**Financial Reporting in Lithuania**

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*Abstract: -* Small-and-medium sized enterprises (SMEs) are a driving force of each economy. This chapter deals with the current stage of financial reporting for SMEs in Lithuania. Due to the globalization of business and international harmonization of financial reporting also Lithuania experiences a shift in paradigms from historical costs accounting towards fair value measurement. Chapter provides an analysis between national accounting legislature and standard IFRS for SMEs.

*Key-Words: -*Financial reporting, International harmonization, Measurement, Financial statements, Small and Medium Sized enterprises (SMEs), Lithuania.

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| --- | --- | --- |
| mapa-litva.gif | ***Country*** | |
|  | Lithuania  *(Lietuva)* |
| ***Location*** | |
|  | Baltic country (North-Eastern Europe) |
| ***Area*** | |
|  | 65,300 km2 |
| ***Population*** | |
|  | 3,545,319 (2010 est.) |
| ***Member of European Union*** | |
|  | since 1st May 2004; Schengen country |
| ***Currency*** | |
|  | litas (LTL); 3.451 LTL/EUR (as at 31.12.2010) |

**1 Country Introduction**

**Lithuania** (Lietuvos Respublika) is a country in Northern Europe, the southernmost of the three Baltic states. Situated along the southeastern shore of the Baltic Sea, it shares borders with Latvia to the north, Belarus to the southeast, Poland and the Russian exclave of Kaliningrad to the southwest. Its capital and largest city is Vilnius. The population of Lithuania stands at 3,349,900, of whom 83.1% are ethnic Lithuanians who speak Lithuanian, which is the official language of the country. Several sizable minorities exist such as Poles (6.0%), Russians (4.8%), Belarusians (1.1%) and Ukrainians (0.6%).

For the first time the name Lithuania was mentioned in 1009 AD in a medieval Prussian manuscript, the Quedlinburg Chronicle. In the 13th century AD, the Grand Duchy of Lithuania was created by Mindaugas who united the lands inhabited by the Lithuanians, Samogitians, Jotvingians and Couronians. In the middle ages (1392–1430), the Grand Duchy of Lithuania became the largest state in Europe. Its borders stretched from the Baltic to the Black Sea and almost to Moscow. For the next four centuries, Lithuania gradually became dominated by Poland, until 1795 when the Russian-Prussian-Hapsburg alliance made the third and final partition of Poland and Lithuania became a province of Russia. Lithuania achieved its independence only in February 1918, and between 1920 and 1923 the Republic of Lithuania had been recognized by the major countries. It remained independent until 23 August 1939, when Germany and the USSR signed the so-called Molotov-Ribbentrop Pact, in which Lithuania was the first in the sphere of influence of Germany and then, following the Soviet Agreement of 28 September 1939, fell under the rule of the USSR [1]. After the occupation by Nazi Germany, the Soviet order was re-established in Lithuania in 1944 when the Red Army forced Nazi German out of Lithuania. On 11 March 1990, Lithuania was the first of the Soviet Republics to declare its independence; it regained statehood and joined the community of nations. In October 2002, Lithuania was invited to join the European Union (EU), and in May 2004 it became a member of the EU.

In 2003, before joining the European Union, Lithuania had the highest economic growth rate amongst all the candidate and member countries. Most of the trade of Lithuania is within the European Union. By the UN classification, Lithuania is a country with a high average income. The country boasts a well developed modern infrastructure of railways, airports and four-lane highways. As of October 2008, the unemployment rate is 4.7%. According to officially published figures, EU membership fueled a booming economy, increased outsourcing into the country, and boosted the tourism sector. Litas, the national currency, has been pegged to the euro since 2 February 2002 at the rate of EUR 1.00 = LTL 3.4528 and Lithuania is expecting to switch to the euro on 1 January 2014. Lithuania is part the EU single market.

Structurally, there is a gradual but consistent shift towards a knowledge-based economy with special emphasis on biotechnology (industrial and diagnostic) as well as laser equipment. Major biotechnology producers in the Baltic countries are concentrated in Lithuania. Also, mechatronics and information technology (IT) are seen as prospective knowledge-based economy directions in Lithuania. In 2009, "Barclays" bank IT centre appeared in Lithuania, and in 2010 IBM Company with the Lithuanian government decided to set up a research center there. Also, the first solar cell plant has been opened in Lithuania, and "Western Union" decided to establish a money transfer centre there in 2010. The Lithuanian government strategy is as follows: Lithuanian economy is the production of high added value products and services.

Lithuania has a flat tax rate rather than a progressive scheme. Lithuanian income levels are lower than in the older EU Member States. According to Eurostat data, Lithuanian PPS GDP per capita stood at 61 per cent of the EU average in 2008. Lower wages have been a factor that in 2004 fueled emigration to wealthier EU countries, something that has been made legally possible as a result of accession to the European Union.

Prior to the global financial crisis of 2007–2010, Lithuania had one of the fastest growing economies in the European Union. Lithuania is a member of NATO, the Council of Europe, and Lithuania became a full member of the Schengen Agreement on 21 December 2007. In 2009, Vilnius was the European Capital of Culture and Lithuania celebrated the millennium of its name.

**2 Legal System**

Since 1990, the legal system of Lithuania has been reformed to meet the demands of the vast social and economic changes brought about by a return to democracy and a free market economic system.

The Republic of Lithuania is an independent democratic state and its legal system is based on the legal traditions of **continental Europe**. The foundation of the social system is enforced by the Constitution of the Republic of Lithuania, which was adopted in 1992 by referendum. The Constitution establishes the rights, freedoms and duties of citizens. Also, under the Constitution of the Republic of Lithuania, the sovereign state power of Lithuania is exercised by the Seimas (Parliament), the President of the Republic, the Government and the Courts.  The chief of the Republic of Lithuania is the president who is directly elected by the people and serves a five-year term. The head of the government is the premier, who is formally appointed by the president (subject to approval by the parliament).

Since Lithuania has declared its independence, there has been a large scale of complicated changes faced by the national economy in the process of changeover from a state ownership to a private one. Many new entities, especially medium and small-sized, were established and Lithuania has been continuing the growth into an economically strong country. The Republic of Lithuania Law on Small and Medium-sized Business Development defines four types of entities in Lithuania: large, medium, small and micro [3] (see Table 1).

***Table 1.*** Classification of Enterprises by Size Based on the Republic of Lithuanian Law on Small and Medium-Sized Business

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Type | **Recognition criteria** | | | | |
| **Lithuanian legislation** | | | **Recommendations of the European Commission** | |
| **Number of employees, people** | **Annual income, LTL million** | **Balance sheet value of assets, LTL million** | **Number of employees, people** | **Annual turnover and/or balance sheet amount, EUR million** |
| Large | ≥ 250 | ≥ 138 | ≥ 93 | > 250 | Turnover > 50,  balance > 43 |
| Medium | < 250 | < 138 | < 93 | < 250 | Turnover < 50,  balance < 43 |
| Small | < 50 | < 24 | < 17 | < 50 | < 10 |
| Micro | < 10 | < 7 | < 5 | < 10 | < 2 |

Source: [3]

 According to the Department of Statistics of the Republic of Lithuania, the number of Small and Medium-sized Enterprises (SMEs) is constantly growing. By 1 January 2008, there were 63,187 active SMEs in Lithuania. This number increased by 7,362, or 13.2 percent, as compared to the number of SMEs in 2004. Also, the significance and contribution by small and medium enterprises to the national economy increase each year. In Lithuania, small and medium sized enterprises account for more than 99 percent of the total number of active enterprises. They produce about 60 percent of the gross value added, generated by all Lithuania’s enterprises, and provide jobs for more than 70 percent of all the employed [4].

Taking into account the contribution of SMEs to the national economy of Lithuania, the Government of the Republic of Lithuania has tried to create not only the best possible conditions for the establishment of new SMEs but also to encourage a further development and vitality of the already operating ones, e.g. on 19 October 2005, the Government of the Republic of Lithuania approved the Strategic Guidelines for Small and Medium-sized Business Development (Resolution No 1104). According to the Resolution, the following medium-term development trends of Small and Medium-sized Business (SMB) were defined in the Strategic Guidelines for SMB Development:

* to improve the legal and economic environment for SMB;
* to improve financial assistance for SMB;
* to encourage entrepreneurship in regions;
* to promote competitiveness of SMB entities [5].

Also, on 5 February 2010 the European Investment Fund (EIF) and Swedbank Lithuania signed an agreement under which Swedbank will provide loans worth EUR 104 million (over LTL 359 million) to small and medium sized enterprises in Lithuania.  The agreement will accelerate lending to Lithuanian SMEs during the current economic recession for the benefit of local businesses and contribute to higher investment activities of those companies [6, 13].

However, there are some challenges that this business sector faces. In 2001, the biggest business constraints for SMEs were low purchasing power, high taxes and the lack of working capital. In 2005, the businessmen of the sector pointed out that the major obstacles for the development of SMEs are high taxes and severe competition; and in 2007 one of the main problems mentioned was the lack of high-skilled specialists [7].

**2.1 Business Law**

The procedure for the incorporation of limited civil liability companies is governed by the Law on Companies of the Republic of Lithuania (No VIII-1835). The Law regulates the incorporation, management, activities, reorganization, transformation, split-off and liquidation of the companies having the legal form of a public or private limited liability company, the rights and duties of the shareholders, as well as establishment of branches of foreign companies and termination of their activities. When the provisions of this Law apply to a limited liability company, both public and private, the term “company” shall be used. The provisions of the Law are brought in line with the legal acts of the European Union specified in the Annex to the Law.

The authorized capital of a public company shall be not less than LTL 150,000. Its shares may be offered or traded publicly in accordance with legal acts governing the securities market.

The authorized capital of a private company shall be not less than LTL 10,000, and a company shall have not more than 250 shareholders. Shares of a private company shall not be offered or traded publicly unless the laws provide differently.

**2.2 Accounting Law**

Pursuant to the Law on Accounting, accounting of an entity shall be handled by the following:

* an accounting service of an economic entity
* a company rendering accounting services under a contract
* the head of an individual enterprise. (This provision shall apply to unlimited civil liability legal persons with a sole owner, notaries, lawyers and natural persons holding patents.)
* farmer and farmer’s partners

The chief accountant (accountant) and the accounting company shall be responsible for accuracy of accounting entries for the timely submission of financial reports. The responsibility of the chief accountant (accountant) shall be defined by legal acts of the Republic of Lithuania. The responsibility of the accounting company shall be defined in a written agreement concluded with the customer.

The accounting department shall be run by the chief accountant. All instructions of the chief accountant with regards to the management of accounts shall be binding upon all staff of the entity and of the accounting department in particular. The chief accountant, in concert with highly experienced accounting staff, shall

* develop the organizational chart of the accounting department and the program of accounting works
* define the flows of accounting information and their users, and also the system of the turnover of documents
* take care of installation and dislocation of the workstations for the accounting staff
* create good microclimate and favorable working conditions

Particular attention is devoted to the accounting documents and registers. Pursuant to the Law on Accounting, the head of an economic entity shall approve a list of persons who are authorized to issue and sign or only to sign accounting documents, and the sample signatures of these persons. Accounting documents shall be signed personally or under the procedure established by the Law on Electronic Signature. Timely and accurate issue of accounting documents, authenticity of data thereof and legitimacy of economic transactions shall be the responsibility of persons who have issued and signed the accounting documents. The form, contents and number of the accounting registers shall be set by an economic entity according to its needs. Accounting documents and registers shall, until the approval of financial statements, be stored under the procedure established by the head of an economic entity, ensuring safety of the documents. After the approval of a financial statement, accounting documents and registers shall be stored under the procedure established by the head of an economic entity, observing the time limits of documents storage set by the Government. When accounting documents or accounting registers disappear or are partially or wholly damaged the person who lost or damaged them shall write an explanation to the head of an economic entity. The head of an economic entity shall make a decision on the restoration of the documents under the procedure established by the Government.

As mentioned before, the chief accountant (accountant) and the accounting company shall be responsible for accuracy of accounting entries for the timely submission of financial statements. It should be noted that the responsibility for the general organization of accounting and storage of the accounting documents shall rest upon the head of the entity.

Lithuania’s chart of accounts is of two levels: specimen and individual. Pursuant to the Accounting Law, the specimen chart of accounts is developed, approved and published in “Valstybes Zinios” (Official Gazette) by the Audit and Accounting Authority. Each entity shall develop its own chart of accounts. The chart of accounts shall be approved by the head of that entity. Entities may prepare their individual chart of accounts according to their information needs, e.g. to reduce it, or supplement it introducing new more analytical accounts. Each entity, when preparing its individual chart of accounts, shall observe the general principles for the preparation of charts of accounts, i.e. the information received should satisfy the needs of both, external and internal users of information. Abridged Chart of Accounts is presented in Appendix IV.

Accounting policy shall comprise accounting principles, accounting methods and rules for handling an entity’s accounting, as well as compiling and presenting financial statements. The head of an entity must choose and implement an accounting policy taking into consideration specific business conditions, type of business, and invoking the Business Accounting Standards. Business Accounting Standards are based on principles and they are not influenced by taxation rules. All limited civil liability profit-seeking entities, which are registered in the Republic of Lithuania in accordance with the Law on Financial Statements of Entities, shall draw up annual financial reports at the end of their financial year. For taxation purposes, entities need to prepare tax declaration in accordance with the taxation rules.

**2.3 Tax Law**

After regaining the independence by Lithuania free market relations started coming into existence in the national economy, and the number of enterprises increased to a material extent. This naturally caused a necessity to accordingly modify the national tax administration system. Starting from 1990, significant efforts have been devoted to the development of a tax administration system that could meet the needs of the national economy. For quite an extended period of time the authorities could not reach a decision concerning which law should set the fundamentals of the taxation system and principal provisions of tax policy and the liability of tax payers. After long discussions the Law on Tax Administration was passed by the Seimas of the Republic of Lithuania on 28 June 1995.

Law of the Republic of Lithuania on Tax Administration shall establish the basic concepts and regulations, which must be observed in implementing the tax laws of the Republic of Lithuania, the basic principles of legal regulation of taxation, the list of taxes applied in the Republic of Lithuania, the functions, rights and obligations of the tax administrator, the rights and obligations of the taxpayer, the calculation and payment of taxes, the procedure of enforced recovery of taxes and related amounts as well as the procedure for the settlement of tax disputes. This Law also ensures the implementation of the EU legal acts regulating taxation. Article 13 of the Law on Tax Adminsitration defines the following taxes that shall be administered under this Law:

* value added tax;
* excise duty;
* personal income tax;
* immovable property tax;
* land tax;
* state natural resources tax;
* petroleum and gas resources tax;
* tax on environmental pollution;
* consular fees;
* stamp duty;
* inheritance tax;
* compulsory health insurance contributions;
* contributions to the Guarantee Fund;
* state-imposed fees and charges;
* lottery and gaming tax;
* fees for the registration of industrial property objects;
* corporate income tax;
* state social insurance contributions;
* excess quota tax on white sugar;
* quota sugar production tax;
* additional sugar production tax;
* customs duties;
* deductions from income under the Law of the Republic of Lithuania on
* Forestry;
* tax on the use of state property by the right of trust.

All of above mentioned taxes are regulated by a separate Law or other legal acts.

Starting from 2009, standard **VAT tax rate** has been 21%. The reduced VAT rate of 9% is applied to books and non-periodic information publications. Personal income of individuals (except dividends and other profit distributions) is subject to personal income tax at the standard rate of 15%. Dividends and other profit distributions are taxed at the personal income tax rate of 20%. Income received by an owner of an unlimited civil liability entity from the entity's taxable profits is taxed at 15%.

**3 Evolution of Accounting after 1989**

Since the restoration of independence in 1990, Lithuania has been rapidly moving to the worldwide market. Its accounting system has changed considerably. In the evolution of the Lithuanian accounting after 1990 the following stages can be recognized [2]:

* Accounting reorganisation necessities (1990–1991)
* Adoption of regulatory acts (1992–1995)
* Implementation and improvement of regulatory acts (1996–2001)
* Integration in the European system of accounting (2002–2007)
* Further development and improvement (2007–present)

The main challenges of the first stage were to determine how the Lithuanian accounting system should look like and what its key principles and characteristics should be in the new business environment. During this stage, the following events have taken place:

* On 7 September 1990, the Lithuanian Association of Accountants and Auditors was set up and its first congress was held on 30 November 1990. The congress adopted the appeal to the national government requesting to begin drafting the regulatory acts for the management of accounting.
* In November 1990, the seminar-conference of the leading accounting specialists of the Baltic States was organised to develop the concept of accounting common for the Baltic States.

During the second stage, the Government of the Republic of Lithuania has adopted and approved a number of important documents on accounting. On 18 June 1992, it approved the Republic of Lithuania Law on the Principles of Accounting [8], which came into effect from 1 January 1993. According to this Law, the Government of the Republic of Lithuania is responsible for the general methodical management of accounting. The Republic of Lithuania Law on the Principles of Accounting was devoted only to the principles of accounting and it did not consider the accounting framework as a whole.

On 27 January 1993, the Government adopted the Resolution No 804 on Accounting and Annual Financial Statements of Legal Persons with Limited Liabilities. The Resolution approved a new procedure for the preparation of the financial statements and for the recognition of income and costs. Based on this Resolution, the Ministry of Finance of the Republic of Lithuania approved a new standard Chart of Accounts and drafted the forms of financial statements and explanations for the explanatory notes and the Chart of Accounts.

The third stage can be designated as a stage of new actions and expectations. The Order issued by the Ministry of Finance on 29 June 1995 on the Establishment of the Institute of Audit and Accounting might be considered as a start of this stage. On 21 December 1998, the Institute was renamed to the Institute of Audit, Accounting and Property Valuation of the Republic of Lithuania (Ministry of Finance Order No 297), and subsequently to the Institute of Accounting. On the initiative of this Institute and the Accounting Department of Vilnius University in 1997, a campaign was launched aimed at reorganization of the accounting system of Lithuania and development of the concept of its further improvement. The following works have been proposed:

* drafting a new accounting law
* improving the existing Chart of Accounts
* preparing the professional accountants training programme
* updating the applicable forms of financial reporting
* developing the national accounting standards etc.

In 1997, when the International Accounting Standards (IAS) were translated into Lithuanian by the Institute of Accounting 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 Republic of Lithuania Law on Financial Statements of Entities and the Republic of Lithuania Law on Consolidated Financial Statements [9, 10, 11]. These Laws have been harmonized with the Fourth (78/660) and Seventh (83/349) EEC Council Directives.

The fourth stage started from year 2002. The year 2002 is considered as the start of the integration in the European system of accounting when the Institute of Accounting of the Republic of Lithuania commenced intensive and consistent development of the Lithuanian Business Accounting Standards (BAS). On 18 December 2002, the Board of the Institute of Accounting of the Republic of Lithuania approved the first 17 Business Accounting Standards. Overall, since 2002 thirty seven Business Accounting standards have been developed; twenty nine of them are based on IFRS. From September 2008, the Accounting Institute was renamed to the Audit and Accounting Authority.

***Table 2*.** List of Business Accounting Standards

|  |  |
| --- | --- |
| BAS 1 | Financial Statements |
| BAS 2 | Balance Sheet |
| BAS 3 | Income Statement |
| BAS 4 | Statement of Changes in Equity |
| BAS 5 | Cash Flow Statement |
| BAS 6 | Explanatory Notes |
| BAS 7 | Changes in Accounting Policies, Accounting Estimates and Correction of Errors |
| BAS 8 | Equity |
| BAS 9 | Inventories |
| BAS 10 | Income |
| BAS 11 | Expenses |
| BAS 12 | Non-Current Tangible Assets |
| BAS 13 | Intangible Assets |
| BAS 14 | Business Combinations |
| BAS 15 | Investments in Associates |
| BAS 16 | Consolidated Financial Statements and Investments in Subsidiaries |
| BAS 17 | Biological Assets |
| BAS 18 | Financial Assets and Financial Liabilities |
| BAS 19 | Provisions, Contingent Liabilities and Contingent Assets, and Events after the Balance Sheet Date |
| BAS 20 | Operating Lease, Finance Lease and Loan-for-Use |
| BAS 21 | Grants and Subsidies |
| BAS 22 | Changes in Foreign Exchange Rates |
| BAS 23 | Impairment of Assets |
| BAS 24 | Income Tax |
| BAS 25 | Construction and Other Long-Term Contracts |
| BAS 26 | Derivative Financial Instruments |
| BAS 27 | Concession Arrangements |
| BAS 28 | Liquidation of Entities |
| BAS 29 | Interim Financial Statements |
| BAS 30 | Related Parties |
| BAS 31 | Employee’s Benefit |
| BAS 33 | Financial Statements of Financial Brokerage Firms and Management Companies |
| BAS 34 | Segment Reporting |
| BAS 35 | Transformation of Entities |
| BAS 36 | Record Keeping and Financial Reporting of Unlimited Civil Liability Legal Persons |
| BAS 37 | Investments in Joint Ventures |
| BAS 41 | Splitting Up of Entities |

According to the Republic of Lithuania Accounting Law (Article 4), from 1 January 2004, limited liability profit-seeking entities are required to comply with the BAS. On 7 June 2007, the Parliament of Lithuania passed amendments to the Law on Financial Statements of Entities (No X-1179), the Accounting Law (No X-1178) and the Law on Consolidated Accounts of Entities (No X-1180). According to these amended laws, limited civil liability profit-seeking entities, whose securities are not traded on regulated markets, are allowed to choose either the BAS or IFRS for keeping accounts and preparing financial statements for the financial year starting 1 July 2007 and later. The structure of these laws is presented in Table 3.

***Table 3*.** The structure of the laws

|  |  |  |
| --- | --- | --- |
| ***The Republic of Lithuania Accounting Law*** | ***The Republic of Lithuania***  ***Law on Financial Statements of Entities*** | ***The Republic of Lithuania Law on Consolidated Accounts of Groups of Undertakings*** |
| Chapter I.  General provisions | Chapter I.  General provisions | Chapter I.  General provisions |
| Chapter II.  Organizations of accounting | Chapter II.  Generally accepted accounting principles | Chapter II.  Drawing up of consolidated accounts |
| Chapter III.  Accounting documents and registers. Correction of errors | Chapter III.  Requirements for the drawing up financial statements | Chapter III.  Consolidated Annual Report |
| Chapter IV.  Storage of accounting documents and registers | Chapter IV.  Components of financial statements and description of reports | Chapter IV.  Audit of consolidated financial reports, signature, approval and publishing of them and the consolidated annual report |
| Chapter V.  Responsibility for arrangement of accounting, preservation of accounting documents. Commercial secrets | Chapter V.  Valuation rules | Chapter V.  Storage of consolidated financial reports and the consolidated annual report, responsibility for their drawing up and submission to the legal entities register |
| Chapter VI.  Final provisions | Chapter VI.  Storage of financial statements |  |
|  | Chapter VII.  Liability for the drawing up of financial statements |  |
|  | Chapter VIII.  Final provisions |  |

The adoption of the International Financial Reporting Standards in the European Union has considerably influenced Lithuanian accounting legislation and practice. The Republic of Lithuania Accounting Law prescribes that entities, whose securities are traded on an 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).

**4 Reporting Issues**

The BAS are in the first instance being developed in observance of the provisions of the Fourth (78/660/EEC) and Seventh (83/349/EEC) Council Directives. If certain aspects of accounting are not described in these Directives, or there are no restrictions for the application of other provisions, the provisions of the IFRS shall apply for the purpose of the BAS.

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

* Historical cost
* Fair value
* Net realizable value
* Net realization value
* Present value
* Value in use
* Amortized cost

In financial statements, the majority of elements are carried by entities at historical costs, unless the BAS 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 BAS.

Fair value in most cases is applied for the measurement of financial assets.

There are two possible methods to establish the fair value of a financial asset or financial liability:

* according to the price quoted on the active securities market
* by using fair value establishing methods referring to the active market information

The most reliable information for establishing the fair value is the price quoted on the active market. The proper market price of an asset or a liability held is normally the price offered by buyers, and that of an asset or a liability intended to be acquired – the price quoted by sellers. In the event there is no price offered by buyers or asked by sellers, the price of the most recent transaction may be perceived as the basis for determining the asset’s fair value provided the economic conditions in the period from the transaction to the balance sheet date have not changed significantly. Where an enterprise does not have any comparable assets or liabilities, for the purpose of establishing fair values it may refer to average market prices.

Where there is no market for a financial asset, although there is one for a comparable financial market, the fair value shall be established on the basis of the price of the comparable asset.

Where the market for a financial asset or financial liabilities is not active, in order to establish a reliable fair value the quoted prices may need to be adjusted. Where the market is not properly established, the quoted market price may not necessarily correspond to the fair value of the asset. In certain circumstances, where the volume of trading is relatively limited, the value of the asset may be established by an independent property evaluator. In other cases (also in the cases where a quoted market price is not available), other valuation methods providing sufficiently reliable fair values may be employed.

The valuation methods established in financial markets are based on the market value of essentially identical asset or liability, discounter cash flow analysis and the option pricing model. In applying discounted cash flow analysis, an entity uses one or more discount rates equal to the prevailing rates of return for a financial asset having substantially the same terms and characteristics including the contractual interest rate, the remaining term to repayment, and the currency in which the settlement is to be effected.

The fair value of a financial asset or financial liability may be established using valuation methods applied in financial markets. The chosen valuation method shall refer upon the inputs used by market participants for the purpose of calculation of fair values, including the prepayment rates, or estimated interest or discount rates. Where the average market indicators or prices are not available entities shall calculate the average indicators and average market prices by reference to the information published by banks or financial brokers.

The fair value cannot be the amount that an entity would receive or pay in a forced transaction, i.e., in an involuntary liquidation or distress sale.

**4.1 Intangible Assets**

According to BAS 13 “Intangible Assets”, an intangible asset is an *“identifiable non-monetary asset without physical substance disposed by the enterprise expecting to obtain direct and indirect economic benefits from the use of such asset”*. Intangible assets should be recognized if they satisfy the definition of intangible assets and the following three recognition criteria:

* The enterprise can reasonably expect to obtain future economic benefits from the assets;
* The historical (production) cost of the assets can be reliably measured and distinguished from the value of other assets;
* The enterprise can dispose such assets, control them or limit the others’ right to use such assets. Intangible assets are carried at the acquisition (production) cost [12].

Overall, BAS 13 is consistent with IAS 38 ‘Intangible Assets’ but the difference between them is that intangible assets cannot be revaluated under BAS 13. There are no intangible assets with unlimited useful life.

**4.2 Tangible Assets**

BAS 12 identifies non-current tangible assets as *“tangible assets which rendering economic benefits to the enterprise for a period exceeding one year and the acquisition (production) costs of which are not lower than the minimum value of non-current tangible assets estimated by the enterprise”*. Although main provisions of the standard are very similar to those of IAS 16 ‘Property, Plant and Equipment’ and IAS 40 ‘Investment Property’, there are some differences. For example, BAS 12 defines an additional criterion for recognition of non-current tangible assets: the acquisition (production) cost of the asset should be not lower than the minimum cost of a non-current tangible asset estimated by an enterprise per each group of assets. The next difference is that interest is not included in the asset acquisition (production) cost. It is recorded under expenses of corresponding periods. There is no separate standard for non-current tangible assets held for sale, so BAS 12 includes principles for accounting non-current tangible assets held for sale.

**4.3 Leases**

The main provisions of BAS 20 “Operating Lease, Financial Lease and Loan-From-Use” with regards to the principles of accounting for financial and operating leases correspond to the provisions of IAS 17 “Leases”, except for the possibility to recognize as investment assets the sub-leased assets acquired under operating lease; however, such a possibility is not provided. But there are some differences. According to IAS 17, the lease term covers the major part of the economic life of the asset even if the title is not transferred, while according to BAS 20 the lease term covers the major part of the economic life of the asset, in any case for at least 75 percent of the economic life of the asset.

According to IAS 17, at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, while according to BAS 20 the present value of the lease payments is equal to the fair value of the leased asset or accounts for at least 90 percent thereof. According to IAS 17, the initial direct costs of the lessor are recorded as assets and are distributed through the entire lease term, while according to BAS 20 such costs are attributed to the costs of the period at the time of the conclusion of the lease contract.

Also, BAS 20 contains the chapter on principles of accounting for assets transferred or acquired under loan-for-use, which is not covered in IAS 17.

**4.4 Financial Assets, Financial Liabilities and Derivatives**

Financial assets include cash and cash equivalents, contractual right to receive cash or other financial assets from another entity, and securities issued by another entity.

Cash and cash equivalents are cash on hand and in bank accounts, and their equivalents in various currencies. Cash equivalents include short-term (up to 3 months) liquid investments into securities, traveler’s cheques and other financial assets that meet the definition of cash equivalents. If an entity enters into a short-term crediting agreement and it is allowed to make payment transactions that exceed its bank account balance, the value of a financial asset is equal to zero, and the amount exceeding the closing balance is recognized as a financial liability.

There are no essential differences between the procedure of recognition of and accounting for derivatives set forth under BAS 26 “Derivatives” and IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”.

Also, the principles of accounting for financial assets and financial liabilities established under BAS 18 “Financial Assets and Financial Liabilities” and IAS 39 are very similar. However, for the purpose of recognition and measurement, BAS 18 classifies financial assets into the following three groups:

* Intended-for-sale
* Held-to-maturity
* Originated loans and receivables

Whereas, according to IAS 39, financial assets are classified in one of the following categories:

* Financial assets at fair value through profit or loss (this category has two subcategories: designated and held for trading)
* Available-for-sale financial assets
* Loans and receivables
* Held-to-maturity investments

Thus, BAS 18 does not include the group Available-for-sale financial assets and all financial assets that are not attributed to the categories of Held-to-maturity; Originated loans and receivables and treated as Intended-for-sale, and changes in their value are recognized as profit or loss in Income Statement.

**4.5 Inventories**

The main difference between BAS 9 “Inventories” and IAS 2 “Inventories” is that under BAS 9 it is possible to apply not only the FIFO and weighted average cost methods but also LIFO in some cases. For example, *“when the items of inventory which were purchased or produced last are sold first, and consequently the items remaining in inventory at the end of the period are those first purchased or produced”* [12]. The other essential differences do not exist between these standards.

**4.6 Equity**

There is separate standards BAS 8 “Equity” establishing the procedure of accounting for equity, and its provisions essentially correspond to the provisions of IAS 32 “Financial Instruments: Disclosure and Presentation” with regards to capital accounting. However, BAS 8 provides much more detail. It elaborates on accounting for reserves formed when distributing the owners’ profit. The standard describes in detail the accounting for revaluation reserve; the accounting for share premium; the accounting for the capital of state enterprises (which is not divided into shares), as well as it describes the accounting for capital corresponding to assets which may be only state-owned. There are special rules for accounting for this capital. The decrease of the capital, corresponding to the asset that statutorily may be only the state-owned property, shall be recorded in the accounting only when the asset that according to laws may be owned only by the State is depreciated, provided such an asset is not directly used to generate the entity's revenues. Also, the difference concerns the fact that the proportion of convertible value of bonds issued by the entity may not be shown in the equity part.

**4.7 Provisions**

There are no essential differences between BAS 19 “Provision, Contingent Liabilities and Contingent Assets, and Events Occurring after the Balance Sheet Date” and the corresponding IAS 10 “Events After the Balance Sheet Date” and IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. Also, the provisions of BAS 22 “Changes in Foreign Exchange Rates” correspond to the provisions of IAS 21 “The Effects of Changes in Foreign Exchange Rates”; and essential differences between BAS 23 “Impairment of Assets” and IAS 36 “Impairment of Assets” do not exist.

**5 Official Forms of Financial Statements**

The purpose of financial statements shall be to satisfy the needs of information users with regards to receiving correct information about financial position, performance and cash flows of an entity. Financial statements shall provide disclosures on:

* assets
* equity
* liabilities
* income and expenses
* cash flows

The Republic of Lithuania Law on Financial Statements of Entities (RL LFSE) sets up the following financial statements: Balance Sheet; Income 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 [10].

According to the RL LFSE, there are the following requirements for the compilation of financial statements:

* At the beginning of financial reports, the following particulars must be given:
  + Name, code and address of the registered office of an entity;
  + Date of financial statements;
  + 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).
* The financial statements of an entity must preserve headings of the items given in sample reports, numbering and ordering thereof.
* Entities shall draw up annual financial statements at the end of their financial year.
* 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.
* Financial statements shall be drawn up using the monetary unit of the Republic of Lithuania (the litas).
* Financial statements shall be drawn up in the Lithuanian language and, where necessary, in a foreign language.
* All economic operations and economic events of an entity must be accounted prior to the drawing up of financial statements.
* 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 authorized by it.
* 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) [10].

The Framework for the preparation and presentation of financial statements in Lithuania is BAS 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 references to other standards, where accounting requirements for the above financial statements are determined. According to BAS 1, “*the purpose of financial statements shall be to satisfy the needs of information users with regards to receiving correct information about the entity’s financial condition, performance and cash flows*”. However, it does not define main users of financial reporting.

**5.1 Balance Sheet**

The official form of Balance Sheet under Lithuanian regulation is following:





**5.2 Profit/Loss Statement**

Official form of P/L Statement in Lithuania is following:



**5.3 Cash Flow Statement**

BAS 5 “Cash Flow Statement” defines model forms of Cash Flow Statements for direct and indirect treatment. The model forms include separate lines for cash flows from extraordinary activities. The main difference between BAS 5 and IAS 7 “Cash flow Statements” is that under BAS 5 the completion of the cash flow form under indirect treatment should be started from the net profit, not from the profit before taxation.

***Direct Method***

******

***Indirect method***



**6 Major Differences from IFRS**

Following table provides a comparative analysis of Lithuanian standards with International Financial Reporting Standards:

|  |  |  |
| --- | --- | --- |
| **BAS** | **IAS/IFRS** | **Comments** |
|  | [IFRS 1](http://www.iasb.org/NR/rdonlyres/BC2EBD78-5D97-4B72-8BFD-B08E9131A59A/0/IFRS1.pdf) First-time Adoption of International Financial Reporting Standards | There is no BAS corresponding to this Standard, as there was no need to draft it. BAS were enacted since 2004, and each standard specifies what adjustments should be made by the first-time adopters of the respective standard. |
|  | [IFRS 4](http://www.iasb.org/NR/rdonlyres/DC6611CC-9789-43E8-8940-0D36839DAC19/0/IFRS4.pdf) Insurance Contracts | A corresponding BAS has not been adopted yet. The insurance contracts’ accounting procedure is regulated by the Rules established by the Insurance Supervisory Commission. |
|  | IFRS 6 Exploration for and Evaluation of Mineral Resources | A corresponding standard has not been adopted and the Accounting for Exploration for and Evaluation of Mineral Resources is not regulated yet. It is included in the plans to discuss whether there is a need to establish the accounting procedure on this issue. |
| BAS 10 Revenue from Sales | [IAS 18](http://www.iasb.org/NR/rdonlyres/1A3771B8-5627-44E4-984E-AC90FEE1A971/0/ias18sum.pdf) Revenue | Essential differences do not exist. |
| BAS 11 Cost of Sales and Operating Costs |  | A separate IAS or IFRS corresponding to this standard does not exist. This standard establishes the principles for the recognition of the cost of sold goods and provided services as well as the principles for the recognition of operating costs. |
| BAS 14 Business Combinations | [IFRS 3](http://www.iasb.org/NR/rdonlyres/73E562FE-F581-4DD4-8365-B17E228955C9/0/IFRS3.pdf) Business Combinations | Recognition of negative goodwill is allowed. Goodwill and negative goodwill may be amortized. |
| BAS 15 Investments in Associates | [IAS 28](http://www.iasb.org/NR/rdonlyres/8E1664C6-AD47-4B84-A8D7-88476F1D83AC/0/as28sum.pdf) Investments in Associates | Essential differences do not exist |
| BAS 16 Consolidated Financial Statements and Accounting for Investments in Subsidiaries | [IAS 27](http://www.iasb.org/NR/rdonlyres/51A969A8-CC91-4C2C-97D7-BF6ACD8466DA/0/ias27sum.pdf) Consolidated and Separate Financial Statements | Investments in subsidiaries in separate financial statements of a parent undertaking may be reflected at cost or equity method.  The standard establishes specimen forms of consolidated financial statements. |
| BAS 17 Biological Assets | [IAS 41](http://www.iasb.org/NR/rdonlyres/86E09784-F30D-4DBC-B7BC-64C8B94C5B8D/0/ias41sum.pdf) Agriculture | Possibility is provided to use either cost or fair value less POS expenses for the purpose of accounting for biological assets. |
| BAS 21 Grants and Subsidies | [IAS 20](http://www.iasb.org/NR/rdonlyres/38AE3001-72F2-4B2C-BB72-5930AF20BBF6/0/ias20sum.pdf) Accounting for Government Grants and Disclosure of Government Assistance | In addition to government grants, this Standard applies to the accounting for assets received gratis.  The main principles of recognition of and accounting for grants correspond to those set forth by IAS, except that the possibility is not provided to select the accounting method by deducting the grant in arriving at the carrying amount of the asset. |
| BAS 25 Construction and Other Long-Term Contracts | [IAS 11](http://www.iasb.org/NR/rdonlyres/BFD1DE2D-F9CF-41C3-8D3C-63D9103E36CC/0/ias11sum.pdf) Construction Contracts | Essential differences do not exist. |
| 27 BAS Concession arrangements |  | Establishes the procedure for the recording in the accounting and presentation in financial statements of economic operations and economic events related to concession, public/private partnerships and other contracts of a similar type. |
| BAS 28  Liquidation of entities |  | Provides that financial statements of an entity under liquidation shall report such entity’s assets, equity, liabilities, income, costs, cash flows and other information disclosed in the notes to the financial statements.  The standard is applied in drawing up the financial statements of entities that are under liquidation and cannot apply the going concern principle. |
| BAS 29 Interim Financial Reporting | [IAS 34](http://www.iasb.org/NR/rdonlyres/039DD3F5-2355-4E4E-8071-48BCEED606C8/0/ias34sum.pdf) Interim Financial Reporting | The difference is that BAS 29 does not provide for the possibility to prepare a set of condensed financial statements for interim financial reporting purposes. According to this Standard, only explanatory notes may be condensed, while forms of other financial statements (balance sheet, profit (loss)) should be the same as for annual financial statements.  For the purpose of interim reporting period information in the profit (loss) statement should be provided in the increasing order, i.e. of 3, 6 and 9 months and comparative information of the respective period of the previous financial year. Interim financial reports of 6 and 9 months separate presentation of data of Q2 and Q3 is not required. |
| BAS 30 Related Parties | [IAS 24](http://www.iasb.org/NR/rdonlyres/5D53347E-1221-4D83-947D-2B72DD1D9615/0/ias24sum.pdf) Related Party Disclosures | Provisions of BAS 30 correspond to the provisions of [IAS 24](http://www.iasb.org/NR/rdonlyres/9E0CC277-4B12-41A7-A162-86E812A5FE8C/0/ias14sum.pdf). The standard is binding only upon those undertakings, which prepare full financial statements.  Entities preparing condensed financial statements are required to disclose information only about payments to their managers, as specified in BAS 6. |
|  | [IAS 29](http://www.iasb.org/NR/rdonlyres/C2563EF2-89A8-4ED7-82A3-E31EDF33E428/0/ias29sum.pdf) Financial Reporting in Hyperinflationary Economies | A corresponding BAS does not exist. |
| 31 BAS Employee's benefit | [IAS 19](http://www.iasb.org/NR/rdonlyres/C561FAFB-2E4E-41B8-A6D7-FB7E92070ED8/0/ias19sum.pdf) Employee Benefits | Essential differences from IAS 11 do not exist.  [IFRS 2](http://www.iasb.org/NR/rdonlyres/B18E5BAE-9934-4BB4-868B-DC08F4696FDE/0/IFRS2.pdf) Share-based Payment |
| BAS 33 Financial Statements of Financial Brokerage Firms and Management Companies |  | This Standard has been developed in observance of the Council Directive 86/635/EEC of 8 December 1986, the annual accounts and consolidated accounts of banks and other financial institutions, Directive 2001/65/EC of the European Parliament and of the Council of 27 September 2001 amending Directives 78/660/EEC, 83/349/EEC and 86/635/EEC as regards the valuation rules for the annual and consolidated accounts of certain types of companies as well as of banks and other financial institutions, and Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.  The Standard applies to financial broker’s and management enterprises. It establishes model forms of these financial statements and requirements for the disclosure of information in the explanatory notes. A corresponding IAS/IFRS does not exist. |
| BAS 34 Segment Reporting | [IFRS](http://www.iasb.org/NR/rdonlyres/9E0CC277-4B12-41A7-A162-86E812A5FE8C/0/ias14sum.pdf) 8 Segment Reporting | Provisions of BAS 34 correspond to the provisions of IFRS 8. The standard is binding only upon those undertakings, which prepare full financial statements. |
| BAS 35 Restructuring of Entities |  | BAS 35 does not have its counterparty among IAS/IFRS. This standard establishes the procedure of accounting and preparation of financial reports in case of restructuring of entities from one legal form to another in the manner established by laws. For example, an unlimited civil liability company is reorganized into a limited liability company, or a public or municipal enterprise – into a private limited liability company. In the course of such restructuring, the type of entity’s operations and its owner remain the same, and all that changes is its legal form. |
| BAS 36 Record Keeping and Financial Reporting of Unlimited Civil Liability Legal Persons |  | BAS 36 does not have its counterparty among IAS/IFRS in terms of its scope, as it is aimed at very small entities of unlimited civil liability. The standard is not mandatory, because entities of such type do not produce financial statements and they are required to provide only tax returns. They shall apply this Standard only if they have included in their founding documents the provision on the preparation of financial reports. In terms of its contents this Standard is a simplified summary of BAS. This Standard does not require to apply the asset value impairment tests to long-term assets or to assess reserves at net realizable value. Non-current assets are reflected in the balance sheet at residual value, and reserves – at historical cost. The Annex to this Standard includes model forms of financial statements (balance sheet, profit (loss) statements and statement of changes in equity). |
| BAS 37 Accounting for Investments in Joint Ventures | [IAS 31](http://www.iasb.org/NR/rdonlyres/44DDA08B-FFE9-4EE4-B7AC-18E0D09690F6/0/ias31sum.pdf) Interests in Joint Ventures | The difference is that according to BAS such investments in consolidated statements should be reflected at equity method and that the possibility of using pro rata consolidation is excluded. . |
|  | [IAS 33](http://www.iasb.org/NR/rdonlyres/60947D81-A718-4039-948D-B0D0A1F3A778/0/ias33sum.pdf) Earnings per Share | As listed entities apply IAS/IFRS, there is no need to prepare such standard. |
| 39 BAS  Accounting of collective investment undertakings and pension funds |  | It partly corresponds to 26 IAS, but is much more detailed. |
| 41 BAS Splitting up of entities |  | It sets accounting principles when the assets and liabilities of the split-up entities are distributed to other entities that continue to operate, and the split–up entity terminates its operation.  Two or more entities are incorporated on the basis of the split-up entity. The assets and liabilities of split (divided) entity are divided between the new incorporated entities, while the split-up entity terminates its operations.  In this case, part of the company continuing its operations shall be split-up and one or several entities incorporated on the basis of that part of assets or liabilities. |

**7 Sample Case**

ACCOUNTANT Ltd started its business in Lithuania in November 2010. The core business of the company is sale of goods as well as professional consulting.

The formula for derecognition of the goods is FIFO; company applies linear accounting depreciation as well as linear tax depreciation (based on local Income Tax Act or other act specifying the tax depreciation). From the differences between accounting and tax depreciation will be calculated deferred tax. Company is a VAT payer (basic rate, i.e. 21 %).

For the simplicity of postings there will be used “MU” (monetary unit).

At the very beginning there were paid the incorporation expenses 5 000 MU and there was deposited 145 000 MU on the bank account. Incorporation expenses were paid by one of the owners of Accountant Ltd against which he provided a short-term loan payable in June 2011.

**Initial Balance Sheet**

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance Sheet as at 1st November 2010** | | | |
| Bank account | 145,000 | Registered capital | 145,000 |
|  |  | Loss | (5000) |
|  |  | Short-term loans | 5,000 |
| **ASSETS** | **145,000** | **EQUITY+LIABILITIES** | **145,000** |

*Tangible Assets*

On 12th November 2010 has been purchased computer for 2 000 MU (due date is 12th January 2011).

*Financial Leases*

Company has decided to purchase the car in the form of 5-years financial lease. Financial lease was negotiated from 1st December 2010 with the monthly based rental payments 350 MU (all payable at the end of each month). Incremental interest rate of lessee is 10 %; fair value of the car is 17 500 MU.

*Inventories*

Throughout the period of November and December 2010 there were made following purchases and sales of goods:

|  |  |
| --- | --- |
| 1 | Purchase of 6 500 pieces of goods @ 7.50 MU |
| 2 | Purchase of 4 200 pieces of goods @ 8.00 MU |
| 3 | Sale of 5 000 pieces @ 12 MU (payable on February 2011) |
| 4 | Purchase of 3 300 pieces of goods @ 9.00 MU |
| 5 | Sale of 3 600 pieces @ 12 MU (payable on March 2011) |
| 6 | Sale of 2 400 pieces @ 12 MU (payable on March 2011) |

All purchases have been paid directly from company’s bank account.

Fair value of goods as at 31st December 2010 is 22 500 MU.

*Receivables and Payables*

In November 2010 was negotiated long-term (3Y) contract for consulting services. The total amount of contract 180 000 MU is payable at the end of the contract, i.e. 30th November 2013.

Company has one employee, Miss Anna. Her gross monthly salary is 800 MU. Salary is payable on 10th day of the next month.

*Other Costs and Expenses*

* rental payments – 1 200 MU/monthly (payable on 20th for the next month),
* tax consulting – 200 MU/monthly (payable on 25th of the next month),
* telecommunication services – 1 000 MU/monthly (payable on 15th of the next month),
* road tax – 100 MU (payable on 15th December 2010)
* interests received – 920 MU
* bank charges – 5 300 MU

**Solution of the study**

***Fixed Assets and Financial Leases***

*Accounting depreciation of computer:*

Tax depreciation for computer will be at the same as the same rate may be used for taxation purpose.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Op.** | **Transaction** | **Amount** |  |  | **Account** |
| 1 | Purchase of computer | 2,000  420  2,420 | Dr  Dr | Cr | Equipment  VAT  Trade payables |
| 2 | Depreciation of computer (1 month)  Depreciation is calculated from next month after purchase | 56  56 | Dr | Cr | Expense ( Depreciation)  Equipment (Ac. depreciation) |
| 3. | Financial lease (present value) | 16473  16473 | Dr | Cr | Fixed assets (car)  Finance lease liabilities (long term) |
| 4 | Lease payment | 213  137  74  424 | Dr  Dr | Cr | Finance lease liabilities  Interest expense  VAT  Bank account |
| 5 | Registered current portion of long term finance lease liabilities | 2696  2696 | Dr  Cr |  | Long term lease liabilities  Current portion of long term finance lease liabilities |

***Inventories***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Op.** | **Transaction** | **Amount** |  |  | **Account** |
| 1 | Purchase of goods (6,500 @ 7.50 MU) | 48,750  10,238  58,988 | Dr  Dr | Cr | Goods  VAT  Bank account |
| 2 | Purchase of goods (4,200 @ 8.00 MU) | 33,600  7,056  40,656 | Dr  Dr | Cr | Goods  VAT  Bank account |
| 3 | Sale of goods (5,000 @ 12.00 MU) | 60,000  12,600  72,600 | Dr | Cr  Cr | Revenue ( Sold goods)  VAT  Trade receivables |
|  | Cost of goods sold using LIFO | 39,600  39,600 | Dr | Cr | Cost of sold goods  Inventory |
| 4 | Purchase of goods (3,300 @ 9.00 MU) | 29,700  6.237  35,937 | Dr  Dr | Cr | Goods  VAT  Bank account |
| 5 | Sale of goods (3,600 @ 12.00 MU) | 43,200  9,072  51,840 | Dr | Cr  Cr | Revenue ( Sold goods)  VAT  Trade receivables |
|  | Cost of goods sold using LIFO | 31,950  31,950 | Dr | Cr | Cost of sold goods  Inventory |
| 6 | Sale of goods (2,400 @ 12.00 MU) | 28,800  6,048  34,848 | Dr | Cr  Cr | Revenue (Sold goods)  VAT  Trade receivables |
|  | Cost of goods sold using LIFO | 18,000  18,000 | Dr | Cr | Cost of sold goods  Inventory |
|  |  |  |  |  |  |

***Ending inventories***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Op.** | **pieces** | | | **Cost** | **MU** | | |
| **+** | **-** | **** | **+** | **-** | **** |
| 1 | 6,500 |  | 6,500 | 7.50 | 48,750 |  | 48,750 |
| 2 | 4,200 |  | 10,700 | 8.00 | 33,600 |  | 82,350 |
| 3 |  | 5,000 | 5700 |  |  | 39,600 | 42,750 |
| 4 | 3,300 |  | 9,000 | 9.00 | 29,700 |  | 72,450 |
| 5 |  | 3,600 | 5,400 |  |  | 31,950 | 40,500 |
| 6 |  | 2,400 | 3,000 |  |  | 18,000 | 22,500 |

For taxation purpose FIFO method has to be used

Calculation of deferred tax

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Inventory LIFO** | **Inventory FIFO** | **Difference** | **Tax rate** | **Deferred tax assets** |
| 2010 | 22,500 | 27,000 | (4500) | 15% | 675 |

***Receivables and payables***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Op.** | **Text** | **Amount** |  |  | **Account** |
| 1 | Long-term contract (12/2010) | 5,000  5,000 | Dr | Cr | Deferred income\*  Services revenue |

\*According to the requirements of BAS should discounted, but in the sample case there was no information for interest rate

Calculation of salaries expense

|  |  |
| --- | --- |
| Gross salary | 800 |
| Social security from employer (31%) | 248 |
| Total expense | 1 048 |

Calculation of tax payable from employee

|  |  |
| --- | --- |
| Gross salary | 800 |
| Social insurance and health security from employee (9%) | 72 |
| Income tax | 120 |
| Net salary | 608 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Op.** | **Transaction** | **Amount** |  |  | **Account** |
| Nov | Gross salary | 800  800 | Dr | Cr | Salary expense  Payroll |
| Nov | Social and health insurance (employer) | 248  248 | Dr | Cr | Social insurance expense  SHI payables |
| Nov | Income tax | 120  120 | Dr | Cr | Payroll  Income tax payables |
| Nov | Social and health insurance (employee) | 72  72 | Dr | Cr | Payroll  SHI payables |
| Nov | Pay-off | 608  608 | Dr | Cr | Payroll  Bank account |
| Nov | Payment of insurance | 368  368 | Dr | Cr | SHI payables  Bank account |
| Nov | Payment of income tax | 120  120 | Dr | Cr | Income tax payables  Bank account |
| Dec | Gross salary | 800  800 | Dr | Cr | Salary expense  Payroll |
| Dec | Social and health insurance (employer) | 248  248 | Dr | Cr | Social insurance expense  SHI payables |
| Dec | Income tax | 120  120 | Dr | Cr | Payroll  Income tax payables |
| Dec | Social and health insurance (employee) | 72  72 | Dr | Cr | Payroll  SHI payables |

***Other costs and expenses***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Op.** | **Text** | **Amount** |  |  | **Account** |
| 1 | Rental payment (for November 2010) | 1,200  252  1,452 | Dr  Dr | Cr | Services expense  VAT  Bank account |
| 1A | Rental payment (for December 2010) | 1,200  252  1,452 | Dr  Dr | Cr | Services expense  VAT  Bank account |
| 1B | Rental payment (for January 2011) | 1,200  252  1,452 | Dr  Dr | Cr | Deferred expenses  VAT  Bank account |
| 2 | Tax advisory (November 2010) | 200  42  242 | Dr  Dr | Cr | Services expense  VAT  Bank account |
| 2A | Tax advisory (December 2010) | 200  200 | Dr | Cr | Services expense  Accrued expense\* |
| 3 | Telecommunication services (November 2010) | 1,000  210  1,210 | Dr  Dr | Cr | Services expense  VAT  Bank account |
| 3A | Telecommunication services (December 2010) | 1,000  1,000 | Dr | Cr | Services expense  Accrued expense\* |
| 5 | Interests received | 920  920 | Dr | Cr | Bank account  Interests revenue |
| 6 | Bank charges | 5,300  5,300 | Dr | Cr | Operating expenses  Bank account |

\*There is no VAT as invoice with VAT will be received only next month

**Calculation of corporate income tax**

|  |  |
| --- | --- |
| Revenues | 137,920 |
| Expenses | 101,939 |
| ***Accounting profit*** | ***35,981*** |
| difference LIFO from FIFO | 4,500 |
| deductable incorporation expense | -5,000 |
| Tax base | 35,481 |
| **Corporate income tax (15 %)** | **5,322** |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Op.** | **Text** | **Amount** |  |  | **Account** |
| 1 | Income tax (due) | 5,322  5,322 | Dr | Cr | E – Income tax (due)  Income tax payables |

**Profit/Loss Account as at 31st December 2010:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Profit / Loss Account as at 31st December 2010** | | | |
| Sold goods | 89,550 | Revenues from sold services | 5,000 |
| Services | 10,100 | Revenues from sold goods | 132,000 |
| Salaries | 1,600 | Interests received | 920 |
| Social insurance | 496 |  |  |
| Depreciation | 56 |  |  |
| Interest expenses | 137 |  |  |
| Income tax (due) | 5,322 |  |  |
| Income tax assets (deferred) | -675 |  |  |
| ***EXPENSES*** | ***106,586*** | ***REVENUES*** | ***137,920*** |
| **Profit** | **31,334** |  |  |
| TOTAL | 137,920 | TOTAL | 137,920 |

**Balance sheet as at 31st December 2010**

|  |  |  |  |
| --- | --- | --- | --- |
| ***Assets*** |  | ***Equity and Liabilities*** |  |
| Computer | 1,944 | Registered capital | 145,000 |
| Car | 16,473 | Profit | 26,334 |
| Inventories | 22,500 | Long term financial lease liabilities | 13,564 |
| Trade receivables | 159,720 | Current portion of lease payments | 2,696 |
| Deferred expenses | 1,200 | Short-term loan | 5,000 |
| Deferred income | 5,000 | Liabilities related to employment relations | 1,048 |
| Deferred tax assets | 675 | Income tax liabilities | 5,322 |
|  |  | Other liabilities | 8,548 |
| **TOTAL** | **207,512** | **TOTAL** | **207,512** |

***Ratio analysis***

|  |  |
| --- | --- |
| Assets (total) | 207 512 |
| EBIT | 36 118 |
| EAT | 31 334 |
| Equity | 171 334 |
| Current assets | 189 095 |
| Current liabilities | 22 614 |
| Inventories | 22 500 |

***Profitability ratios:***

***Liquidity ratios:***

**8 Dictionary**

|  |  |
| --- | --- |
| **English** | **Lithuanian** |
| Accelerated Depreciation | spartusis nusidėvėjimas |
| Account | sąskaita |
| Account Payable | kreditinio įsiskolinimo sąskaita |
| Account Receivable | debetinio įsiskolinimo sąskaita |
| Accountant | buhalteris |
| Accounting | apskaita |
| Accounting Change | apskaitos pasikeitimas |
| Accounting Policies | apskaitos politika |
| Accounting Profit | apskaitos pelnas |
| Accrual Basis | kaupimo principas |
| Accumulated Depreciation | sukauptas nusidėvėjimas |
| Additional Paid in Capital | akcijų priedai |
| Amortization | amortizacija |
| Annual Report | metinė ataskaita, atskaitomybė |
| Annuity | anuitetas |
| Asset | turtas |
| Auditor | auditorius |
| Auditors’ Report | auditoriaus išvada |
| Available-For-Sale Financial Assets | laikomas parduoti finansinis turtas |
| Balance Sheet | balansas |
| Bond | obligacijos |
| Book Value, Carrying Amount | buhalterinė vertė |
| Borrowing Costs | skolinimosi išlaidos |
| Budget | biudžetas |
| Business | verslas |
| Business Combinations | verslo junginiai |
| Business Segment | verslo segmentai |
| Capitalized Cost | kapitalizuotos išlaidos |
| Capitalized Interest | kapitalizuotos palūkanos |
| Cash | gryni pinigai |
| Cash Basis | pinigų principas |
| Cash Equivalents | pinigų ekvivalentai |
| Cash Flows | pinigų srautai |
| Cash-generating Unit | iplaukas kuriantis vienetas |
| Closing Rate | baigiamasis įrašas |
| Consistency | pastovumo principas |
| Consolidated Financial Statements | konsoliduotos finansinės ataskaitos |
| Consolidation | konsolidavimas, jungimas |
| Contingent Asset | nenumatytas turtas |
| Contingent Liability | nenumatyti įsipareigojimai |
| Contingent Rent | nenumatyta nuoma |
| Continuing Operations | tęsiama veikla |
| Control | kontrolė |
| Convertible Share | konvertuojamos akcijos |
| Cost | išlaidos |
| Cost Accounting | išlaidų apskaita |
| Cost Method | išlaidų metodas |
| Costing | savikainos kalkuliavimas |
| Costs of Disposal | perleidimo išlaidos |
| Credit Risk | kredito rizika |
| Creditor | kreditorius |
| Currency Risk | valiutos rizika |
| Current Asset | trumpalaikis turtas |
| Current Liability | trumpalaikiai įsipareigojimai |
| Current Tax | einamasis mokestis |
| Debit | debetas |
| Debt | skola |
| Debt Security | skolos vertybiniai popieriai |
| Debtor | debitorius |
| Deferred Income | būsimojo laikotarpio pajamos |
| Deferred Income Taxes | būsimojo laikotarpio pajamų mokesčiai |
| Deferred Tax Assets | būsimojo laikotarpio turto mokestis |
| Deferred Tax Liabilities | atidėtųjų mokesčių įsipareigojimas |
| Depreciable Amount | nusidėvimoji suma |
| Depreciation | nusidėvėjimas |
| Derecognition | pripažinimo nutraukimas |
| Derivative | išvestinė priemonė |
| Detection Risk | susekimo rizika |
| Development | vystymas, kūrimas |
| Direct Costs | tiesioginės išlaidos |
| Disclosure | atskleidimas |
| Discontinued Operation | nutraukiamoji veikla |
| Discount | diskontas, nuolaida |
| Discount Rate | diskonto (nuolaidos) norma |
| Discounted Cash Flow | diskontuoti pinigų srautai |
| Dividends | dividendai |
| Double–Entry Bookkeeping | dvejybinis įrašas, dvejybinė apskaita |
| Due Date | atsiskaitymo data |
| Earnings Per Share (EPS) | pelnas akcijai, akcijos pelnas |
| Economic Life | ekonominio tarnavimo laikas |
| Effective Interest Rate | efektyvi palūkanų norma |
| Equity | nuosavybė, nuosavas kapitalas |
| Equity Instrument | nuosavybės instrumentas |
| Equity Method | nuosavybės metodas |
| Equity Securities | nuosavybės vertybiniai popieriai |
| Estimated Tax | numatytas mokestis |
| Estimation Transactions | numatytos operacijos |
| Events after the Balance Sheet Date | ivykiai po balanso sudarymo datos |
| Exchange Difference | keitimo skirtumas |
| Exchange Rate | keitimo norma |
| Expenditure | sąnaudos |
| External Reporting | išorės atskaitomybė |
| Extraordinary Items | ypatingieji straipsniai |
| Factoring | faktoringas |
| Fair Market Value | tikroji rinkos vertė |
| Fair Value | tikroji vertė |
| Finance Lease | finansinė nuoma |
| Financial Asset | finansinis turtas |
| Financial Institution | finansinės institucijos |
| Financial Instrument | finansinis instrumentas |
| Financial Liability | finansinis įsipareigojimas |
| Financial Risk | finansinė rizika |
| Financial Statements | finansinės ataskaitos |
| Financing Activities | finansinės veiklos |
| First in, First out (FIFO) | pirmas įeina, pirmas išeina |
| Fiscal Year | fiskaliniai metai |
| Fixed Asset | ilgalaikis turtas |
| Forecast | prognozė |
| Foreign Currency | užsienio valiuta |
| Fraud | klaida |
| Functional Currency | veikianti valiuta |
| Funding | fondų valdymas |
| Future Contract | ateities sandoriai |
| Gain | pagautė, ypatingasis pelnas |
| General Ledger | didžioji kmyga |
| Generally Accepted Accounting Principles | bendrai priimti apskaitos principai |
| Going Concern | veiklos tęstinumas |
| Goodwill | prestižas |
| Gross Income | bendros pajamos |
| Group | grupė |
| Guaranty | garantijos |
| Hedge | apsidraudimas |
| Hedge Effectiveness | apsidraudimo veiksmingumas |
| Hedged Item | ap |
| Hedging Instrument | apsidraudimo priemonė |
| Held-To-Maturity Investments | iki išpirkimo termino laikomos investicijos |
| Highly Probable | labai tikėtinas |
| Historical Cost | istorinės išlaidos |
| Impairment Loss | nuvertėjimo nuostolis |
| Impracticable | neįvykdoma |
| Improvement | vystymas, tobulinimas |
| Inception of the Lease | nuomos laikotrapuo pradžioje |
| Income | pajamos |
| Income Statement | pelno ir nuostolių ataskaita, Pajamų ataskaita |
| Indirect Costs | netiesioginės išlaidos |
| Initial Direct Costs | pradinės tiesioginės išlaidos |
| Installment | eilinė įmoka |
| Intangible Asset | nematerialusis turtas |
| Interest | palūkanos |
| Interest Cost | palūknų išlaidos |
| Interest Rate Risk | palūkanų normos rizika |
| Interim Financial Report | tarpinis finansinis pranešimas |
| Interim Financial Statements | tarpinės finansinės ataskaitos |
| Interim Period | tarpinis laikotarpis |
| Internal Audit | vidaus auditas |
| Internal Control | vidaus kontrolė |
| Internal Rate of Return | vidinė palūkanų norma |
| International Accounting Standards Board | Tarptautinė apskaitos standartų valdyba |
| International Financial Reporting Standards (IFRSs) | Tarptautiniai finansinės apskaitos standartai (TFAS) |
| Intradepartmental Price, Internal Transfer Price | vidaus kainos, vidaus transferinės kainos |
| Inventories | atsargos |
| Investing Activities | investavimo veiklos |
| Investment Property | investicijos |
| Investor in a Joint Venture | investuotojas į bendrą įmonę |
| Joint Venture | bendra įmonė |
| Journal | žurnalas |
| Last in, First out (LIFO) | paskutinis įeina, pirmas išeina |
| Lease | nuoma |
| Lease Term | nuomos terminas |
| Lessee | nuomininkas |
| Lessor | nuomotojas |
| Liability | isipareigojimas |
| Liquid Assets | likvidus turtas |
| Liquidation | likvidavimas |
| Liquidity Risk | likvidavimo rizika |
| Loans and Receivables | paskolos ir gautinos sumos |
| Loans Payable | mokėtinos sumos |
| Long–Term Debt | ilgalaikės skolos |
| Loss | nuostolis |
| Lower of Cost or Market | savikaina arba realizavimo verte, ta kuri mažesnė |
| Management Accounting | valdymo apskaita |
| Margin | marža |
| Market Risk | rinkos rizika |
| Marketable Securities | rinkos vertybiniai popieriai |
| Mark–to–Market | ženklas rinkai |
| Master Budget (Company Budget) | meistro biudžetas, kompanijos biudžetas |
| Materiality | reikšmingumas |
| Matching Principle | palyginimo principas |
| Merger | susijungimas |
| Minority Interest | mažumos dalis |
| Monetary Assets | monetarinis turtas |
| Monetary Items | monetariniai straipsniai |
| Net Assets | grynasis turtas |
| Net Income | grynosios pajamos |
| Net Realizable Value | grynoji galimo realizavimo vertė |
| Non-cancellable Lease | neatšaukiama nuoma |
| Non-current Asset | ilgalaikis turtas |
| Non–for–Profit Organization | nepelno organizacijos |
| Notes | pastabos |
| Notional Value, Face Value | nominali vertė |
| Objectivity | objektyvumas |
| Obligations | isipareigojimas |
| Onerous Contract | nuostolinga sutartis |
| Operating Activities | einamoji veikla |
| Operating Cycle | veiklos ciklas |
| Operating Lease | veiklos nuoma |
| Option | opcionas |
| Other Comprehensive Income | kitos pajamos |
| Parent Company | motininė kompanija |
| Partnership | partnerystė |
| Penalty | bauda |
| Plan Costing | sąmata, savikainos kalkuliavimo planas |
| Preferred Share | privilegijuotoji akcija |
| Present Value | tikroji vertė |
| Presentation Currency | prezentacinė valiuta |
| Prior Period Errors | ankstesnio laikotarpio klaidos |
| Probable | tikėtinas |
| Profit or Loss | pelnas ar nuostolis |
| Property, Plant and Equipment | ilgalaikis materialusis turtas |
| Prospective Application | perspektyvinis taikymas |
| Provision | aprūpinimas |
| Public Offering | viešas pasiūlymas |
| Qualifying Asset | išankstinis turtas |
| Ratio Analysis | santykinė analizė |
| Receivables | gautinos sumos |
| Reconciliation | suderinimas (sąskaitų) |
| Recoverable Amount | atsiperkamoji vertė |
| Reinsurance | perdraudimas |
| Related Party Transaction | susijusių šalių sandoriai |
| Reorganization | reorganizavimas |
| Repairs | remontai |
| Reporting Date | ataskaitinė data |
| Reporting Entity | ataskaitinis vienetas |
| Repurchase Agreement | atpirkimo sandoris |
| Research | tyrimas |
| Residual Value | likvidacinė vertė |
| Responsibility Accounting | atsakomybės apskaita |
| Restructuring | restruktūrizavimas |
| Retained Earnings | nepaskirstytasis pelnas |
| Return on Investment (ROI) | investicijų pelningumas |
| Revenue Recognition | pajamų pripažinimas |
| Revenues | pajamos |
| Risk Management | valdymo rizika |
| Securitization | kapitalizavimas |
| Security | garantas, užstatas |
| Separate Financial Statements | atskiros finansinės ataskaitos |
| Settlement Method | ivykdymo metodas |
| Share (Stock) | akcija |
| Short–Term | trumpalaikis turtas |
| Significant Influence | žymi įtaka |
| Spot Exchange Rate | sandorio keitimo norma |
| Start–up Costs | veiklos pradžios išlaidos |
| Statement of Cash Flows | Pinigų srautų ataskaita |
| Statement of Comprehensive Income | Išsami pajamų ataskaita |
| Statement of Financial Position | Finansinės būklės ataskaita |
| Statement of Changes in Equity | Nuosavo kapitalo pokyčių ataskaita |
| Straight–Line Depreciation | tiesinis nusidėvėjimo būdas |
| Subsequent Event | vėlesni įvykiai |
| Subsidiary | filialas, dukterinė įmonė |
| Swap | mainai |
| Tangible Asset | materialusis turtas |
| Tax | mokestis |
| Tax Base | mokesčių bazė |
| Tax Expense | mokesčių sąnaudos |
| Tax Income | mokestinės pajamos |
| Tax Loss | mokesčių nuostatai |
| Tax Year | mokestiniai metai |
| Taxable Income | apmokestinamosios pajamos |
| Taxable Profit | apmokestinamasis pelnas |
| Taxpayer Identification Number (TIN) | mokesčio mokėtojo identifikacinis numeris |
| Temporary Differences | laikini skirtumai |
| Term Loan | terminuota paskola |
| Total Comprehensive Income | visos pajamos |
| Transaction Costs | sandorių (ūkinių operacijų) išlaidos |
| Unearned Income | neuždirbtos pajamos |
| Useful Life | naudingo tarnavimo laikas |
| Value in Use | naudojimo vertė |
| Venture Capital | bendrasis kapitalas |
| Work in Progress | nebaigta gamyba |
| Working Capital | apyvartinis kapitalas |
| Yield to Maturity | laikomas iki išpirkimo |
| Zero–Coupon Bond | nulinio kupono |

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