changes in Equity, whereas IAS 1 'Presentation of Financial Statements' allows presenting Statement of Changes in Equity or Statement of Recognised Income and Expense.

3. Conclusion

To sum up, the LBAS are the national accounting standards that are aimed at regulating the issues of accounting, which are topical for Lithuania. Therefore, the national standards, while being based on IFRS, are not word-for-word copy thereof. One of the most important differences is that the LBAS are more detailed than IFRS, written in a simpler language and adapted for small and medium-sized entities. Also, the LBAS provide the sample reporting forms of financial statements for different types of entities so that there are different forms of financial statements for agriculture companies, state and municipality entities and other limited profit-seeking entities. The scope of the annual financial reporting depends on the type and size of an entity. Micro entities, which fulfil the requirements set by the Law on Financial Statements of Entities of the Republic of Lithuania, can present the short set of financial statements (the classification of Lithuanian enterprises by size can be found in Appendix II). The responsibility for entity's financial statements shall rest upon the head of the entity.

Appendix I

Complete Form of the Balance Sheet

_____

(enterprise name)

_____

(enterprise identification number, address, other information)

APPROVED
Minutes No _____
____ _____20__

BALANCE SHEET

___ _____ 20___

(reporting period)

(reporting currency and level of its accuracy)

	ASSETS	Note No.	Financial year	Previous financial year
A.	**NON-CURRENT ASSETS**		**0**	**0**
I.	INTANGIBLE ASSETS		0	0
I.1.	Development works			
I.2.	Goodwill			
I.3.	Licences and patents			
I.4.	Computer software			
I.5.	Other intangible assets			
II.	TANGIBLE ASSETS		0	0
II.1.	Land			
II.2.	Buildings and constructions			
II.3.	Plant and equipment			
II.4.	Vehicles			
II.5.	Other property, plant and equipment			
II.6.	Construction in progress			
II.7.	Other tangible assets			
II.8.	Investment assets		0	0
II.8.1.	Land			
II.8.2.	Buildings			
III.	FINANCIAL ASSETS		0	0
III.1.	Investments in subsidiaries and associates			
III.2.	Loans to subsidiaries and associates			
III.3.	Amounts receivable after one year			
III.4.	Other financial assets			
IV.	OTHER NON-CURRENT ASSETS		0	0
IV.1.	Deferred tax assets			
IV.2.	Other non-current assets			
B.	**CURRENT ASSETS**		**0**	**0**
I.	INVENTORIES, PREPAYMENTS AND CONTRACTS IN PROGRESS		0	0
I.1.	Inventories		0	0
I.1.1.	Raw materials and components			
I.1.2.	Work in progress			
I.1.3.	Finished products			
I.1.4.	Goods for resale			
I.2.	Prepayments			
I.3.	Contracts in progress			
II.	AMOUNTS RECEIVABLE WITHIN ONE YEAR		0	0
II.1.	Trade amounts receivable			
II.2.	Receivables from subsidiaries and associates			
II.3.	Other amounts receivable			
III.	OTHER CURRENT ASSETS		0	0
III.1.	Current investments			
III.2.	Time deposits			
III.3.	Other current assets			
IV.	CASH AND CASH EQUIVALENTS			
	TOTAL ASSETS:		**0**	**0**

	EQUITY AND LIABILITIES	Note No.	Financial year	Previous financial year
C.	**EQUITY**		**0**	**0**
I.	CAPITAL		0	0
I.1.	Authorised (subscribed)			
I.2.	Subscribed uncalled share capital (-)			
I.3.	Share premium			
I.4.	Own shares (-)			
II.	REVALUATION RESERVE (RESULTS)			
III.	RESERVES		0	0
III.1.	Legal reserve			
III.2.	Reserve for acquiring own shares			
III.3.	Other reserves			
IV.	RETAINED EARNINGS (LOSSES)		0	0
IV.1.	Profit (loss) of the reporting year			
IV.2.	Profit (loss) of the previous year			
D.	**GRANTS AND SUBSIDIES**			
E.	**AMOUNTS PAYABLE AND LIABILITIES**		**0**	**0**
I.	NON-CURRENT AMOUNTS PAYABLE AND LIABILITIES		0	0
I.1.	Financial debts			
I.1.1.	Leases and similar obligations			
I.1.2.	To credit institutions			
I.1.3.	Other financial debts			
I.2.	Trade amounts payable			
I.3.	Amounts received in advance			
I.4.	Provisions		0	0
I.4.1.	For covering liabilities and demands			
I.4.2.	For pensions and similar obligations			
I.4.3.	Other provisions			
I.5.	Deferred tax liabilities			
I.6.	Other amounts payable and non-current liabilities			
II.	CURRENT AMOUNTS PAYABLE AND LIABILITIES		**0**	**0**
II.1.	Current portion of non-current debts			
II.2.	Financial debts		0	0
II.2.1.	To credit institutions			
II.2.2.	Other debts			
II.3.	Trade amounts payable			
II.4.	Amounts received in advance			
II.5.	Profit tax liabilities			
II.6.	Liabilities related with labour relations			
II.7.	Provisions			
II.8.	Other amounts payable and current liabilities			
	TOTAL EQUITY AND LIABILITIES:		**0**	**0**

_____ _____ _____

title of the head of enterprise administration (signature) (full name)

_____

date

Appendix II

Table 1 *Classification of enterprises by size based on the Republic of Lithuanian Law On Small and Medium-Sized Business* [19, 20]

Category	Number of employees	Maximum turnover/maximum balance sheet	Independence*
A medium-sized enterprise	Less than 250	Maximum turnover EUR 40 million or maximum balance sheet EUR 27 million	Independent
A small enterprise	Less than 50	Maximum turnover EUR 7 million or maximum balance sheet EUR 5 million	Independent
A micro-enterprise	Less than 10	Maximum turnover EUR 2 million or maximum balance sheet EUR 1.4 million	Independent

* Independent enterprises are all enterprises, except those whose 1/4 or more of the authorised capital or voting rights belong to one or several enterprises, which are not SMEs.

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