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Transparency and Disclosure

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Gap-analysis of Main Differences between the National Accounting and Financial Reporting Rules and International Accounting Standards (IAS) as of 01.01.2000

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The Eurasia Accounting Standards Committee has prepared the gap-analysis of thirty main accounting and reporting differences between IAS and standards of new independent member states of Eurasia, former republics of the USSR, in order to assist them in carrying out further reforms of accounting system in accordance with IAS requirements.

IAS are constantly improved by the specialists from different world market economies, who are working at the International Accounting Standards Committee. Thus, the users of IAS have an access to the invaluable long-term practical experience of IAS application.

Successful experience of IAS application in more than 70 market economies world-wide has showed that the reform of the accounting system in accordance with IAS helped them:

- Make the process of integration into the world economy easier and faster;
- Facilitate the process of attracting foreign investments;
- Receive credits and loans;
- Give true and fair view of the real financial position of an enterprise.

Financial statements prepared in strict accordance with IAS allows the users to make a true assessment of the enterprise's state of affairs, its position and importance not only in the national economy but in the world economy as well.

That is why Eurasia member states have unanimously decided to work toward implementing IAS in their accounting and reporting practice.

The first step in this direction is the preparation of a gap-analysis.

The gap-analysis materials may be used only as a reference manual prepared on the basis of IAS text.

The objective of The Eurasia Accounting Standards Committee is not to show absolutely all the IAS requirements and rules. Nonetheless, definitions and terminology contained in the gap-analysis convey the meaning of the basic reporting rules set out in IAS and national standards of the Eurasia member states as full as possible.

Gap-Analysis Outline

1. Main differences between the contents of the national financial statements and financial statements prepared in accordance with IAS.

2. Main differences between IAS rules and national accounting rules.

1. Main Differences between the Contents of the National Financial Statements and Financial Statements Prepared in Accordance with IAS:

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Main Users of Financial Statements

IAS reporting rules	National reporting rules
<ul style="list-style-type: none"> • Shareholders/Owners • Investors • Goods (services) suppliers and customers • Statistical agencies and rating companies • Organisations that regulate operating procedures on the stock market • Fiscal organs of executive power 	<p>Investors, shareholders, employees, company's management, government and government agencies, suppliers and other creditors, lenders, customers, general public and other users of financial statements.</p>

Main Types of External Financial Statements

IAS reporting rules	National reporting rules
<ul style="list-style-type: none"> • Tax returns that are filed on the basis of tax legislation, rules and instructions of accounting for taxes. • Financial statements that are prepared in accordance with IAS and requirements of organisations that regulate the operating procedures on the stock market 	<ul style="list-style-type: none"> • Tax returns that are filed on the basis of tax legislation, rules and instructions of accounting for taxes. • Financial statements that are prepared in accordance with IAS and the Law of Armenia "On Accounting".

Assets

IAS reporting rules	National reporting rules
<p>Resources controlled by an enterprise as a result of past transactions or events, and from which future economic benefits are expected to flow to the enterprise.</p> <ul style="list-style-type: none"> • Assets show the ability of the enterprise to generate directly or indirectly net cash proceeds and • the ability of a specific enterprise to receive benefits and exercise control over the impact on the state of its assets, • availability of transactions or events that give the right to enjoy benefits and control the generation of benefits, • other (optional) characteristics of assets. 	<p>Resources controlled by an enterprise as a result of past transactions (events). An asset is recognised in the balance sheet when it is probable that future economic benefits will flow to the enterprise, and this asset has a value that can be measured with reliability.</p>

Liabilities

IAS reporting rules	National reporting rules
<p>Possible future economic costs that will be incurred by an enterprise if there are real circumstances arising as a result of past transactions or events relating to the transfer of assets and provision of services.</p> <ul style="list-style-type: none"> • Debt to one or several enterprises (persons). • Liabilities that will lead to expenses in the future. • Transactions or events that lead to a liability. • Other (optional) characteristics. 	<p>Liabilities are an enterprise's debt that has arisen as a result of past transactions (events). A liability is recognised in the balance sheet when it is probable that the settlement of this current liability results in an outflow from the enterprise of resources embodying economic benefits, and the amount of this settlement can be measured with reliability.</p>

Contributions of Owners

IAS reporting rules	National reporting rules
<p>Increase in the amount of net assets of an enterprise as a result of its coming into possession of assets, in other words, an increase in equity.</p>	<p>Increase in equity.</p>

Equity

IAS reporting rules	National reporting rules
<p>Difference between total assets and total liabilities.</p> <ul style="list-style-type: none"> • Equity = net assets of an enterprise. • Equity is increased or decreased depending on the change in the amount of net assets for reasons other than those relating to contributions of owners or distributions to them. 	<p>Equity is a difference between total assets and total liabilities.</p> <ul style="list-style-type: none"> • Equity = net assets of an enterprise. • Equity is increased or decreased depending on the change in the amount of net assets for reasons other than those relating to contributions of owners or distributions to them.

Distribution of Equity to Owners

IAS reporting rules	National reporting rules
<ul style="list-style-type: none"> • Decrease in net assets as a result of the transfer of assets, provision of services or for the reason of increasing liabilities to owners. 	<p>In accordance with IAS.</p>

Revenue from Operating Activities of the Enterprise

IAS reporting rules	National reporting rules
Proceeds and other types of an increase in assets, decrease in liabilities during the reporting period at the moment of shipping products, providing services or carrying out transactions that are operating activities of the enterprise, i.e. the activities for the purpose of which the enterprise was established.	Proceeds and other types of an increase in assets, decrease in liabilities during the reporting period at the moment of shipping products, providing services or carrying out transactions that are operating activities of the enterprise, i.e. the activities for the purpose of which the enterprise was established.

Revenue from Other Activities of the Enterprise and Events that Occurred

IAS reporting rules	National reporting rules
Increase in net assets of an enterprise at the moment of carrying out secondary activities, in other words, transactions that were not anticipated, other transactions and events during the reporting period, other transactions relating to operating activities of the enterprise and contributions of owners.	Increase in net assets of an enterprise at the moment of carrying out secondary activities, in other words, transactions that were not anticipated, other transactions and events during the reporting period, other transactions relating to operating activities of the enterprise

Costs Related to Operating Activities of the Enterprise

IAS reporting rules	National reporting rules
Costs or other use of assets or an increase in liabilities during the reporting period at the moment of shipment of goods, provision of services or as a result of other transactions relating to operating activities.	In accordance with IAS.

Costs Related to Other Activities of the Enterprise

IAS reporting rules	National reporting rules
Decrease in net assets as a result of secondary transactions or transactions which were not anticipated, other transactions and events during the reporting period, including other transactions relating to operating activities and expenses relating to the distributions to owners.	Decrease in net assets as a result of secondary transactions or transactions which were not anticipated, other transactions and events during the reporting period, including other transactions relating to operating activities

Economic Profit

IAS reporting rules	National reporting rules
Changes in the composition of equity (net assets) during the reporting period as a result of carrying out transactions or arising events which do not concern the owners. In other words, any changes in the composition of equity other than those relating to contributions of owners or distributions to owners.	In accordance with IAS.

Types of Financial Statements

IAS reporting rules	National reporting rules
<ul style="list-style-type: none"> • Balance Sheet (for at least two last years). • Income Statement • Cash Flow Statement • Statement of Changes in Equity. • Notes to Financial Statements 	<ol style="list-style-type: none"> 1. Balance Sheet 2. Statement of Financial Results 3. Statement of Changes in Equity. 4. Cash Flow Statement 5. Notes to Financial Statements

Balance Sheet

IAS reporting rules	National reporting rules
It is allowed to prepare the balance sheet in any of the forms listed below: <ul style="list-style-type: none"> • Vertical form • Horizontal form • Financial position form . 	It is allowed to prepare the balance sheet only in a horizontal form.

Cash Flow Statement

IAS reporting rules	National reporting rules
It is allowed to prepare the statement using any of the two methods: <ul style="list-style-type: none"> • Direct method. • Indirect method. 	It is allowed to prepare the statement using the direct method.

Model Structure of Notes to Financial Statements

IAS reporting rules	National reporting rules
<ul style="list-style-type: none"> • Changes in accounting, accounting estimates and correction of the mistakes made. • Accounting policies. • Structural and organisational changes. • Contingent and future liabilities. • Borrowed funds. • Terminated transactions. • Unexpected and non-standard transactions and events. • Financial instruments. • Enterprises in financial difficulty. • Foreign exchange transactions. • Income tax. • Inventories. • Investments. • Leasing and leases. • Retirement benefits plan. • Property, plant and equipment. • Financial reporting in hyperinflation economies. • Research and development. • Accounts payable and loans granted. • Transactions with related parties. 	<ol style="list-style-type: none"> 1. Information about compliance with Armenian standards. 2. Accounting policies. 3. Disclosure of information, which is not presented in financial statements. <ul style="list-style-type: none"> -- general disclosures -- notes to balance sheet <ul style="list-style-type: none"> • Property, plant and equipment • Leased property, plant and equipment • Incomplete non-current tangible assets • Goodwill • Negative goodwill • Development costs recognised as an asset • Other intangible assets • Non-current investments recorded according to the equity method • Non-current liabilities • Current liabilities • Short-term debt to the state budget <ul style="list-style-type: none"> -- off-balance sheet items -- other disclosures, notes to the balance sheet -- notes to the statement of financial results. <ul style="list-style-type: none"> • Revenues and expenses from other operating activities. • Revenues and expenses from other non-operating activities. • Profit (loss) from extraordinary events. • Result of a fundamental error. <ul style="list-style-type: none"> -- Other disclosures, notes to the statement of financial results. -- Notes to the statement of changes in equity. -- Notes to cash flow statement. <ol style="list-style-type: none"> 4. Disclosure of additional information required by some standards

Financial Statements Consolidation Rules

IAS reporting rules	National reporting rules
<ul style="list-style-type: none"> • A parent company that prepares consolidated financial statements should consolidate all its subsidiaries (branches, joint ventures, affiliated companies, business entities in which the parent company has a controlling interest or the majority of votes in the board of directors, or has such influence on the decision-making process that can make the further work of the controlled business entity impossible) located both within and outside the country. • Subsidiaries (business entities) are not subject to consolidation if the control of the parent company is considered temporary, or such subsidiary is operating under conditions that significantly reduce its ability to reallocate resources in favour of a parent company. 	<p>In accordance with IAS.</p>

Impact of Hyperinflation on Financial Statements

IAS reporting rules	National reporting rules
<ul style="list-style-type: none"> • The financial statements reported in a hyperinflationary economy, regardless of the approach used (a historical cost approach or a current cost approach), should be expressed in terms of the measuring unit current at the balance sheet date. • The relevant information of the preceding period and any information relating to preceding periods should also be expressed in terms of the measuring unit current at the balance sheet date. • <i>Balance Sheet.</i> Balance Sheet amounts not already expressed in terms of the measuring unit current at the balance sheet date are restated applying a general price index. • <i>Income Statement.</i> It is required that all items in the income statement are expressed in terms of the measuring unit current at the balance sheet date. Therefore all amounts need to be restated by applying the general price index from the dates when the items of income and expenses were initially recorded in the financial statements. 	<p>In accordance with IAS.</p>

2. Main Differences between IAS Rules and National Accounting Rules:

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Property, Plant and Equipment

IAS accounting rules	National accounting rules
<ul style="list-style-type: none"> • The amount of acquired items of property, plant and equipment do not change the total assets. • Revaluation of property, plant and equipment is allowed only in extraordinary cases. • There are no limitations as for the minimal value of such an asset as an item of property, plant and equipment. • Freedom to choose a depreciation method for property, plant and equipment. • Different depreciation methods for financial and tax reporting. • The depreciation period is determined by an enterprise based on the useful life and obsolescence of an item of property, plant and equipment. • The depreciation starting date is determined by an enterprise. • The depreciation of the idle equipment (the equipment that do not attribute its cost to the production costs) is not allowed. 	<ul style="list-style-type: none"> • The amount of acquired items of property, plant and equipment do not change the total assets. • Revaluation of property, plant and equipment is allowed in accordance with Standard 16. • There are no limitations as for the minimal value of such an asset as an item of property, plant and equipment. • Freedom to choose a depreciation method for property, plant and equipment. • Different depreciation methods for financial and tax reporting. • The depreciation period is determined by an enterprise based on the useful life and obsolescence of an item of property, plant and equipment. • The depreciation starting date is the date of putting an item into operation. • The depreciation of the idle equipment (the equipment that do not attribute its cost to the production costs) is not allowed.

Investments

IAS accounting rules	National accounting rules
<ul style="list-style-type: none"> • Investments are accounted for at the lower of : <ul style="list-style-type: none"> - cost and - market value The following consolidation methods are used: <ul style="list-style-type: none"> - method of acquisition - method of uniting of interests. 	<p>Long-term investments are accounted for:</p> <ul style="list-style-type: none"> -- at cost -- at revalued cost -- Market securities are accounted for at the lower of: <p>cost and market value.</p> <p>Consolidation is made according to the investments portfolio method.</p>

Intangible Assets

IAS accounting rules	National accounting rules
<ul style="list-style-type: none"> • The depreciation period is determined on the basis of useful life and obsolescence. • Goodwill is amortised. 	<ul style="list-style-type: none"> • The depreciation period is determined on the basis of useful life and obsolescence, but not more than twenty years, except for the cases when this assumption is debatable. • Goodwill is amortised.

Inventories

IAS accounting rules	National accounting rules
<ul style="list-style-type: none"> • Inventories are reported at the lower of: <ul style="list-style-type: none"> - cost and - fair market value. - Cost includes only direct variable costs and production overhead costs (equivalent of general production costs in Soviet accounting) - Revaluation is possible only to decrease the value - Revaluation decrease is recognised as an expense of the accounting period - General production costs are included in the product (service) cost only on the conditions of the normal work of production facilities. • Inventories cost measurement methods (it is important to use the selected method consistently): <ul style="list-style-type: none"> - LIFO - FIFO - Weighted average cost - Special. 	<ul style="list-style-type: none"> • Inventories are reported at the lower of cost and net realisable value • The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. • Revaluation is possible only to decrease the value to the net realisable value. • Revaluation decrease is recognised as an expense of the accounting period. • General production costs are included in the product (service) cost only on the conditions of the normal work of production facilities. • Inventories cost measurement methods (it is important to use the selected method consistently): <ul style="list-style-type: none"> -- Standard price -- Retail price -- LIFO -- FIFO -- Weighted average cost

Law Value Items

IAS accounting rules	National accounting rules
<ul style="list-style-type: none"> • They are written off and included in the expenses of the reporting period at the moment of purchase. • They completely disappear from accounting. 	<ul style="list-style-type: none"> • Low value items of property plant and equipment are reported in accordance with Standard 16. • Short-life items: Their value is written off when they are put into operation.

Accounts Receivable

IAS accounting rules	National accounting rules
<ul style="list-style-type: none"> • Provision for doubtful accounts receivable is based on the accounting estimates. • It is allowed to form both special and general provisions. • To show the part of the assets' value, assets are decreased by the amount of provisions accrued. 	In accordance with IAS.

Advances Paid

IAS accounting rules	National accounting rules
<ul style="list-style-type: none"> • They are recorded as an asset, for which a prepayment has been made. 	In accordance with IAS.

Equity

IAS accounting rules	National accounting rules
<ul style="list-style-type: none"> • Equity is a difference between assets and liabilities. In other words, equity is everything that belongs to the owners. • Equity comprises: <ul style="list-style-type: none"> - Share capital - Share premium - Non-current assets revaluation surplus - Reserves - Retained earnings 	<ul style="list-style-type: none"> • Equity is a difference between assets and liabilities. In other words, equity is everything that belongs to the owners. • Equity comprises: <ul style="list-style-type: none"> - Share capital - Additional capital (share premium) - Revaluation surplus - Retained earnings - Other reserves.

Liabilities

IAS accounting rules	National accounting rules
<ul style="list-style-type: none"> • Liabilities are recorded according to the accrual method on the basis of accounting estimates, even if there are no supporting documents. 	In accordance with IAS.

Contingent Liabilities

IAS accounting rules	National accounting rules
<ul style="list-style-type: none"> They are recorded according to the accrual method and debited to expenses or credited to accrued liabilities if the probability of their occurrence is more than 50%. 	In accordance with IAS.

Expenses

IAS accounting rules	National accounting rules
All changes in net assets, other than those relating to owners, are attributed to income or expenses of the accounting period.	In accordance with IAS.

Deferred taxes

IAS accounting rules	National accounting rules
<ul style="list-style-type: none"> Deferred taxes are calculated to show the difference between financial and tax accounting. 	In accordance with IAS.