

The recent issues and challenges in setting of National Accounting Standards in Lithuania



Ph.D. Audrius Linartas
Audit and Accounting Authority

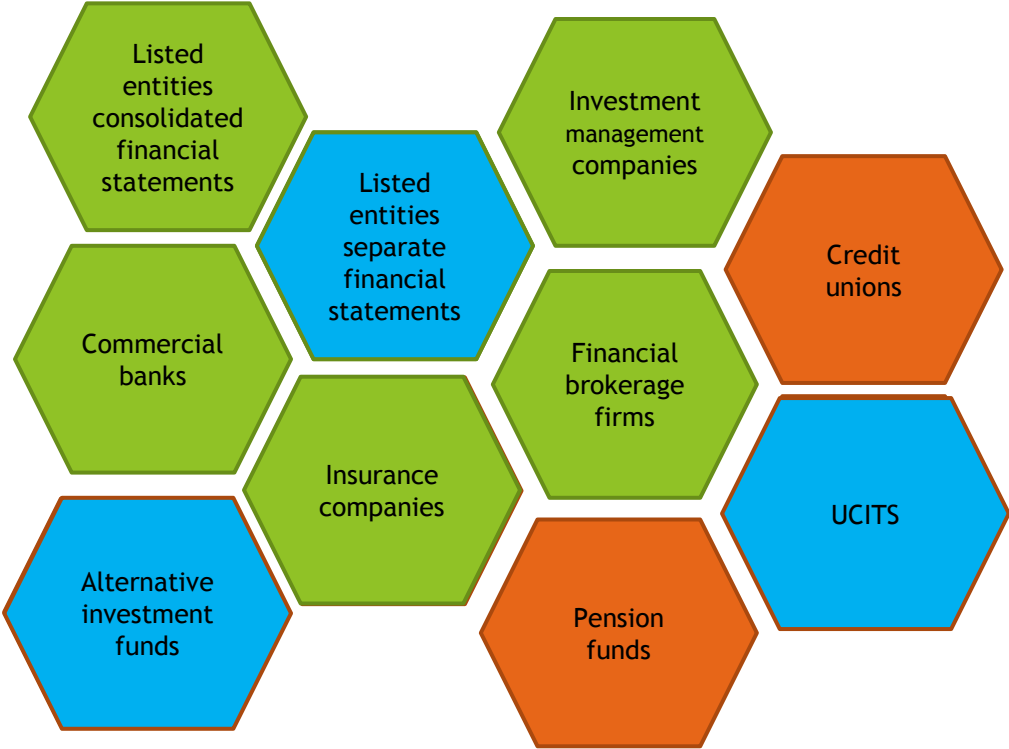
15-10-2015, Vilnius

National Accounting Standards (NAS)

- ▶ NAS are developed by **Audit and Accounting Authority** (the government institution under the Ministry of Finance) and are based on:
 1. EU Accounting Directive
 2. IFRS
- ▶ The profit seeking undertakings in Lithuania according to the Law on Financial Reporting of Undertakings shall prepare their financial statements according to NAS or IFRS requirements.
- ▶ Just some specific undertakings do not have such option and shall follow IFRS (or NAS)
- ▶ Therefore, NAS in the Lithuania are **principles-based legal acts** in accounting field
- ▶ Approximately **98%** of undertaking in Lithuania are preparing their **financial statements according to NAS** requirements

The financial statements of special undertakings

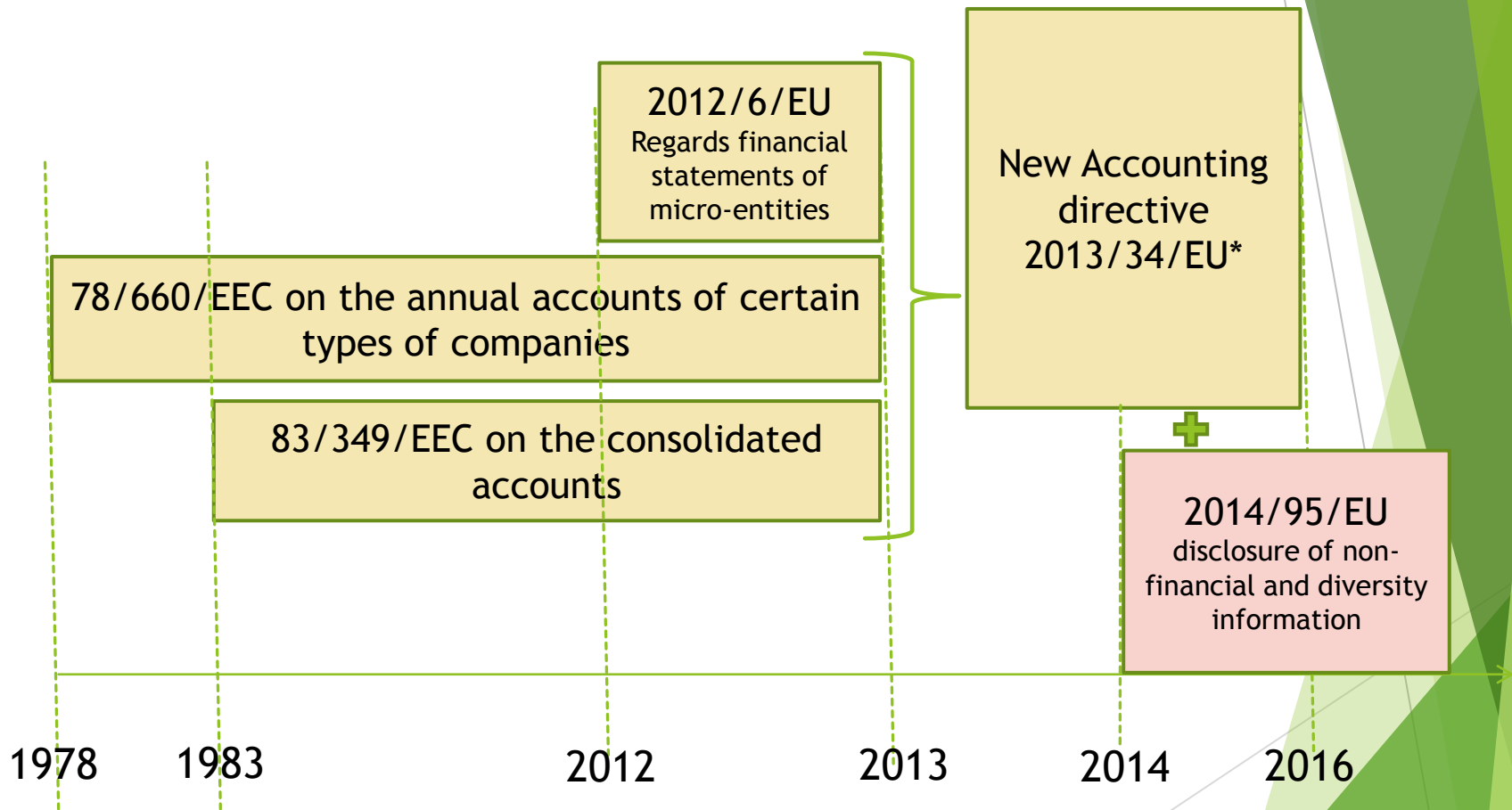
After 2016



Legend

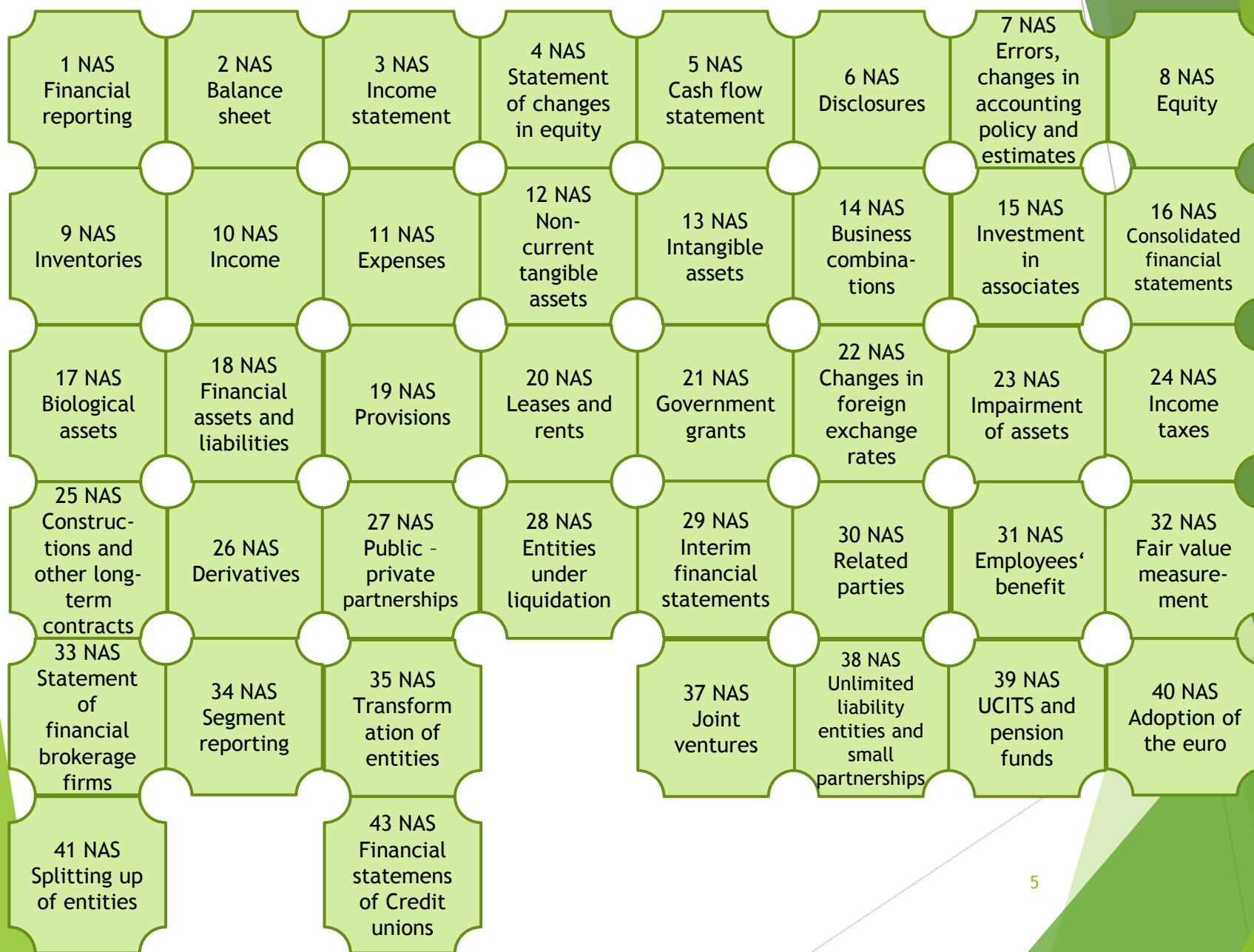
- Green hexagon: IFRS
- Orange hexagon: NAS
- Blue hexagon: NAS or IFRS

The new EU Accounting directive



*on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC

The amended NAS in 2015 due to implementation of Accounting directive



New categories of undertakings

► The new Directive 2013/34/EU defined 5 categories of undertakings:

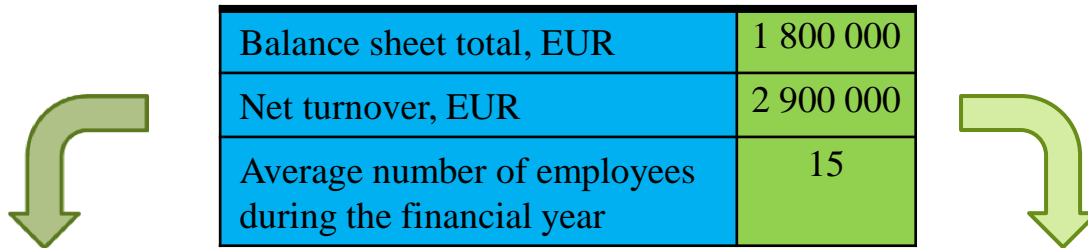
1. Micro
2. Small
3. Medium-sized
4. Large
5. Public interest entities (at least listed entities, commercial banks and insurance companies)



The different requirements of NAS for two categories of undertakings at the moment

► Up to 31-12-2015 all undertakings are required to prepare:

1. Balance sheet
2. Income statement
3. Statement of changes of equity
4. Explanatory notes (disclosures)



Balance sheet total, EUR	1 800 000
Net turnover, EUR	2 900 000
Average number of employees during the financial year	15

The smaller undertakings, which do not exceed the limits of at least 2 of 3 following criteria, have:

- ❑ less burdensome disclosure requirements
- ❑ a possibility to choose condensed balance sheet and income statement forms

The large undertakings, which exceed the limits of at least 2 of 3 following criteria, shall:

- ❑ prepare cash flow statement
- ❑ measure the income taxes
- ❑ disclose information about segments (for PIE only)

The criteria to distinguish the category of undertaking according to the EU Directive

	Law on Financial Reporting	EU Directive			
	„Small“ undertaking	Micro	Small	Medium	Large
Balance sheet total, EUR	1 800 000	350 000	4 000 000	Not exceeded 20 000 000	Exceeded 20 000 000
Net turnover, EUR	2 900 000	700 000	8 000 000	Not exceeded 40 000 000	Exceeded 40 000 000
Average number of employees during the financial year	15	10	50	Not exceeded 250	Exceeded 250 (500*)

* Addition criteria according to EU Directive 2014/95/EU



Public interest entities (PIEs)

Large

+ disclosure of non-finance and diversity information
(if more than 500 employees)

+ additional disclosures on segments

+ report of payments to governments
(undertaking active in the logging of primary forests and extractive industry)

+ the rest standard disclosures

Medium

+ additional statements (changes of equity and cash flows)

+ additional disclosures

+ measurement of income taxes

Small

Only balance sheet (standard or condensed) and income statement

Limited amount of disclosures

Micros

Abridged balance sheet and income statement

Defined disclosures at the foot of balance sheet

Micro undertakings

- ▶ Approximately **80%** of all undertakings in Lithuania
- ▶ From 01-01-2016 these undertakings may choose to apply „exemption package“ from standard requirements:
 - ❑ Prepare just abridged balance sheet and income statement by nature of expenses (instead of income statement by function)
 - ❑ Not prepare the notes to the financial statements
 - ❑ The disclosures on own shares, financial commitments, guarantees, contingencies, advances and credits to members of the administrative, managerial and supervisory bodies shall be presented at the foot of balance sheet
 - ❑ Account financial instruments, investment assets and biological assets using just cost method (fair value method is prohibited)
 - ❑ Not prepare the management report
- ❑ If the Micro undertaking is choosing not to apply „exemption package“, it is regarded as Small undertaking

Challenges related to exemptions for Micros

- ▶ **The Income statement by nature of expenses:**
 - ❑ Deliberations how to prepare if inventories are accounted not periodically, but constantly (changes in inventories may be presented differently)
 - ❑ Many questions regarding the allocation of non-direct expenses by their nature
 - ❑ If micro entity will grow up and will reach the level of small undertaking, it will be forced to change the accounting policy and will prepare the standard Income statement by function
- ❑ **Abridged balance sheet without notes to the financial statements:**
 - ❑ Due to the abridged form of balance sheet **some of assets items** that are typically presented in it in separate lines (such as cash, financial assets or intangible assets) **will be absent in this statement**. That may create the challenges for researchers to perform the financial analysis of these undertakings
 - ❑ The EU Directive is emphasizing that these financial statements are giving „**the true and fair view**“, but actually in case of investment in financial assets or derivatives, which shall be accounted using the cost method, it hardly presents „true and fair view“
 - ❑ **Without basic disclosures** in the notes on main items in the balance sheet, the full package of financial statements may be less informative for shareholders and investors

Small undertakings

- ▶ Approximately **93%** of all undertaking in Lithuania (including micro-undertakings)
- ▶ From 01-01-2016 these undertakings are not anymore required:
 - ❑ Prepare the statement of changes in equity
 - ❑ To present additional disclosures in the notes to the financial statements even if those are significant for the users of these statements
- ❑ For this reason, the users of financial statements will loose significant package of information they were used to receive from small undertakings. That may force them to require additional information from small undertakings that was not required before.

Issues related to the presentation of assets and liabilities (1/2)

- ▶ **Provisions** - after implementation of Accounting Directive are no more splitted in current and non-current
- ▶ **Income taxes liabilities** are reclassified from the separate item in liabilities to the group of provisions
- ▶ **Government grants** are not distinguished in Accounting Directive. After the deliberations with the staff of European Commission, they left as separate liability item after equity.
- ▶ **Biological assets** are not distinguished in Accounting Directive, but was till this moment classified as intermediate line in balance sheet between current and non-current items. From next year, the biological assets will be split in current and non-current assets.
- ▶ There are still discussion if the biological assets from agriculture activities shall be presented together with the rest of biological assets (ex. hounds or horses) or in a separate line.

Issues related to the presentation of assets and liabilities (2/2)

- ▶ **Land and buildings.** According to Accounting Directive (Art 16(1)(e)), the rights to immovables and other similar rights as defined by national law shall be shown under *Land and buildings*. Such provision contradicts with the applied practice to account such rights under *Intangibles*. It is also discussed if the rights to immovables could also cover the rights to long-term rent of state land, despite that such a land could hardly be recognized as undertaking's assets
- ▶ **Prepayments and accrued income // Accruals and deferred income** - two lines in balance sheet that will be reintroduced with the implementation of Accounting Directive from 2016. As these lines were not used already for 10 years in Lithuania, it may create confusion among practitioners for which accounting operations those shall be used
- ▶ **Financial assets** shall be not only accounted using amortised cost method, but also separated between current and non-current assets. That creates problem for undertakings as there are different approaches how the current part of financial assets shall be distinguished from the whole amount of calculated amortised cost

Issues in setting of Income statement

- ▶ The 3 different Income statements' forms (condensed, standard and special form for agriculture firms) were replaced by **one standard form**
- ▶ The separate line for **changes in fair value of biological assets** was added in Income statement because standard lines in this statement were not enough to present this kind of changes for agriculture firms
- ▶ The **results from financial and investment activities** will be presented in 5 separate lines that emphasize the results from investments in the subsidiaries and associates. That will require from some undertakings to change their accounting system.
- ▶ The approved form of **Income statement may not be anymore tailored** by the undertakings and more detailed subdivision of the items in it is permitted only in exceptional cases. This decision was done in order solve problems with the financial statements filed electronically

Other challenges in setting in NAS

- ▶ The Accounting Directive required for the definition of „related parties“ to use the same definition as in the IFRS adopted in accordance with Regulation (EC) No 1606/2002. For this reason, even in National Accounting Standards it will be used the definition of IAS 24 *Related Party Disclosures* that creates conflict with other definitions in NAS and other national legal acts
- ▶ According to the Directive, the items recognised in the financial statements shall be measured in accordance with the principle of purchase price or production cost. That creates a friction in case the NAS require to recognise assets according to the „fair value“ principle (ex. if payment for a loan is deferred for a period longer than 12 months and the interest rate is not prescribed by the contract or it significantly differs from the market interest rate) or directly using fair value (ex. production in agriculture and born animals as biological asset)

QUESTIONS?

Ph.D. Audrius Linartas

Director of Audit and Accounting Authority
e-mail: a.linartas@aat.lt