Introduction

Accounting collects and systematizes information in the form of financial statements about an enterprise: the value of assets, liabilities, equity, and the results of its activity. Its function is regulated by different levels of legislation so as to provide fair, reliable, relevant and true accounting information, which is used by a wide range of users: investors, lenders, partners, competitors, employees, analysts, government agencies, and others. The accounting system must comply with the economic conditions and purposes of the management system of the enterprise. Furthermore, it must reflect the development of engineering and technology, and the constantly changing preferences of buyers, which inspires a need for continuous adaptation of the accounting system to changing conditions.

In Lithuania the transition to a market economy required fundamental changes in many areas of business. These changes directly influenced the accounting development process. Since 1990 this process was formed by the publication of various types of legislation in Lithuania, which provide a background for deeper analysis and detail investigation of the development of the accounting system and the stages of the accounting transformation process in Lithuania.

The purpose of the article is to present the process of the transformation of accounting in Lithuania since 1990.

The methods used to attain this purpose were: analysis of academic materials, legislation, filing of information, comparison and summarizing.

1. The first stage of accounting development in Lithuania

The Lithuanian accounting system has experienced more than one stage of development over the past two decades. In the period between 1990, the year of the declaration of Lithuania’s independence, and 1992, accounting used to be performed as

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a central planned economy accounting system, based on detailed rules and instructions. However, certain slight changes resulting mainly from economic reforms and privatization, initiated at that time, influenced changes in accounting, too. The first step in the transformation of accounting in Lithuania was taken on the 17th of December, 1991, when the Government of the Republic of Lithuania issued a resolution *For the Organization of Accounting and Financial Statements* no. 564 (Lietuvos Respublikos Vyriausybės nutarimas...), 2013). However, this resolution did not make a big impact on the practical application of prescribed requirements, despite the description of the implementation of five International Accounting Standards (Mackevicius, 2009, p. 85). According to this resolution, companies had to organize their accounting process in such a way as to provide timely and accurate information for state statistics, tax calculating agencies, owners, creditors, business partners and to ensure the legal framework for economic and commercial transactions.

Therefore, the reform of accounting in Lithuania started on the 18th of June, 1992, when the Supreme Council of the Republic of Lithuania passed the Law on the Principles of Accounting (Lietuvos Respublikos Buhalterinės apskaitos pagrindų..., 2013). The Law on the Principles of Accounting obligated enterprises to organize their accounting procedures so that tax-accounting authorities, statisticians, creditors, and commercial partners could receive faithful and relevant information. For the first time in the history of Lithuanian accountancy, the Law demanded that accounting should be carried out in conformity with the provisions of International Accounting Standards and the European Union (formerly European Economic Community) Directives (Lakis, Kazlauskiene, 2008). This Law transferred accounting regulation from detailed instructions to the application of Generally Accepted Accounting Principles used in market economies.

The Law prescribed three main principles of accounting: going concern, accrual basis, and comparability. It provided the procedure for the formalization and signing of documents confirming the execution of transactions, the composition and the procedure for the authorization of financial statements, the methods of assets valuation, and the necessity of a stocktaking procedure (Lakis, Kazlauskiene, 2008).

Later, on the 27th of October, 1993, the Government of the Republic of Lithuania approved the Order for the drawing up of financial statements (Lietuvos Respublikos vyriausybės nutarimas Dėl įmonių..., 2013), which came into force in 1994. The following structure of the above-mentioned financial statements was approved: Balance Sheet, Income Statement, Profit (Losses) Allocation Statement, Cash Flow Statement, and Explanatory Notes. The financial statements were to be submitted by enterprises with the status of a legal entity if their indices exceeded the ones specified in at least two positions set forth below:

- the value of assets on the Balance Sheet is 5 million Litas (1.45 million Euro);
- sales revenue of the reporting year amounts to 10 million Litas (2.9 million Euro);
- 6000 minimum wages were paid for employees during the reporting year.
Smaller entities were allowed to render short-form financial statements consisting of a short-form Balance Sheet, Income Statement, Profit (Losses) Allocation Statement, and Explanatory Notes (Lakis, Kazlauskienė, 2008).

Explanatory Notes had to include information concerned with the activity of enterprise, which is not presented in other financial statements. All enterprises had to submit general data about the enterprise, and explanations of significant amounts provided in other financial statements, if it might influence the evaluation of the enterprise’s position (Lakis, Kazlauskienė, 2008).

This resolution (Lietuvos Respublikos vyriausybės nutarimas Dėl įmonių... 2013) described the order for accounting of revenue and expenses, according to which all earned revenue and incurred expenses had to be recorded and reflected in annual financial statements. Basic cases for recognition of revenue and expenses were indicated (Mackevicius, 2009, p. 85).

The approval of the Law on the Principles of Accounting and related legislation was a substantial step toward the reorganization of accounting in Lithuania. However, from 1990 to 2004 accounting in Lithuania was regulated by various pieces of legislation of different significance: laws, resolutions and orders. Accounting regulation was incoherent and unsystematic at that time (Subaciene et al., 2012).

The implementation of the International Financial Reporting Standards (IFRS) and European Union (EU) Directives had not yet started then but the changing economic environment and business globalization indicated ideas for the beginning of the accounting regulation harmonization process, which was started by the issue of Law on the Principles of Accounting.

2. Second stage – implementation of EU Directives and IAS

Another important stage of the transformation of accounting started in 2001 following the approval by the Lithuanian Parliament of three new laws: the Law on Accounting (Lietuvos Respublikos Buhalterinės apskaitos..., 2013), the Law on Financial Statements (Lietuvos Respublikos Įmonių finansinės atskaitomybės..., 2013), and the Law on Consolidated Financial Statements (Lietuvos Respublikos Įmonių grupių..., 2013). These laws were the background of accounting regulations in Lithuania. Their provisions complied with the EU Directives that started the integration of the Lithuanian accounting system into the accounting system of the European Union (Mackevicius, 2009, p. 86). Before 2001, Lithuanian enterprises had used tax laws for the preparation of their financial statements. However, some larger enterprises (most often those audited by international audit firms) applied IFRS (Legenzova, 2007).

The Law on Accounting regulates the arrangement of accounting. It also defines general requirements for the handling of accounting, the legalization and keeping of accounting documents and accounting registers, and the responsibility for the arrangement of accounting and safekeeping of documents. This Law provides only general procedures for the handling of accounting. It specifies that legal entities have to apply
provisions of the national accounting standards, so-called Business Accounting Standards (BAS), which regulate the financial accounting of non-listed companies. The BAS were created on the basis of the IFRS. They replaced other legislation on accounting regulations and prescribed rules for the accounting of an enterprise’s assets, liabilities, equity, revenue, expenses, composition of financial statements and other issues (Mackevicius, 2009, p. 88). The adoption and revision of BAS was assigned to a professional institution, the Institute of Accounting, which has similar rights and obligations as the International Accounting Standards Board. All Lithuanian limited liability enterprises became obliged to disclose their financial statements and it was expected that the level of corporate disclosure would increase considerably (Legenzova, 2007). Legal entities, whose securities were traded on the regulated market, had to apply IFRS (Lakis, Kazlauskiene, 2008).

Since 2004 legal entities in Lithuania have had to apply BAS in their accounting system. Accounting regulations in line with BAS caused a number of differences between financial and tax accounting; the financial statements were more focused on the information needs of business owners. Although the national accounting standards were based on rules (accounting rules were described, rather than just principles of the appropriate presentation of information in financial statements), it was an important step towards principles-based accounting rather than instructions. Besides, though business accounting standards were established according to the adaptation of international financial reporting standards, in many cases there are differences in the accounting information formation process (Subaciene et al., 2012).

At the end of 2003 20 business accounting standards, which were passed on the 10th and the 18th of December, 2003, were prepared and came into force at the beginning of 2004. The number, title and field of the regulations are presented in Table 1.

Table 1. BAS and their field of regulation legitimized since 2004.01.01

<table>
<thead>
<tr>
<th>No.</th>
<th>Title of BAS</th>
<th>Field of regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Financial Statements</td>
<td>This Standard sets out a presentation procedure and the composition of financial statements as well as general requirements for the contents of the statements.</td>
</tr>
<tr>
<td>2</td>
<td>Balance Sheet</td>
<td>This Standard establishes a procedure of preparing a balance sheet and provides standard forms except for consolidated balance sheets, and it sets out how information about an entity’s assets, equity and liabilities shall be presented, classified and disclosed.</td>
</tr>
<tr>
<td>3</td>
<td>Income Statement</td>
<td>This Standard establishes a procedure of preparing an income statement, classifying income and expenses into ordinary and extraordinary items, and provides standard forms of the income statement, except for consolidated statement. It sets out how information about an entity’s income earned, expenses incurred and its operating performance during a reporting period shall be presented, classified and disclosed.</td>
</tr>
<tr>
<td>4</td>
<td>Statement of Changes in Equity</td>
<td>This Standard establishes a procedure of preparing a statement of changes in equity and provides standard forms of the statement, except for consolidated statement, and it sets out how information about changes in an entity’s equity during the reporting period shall be presented, classified and disclosed.</td>
</tr>
<tr>
<td>No.</td>
<td>Title of BAS</td>
<td>Field of regulation</td>
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<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>5</td>
<td>Cash Flow Statement</td>
<td>This Standard establishes a procedure of preparing a cash flow statement, classifying cash flows into cash flows from operating, investing and financing activities, and provides Standard forms of the cash flow statement, except for consolidated. It also sets out how information about changes in cash and the cash equivalents of an entity during the reporting period shall be presented.</td>
</tr>
<tr>
<td>6</td>
<td>Explanatory Notes</td>
<td>The Standard establishes general requirements for the contents of explanatory notes, it sets out what information shall be presented in explanatory notes in order to provide a fairer understanding of the information contained in other financial statements and to disclose additional material information excluded from such other statements.</td>
</tr>
<tr>
<td>7</td>
<td>Changes in Accounting Policies, Accounting Estimates and Correction of Errors</td>
<td>This Standard sets out how information about changes in accounting policies, accounting estimates and correction of errors of the entity shall be recorded in accounting and disclosed in financial statements.</td>
</tr>
<tr>
<td>8</td>
<td>Equity</td>
<td>This Standard establishes the requirements for recording economic transactions and events related to the formation, increases, reductions or changes in the structure of equity, and it sets out how information relating to equity formation and changes shall be recorded in accounting and presented in financial statements.</td>
</tr>
<tr>
<td>9</td>
<td>Inventories</td>
<td>This Standard establishes a procedure of recording inventories in accounting, determining their cost of purchase, the value of used (sold) inventories and the value of remaining inventories, accounting for inventories and presenting them in financial statements.</td>
</tr>
<tr>
<td>10</td>
<td>Income</td>
<td>This Standard establishes a procedure of recognising, accounting for and disclosing information about revenue from the sale of goods and rendering of services as well as other income for entities that keep their accounts on the accrual basis.</td>
</tr>
<tr>
<td>11</td>
<td>Expenses</td>
<td>This Standard establishes a procedure of recognising and accounting for expenses incurred during the reporting period and disclosing the related information in complete explanatory notes.</td>
</tr>
<tr>
<td>12</td>
<td>Non-current Tangible Assets</td>
<td>The objective of this Standard is to set out how non-current tangible assets shall be recorded in accounting and presented in financial statements.</td>
</tr>
<tr>
<td>13</td>
<td>Intangible Assets</td>
<td>The objective of this Standard is to set out how intangible assets shall be recognised, measured, and recorded in accounting and presented in financial statements.</td>
</tr>
<tr>
<td>14</td>
<td>Business Combinations</td>
<td>The objective of this Standard is to set out how business combinations shall be recorded in accounting and presented in financial statements.</td>
</tr>
<tr>
<td>15</td>
<td>Investments in Associates</td>
<td>The objective of this Standard is to set out how investments in associates shall be recorded in the investor’s accounting and presented in financial statements.</td>
</tr>
<tr>
<td>16</td>
<td>Consolidated Financial Statements and Investments in Subsidiaries</td>
<td>This Standard establishes a procedure of preparing consolidated financial statements of a group consisting of a parent and subsidiaries.</td>
</tr>
<tr>
<td>19</td>
<td>Provisions, Contingent Liabilities and Contingent Assets, and Events After the Balance Sheet Date</td>
<td>This Standard sets out how provisions, contingent liabilities, contingent assets and events after the balance sheet date shall be measured, accounted for and presented in financial statements.</td>
</tr>
</tbody>
</table>
Table 1. BAS and their field of regulation legitimized since 2004.01.01 (cont.)

<table>
<thead>
<tr>
<th>No.</th>
<th>Title of BAS</th>
<th>Field of regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>Operating Lease, Finance Lease and Loan-for-use</td>
<td>This Standard sets out how a finance lease, operating lease and loan-for-use shall be recorded in accounting and presented in financial statements.</td>
</tr>
<tr>
<td>21</td>
<td>Grants and Subsidies</td>
<td>This Standard sets out how grants and subsidies shall be recognised, accounted for and presented in financial statements.</td>
</tr>
<tr>
<td>22</td>
<td>Changes in Foreign Exchange Rates</td>
<td>This Standard sets out how transactions of an entity in foreign currencies and results of its foreign operations shall be recorded in accounting as well as how changes in foreign exchange rates shall be presented in financial statements.</td>
</tr>
</tbody>
</table>

Source: compiled by the authors according to Business Accounting Standards (2014).

In 2004, five additional BAS were issued. They were legitimized on the 1st of January, 2005, but could be applied to preparing financial statements for 2004. On the 25th of August, 2004 the 25th BAS Construction and Other Long-term Contracts was passed, which set out how income and expenses related to construction contracts shall be recognised, accounted for and presented in financial statements, therefore it discusses when contract income and costs shall be recognised as income and expenses in the income statement. Later that year, in October, the 17th BAS, Biological Assets, was issued, which set out how biological assets used in agricultural activities shall be recorded in accounting and presented in financial statements; the 24th BAS, Income Tax, which set out how corporate income tax and other taxes based on taxable profit shall be accounted for and presented in financial statements applying the accrual principle; the 18th BAS Financial Assets and Financial Liabilities, which set out a procedure for recognising, measuring, accounting for, and presenting financial assets and financial liabilities in financial statements. And on the 8th of December, 2005 the 23rd BAS Impairment of Assets was issued, which set out how impairment of non-current assets shall be measured, recorded in accounting and presented in financial statements.

In 2005, from September to December, another five BAS were passed, which were legitimized on January 1st, 2006, with the possibility of applying their regulations in the preparation of financial statements for 2005: the 29th BAS, Interim Financial Statements, for the procedure of preparing interim financial statements and minimum requirements for information disclosure (issued on the 23rd of September); the 30th BAS, Related Parties, for determining who the related parties are and what information shall be provided about them and their transactions with the entity (group of entities) in financial statements (issued on the 22nd of December); the 34th BAS, Segment Reporting, which set out how information on segments shall be presented in financial statements (issued on the 22nd of December); the 36th BAS, Record Keeping and Financial Reporting of Unlimited Civil Liability Legal Persons, set out how unlimited civil liability legal persons, i.e. individual enterprises and partnerships, shall keep their records, register economic transactions and events and prepare financial
statements (issued on the 22nd of December), on the 16th of October, 2012 this standard was transformed into the 38th BAS, *Accounting and Financial Statements of Unlimited Civil Liability Legal Persons and Small Partnerships*, when its field of regulation was expanded for small partnerships accounting and financial statements composition, content and preparation, too.

From 2006 to 2011 9 BAS were issued, which are presented in Table 2.

**Table 2. BAS and their field of regulation, issued since 2006 till 2011**

<table>
<thead>
<tr>
<th>No.</th>
<th>Title of BAS</th>
<th>Date</th>
<th>Field of regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>Derivative Financial Instruments</td>
<td>2007.09.07</td>
<td>This Standard sets out how financial assets and financial liabilities arising from derivative financial instruments shall be recognised, measured, accounted for and presented in financial statements.</td>
</tr>
<tr>
<td>27</td>
<td>Concession Arrangements</td>
<td>2009-12-29</td>
<td>This Standard sets out how transactions related to concession, public and private sectors partnership and other similar agreements shall be accounted and presented in financial statements.</td>
</tr>
<tr>
<td>28</td>
<td>Liquidation of Entities</td>
<td>2009.12.31</td>
<td>This Standard sets out how a liquidated entity’s assets, equity, liabilities, revenue, expenses, and cash flows shall be presented in financial statements, and other information which shall be revealed in explanatory notes.</td>
</tr>
<tr>
<td>31</td>
<td>Employee Benefits</td>
<td>2008.12.22</td>
<td>This Standard sets out the order of employee benefits accounting and presenting in financial statements.</td>
</tr>
<tr>
<td>33</td>
<td>Financial Statements of Financial Brokerage Firms and Management Companies</td>
<td>2006.05.12</td>
<td>This Standard sets out the procedure for preparing financial statements of the financial brokerage firms and management companies, it sets forth the general requirements for the composition and contents of the financial statements of these entities.</td>
</tr>
<tr>
<td>37</td>
<td>Investments in Joint Ventures</td>
<td>2006.12.18</td>
<td>This Standard sets out how investments in joint ventures shall be recorded in accounting and presented in financial statements.</td>
</tr>
<tr>
<td>41</td>
<td>Splitting Up of Entities</td>
<td>2010.02.22</td>
<td>This Standard sets out order of splitting up of entities accounting and presentation in financial statements.</td>
</tr>
<tr>
<td>43</td>
<td>Accounting and Financial Statements of Credit Unions</td>
<td>2011.12.23</td>
<td>This Standard sets out the requirements for the composition of financial statements and the content for credit unions.</td>
</tr>
</tbody>
</table>

Source: compiled by the authors according to Business Accounting Standards (2014).
At the moment, there are 39 Business Accounting Standards issued, which are based on IFRS accounting principles, and each of them has their implementation guidelines giving practical examples of its application (Activity related to Accounting…, 2013). The process of BAS development has not ended, however. The Standards are reviewed periodically. A new edition of the Standard is published and confirmation is settled each time a revision or addition of the Standard is made (Business Accounting Standards, 2014).

The Law on Accounting also requires that the manager of the enterprise be obligated to adopt an accounting policy. It should include:

- accounting standards and other legislation to be followed;
- accounting principles;
- the composition of financial statements;
- methods and rules for accounting of assets, equity, liabilities, revenue and expenses.

Additionally, the law prescribes mandatory requirements for documents:

- title of the document;
- code of enterprise;
- the content of a business transaction or event;
- results in physical and monetary terms;
- the names and signatures of authorized persons.

The manager determines the order for the drawing up of the documents and approves the list of employees who have been given the right to prepare and sign the documents. The enterprise determines the quantity, form and content of accounting registers (Lakis, 2013). According to the Law on Accounting (Lietuvos Respublikos Buhalterinės apskaitos įstatymas…, 2013), from 2013, legal or physical entities which provide bookkeeping services are obliged to insure their civil liability in the amount of not less than 10 thousand Litas (2.9 thousand Euros). Chief accountants, regardless of whether they are employees of the company or not, since 2016 must pass qualification exams in accounting, financial reporting and taxation.

The Law on Financial Statements (Lietuvos Respublikos Įmonių finansinės atskaitomybės…, 2013) prescribes the general accounting principles, the requirements for the preparation of financial statements, the composition of financial statements, and the evaluation of assets and liabilities. The Law on Consolidated Financial Statements (Lietuvos Respublikos Įmonių grupių…, 2013) specifies the terms for the consolidated financial statements (consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity, explanatory notes), which include all assets, liabilities, and equity as of the balance sheet date of enterprise being consolidated, also its income, expenses and cash flows related to the reporting period (Lakis, Kazlauskienė, 2008).

The Law on Consolidated financial statements (Lietuvos Respublikos Įmonių grupių…, 2013) state that the parent company is required to consolidate financial statements of the entire group except when the size of the two indicators does not exceed the following values: the value of assets – 18 million Litas (5.22 million Euros), sales revenue – 30 million Litas (8.7 million Euros), the number of employees – 75. Audit of consolidated financial statements is mandatory.
Apart from this, the manager of the enterprise must submit an annual consolidated report. The report should be an overview of activities and enterprise development, analysis of financial ratios and information relating to employees and environmental issues, development plans of the enterprise, the significant events that took place after the end of the reporting year, plans and forecasts for the future (Лакис, 2013).

Audit is compulsory in all joint-stock companies, state and municipal enterprises, enterprises of public interest, and in other companies in which the two indicators exceed the following values: the value of assets – 6 million Litas (1.74 million Euros), sales revenues – 12 million Litas (3.48 million Euros), the average number of employees – 50 (Лакис, 2013).

The financial statements of all entities must be registered in the Centre of Registers, which is a public entity of limited civil liability incorporated on the basis of the State-owned property. Recently, the Tax Authority of Lithuania made an agreement with the Centre of Registers to access all financial statements registered there directly. The financial statements presented to the Centre of Registers are usually sent by the legal entities using the standard financial reporting form prepared with the help of the AAA (Auditor Oversight and…, 2013). Financial statements have to be signed by the manager of the enterprise and, from January 2013, the chief accountant, too.

The development of accounting regulations in Lithuania is presented in Figure 1.

At this stage Lithuania was prepared to become a more transparent, investor-oriented country and due to the accounting and corporate disclosure harmonization processes it has established a strong background for better functioning and growth of its financial market (Legenzova, 2007).

Figure 1. Development of accounting regulation in Lithuania

![Diagram](source: prepared by the authors according to Subaciene et al. (2012).)
The accounting development process is endless, however. Despite permanent minor changes of the accounting regulations, which are defined by amendments of the abovementioned legislation, some significant improvements of the accounting system in Lithuania have been made.

3. Third stage – public sector reform

The demand for and the implementation of a number of reforms which have taken place in Lithuanian economics in recent decades were influenced by complex political and economic reasons; its elements can be divided into groups of political, social, economic and institutional factors (Backunaite, 2006). The reform of public sector accounting makes no exception; its imperative was structured by the impact of the abovementioned factors, which outlined the absence of a system to properly shape accounting information of public sector entities, and the drawbacks of efficient administration. Efficient administration of the public sector is a topical issue for every country, and it is being dealt with on both a theoretical and a practical level. However, efficiency is acknowledged as a rather wide concept which is applied in various fields, the implementation of which is based on optimal solutions applied according to a specific situation (Skiedrys et al., 2008).

A number of legislative acts regulated activities of public sector entities in Lithuania; however, regulation of accounting in the public sector received far less attention prior to the reform, especially if compared to regulation of accounting in the private sector in the Republic of Lithuania (Rudzioniene, 2009). Improper regulating of public sector entities’ accounting, insufficiency of received public sector accounting information and its inefficient utilization have naturally shaped the assumptions for the reform of public sector accounting.

Since the Soviet era, up to 2010, public sector entities for accounting and preparation of financial statements applied money or a modified money principle. Such a situation was reasonable and met the needs of the financial statements users. Since 1990, when the accounting reform of private entities was carried out, some scientists presented the idea that accounting of public sector entities should be approximated to the business accounting, but in Lithuania this process has not started. In spite of different opinions, the accrual accounting principle is applied in many countries. Although intensive public sector reform started in Lithuania since 2005 when the Lithuanian Government accepted the concept of public sector accounting and financial reporting reform, some efforts were made earlier, too. In 1997, the accounting was restructured in public health care institutions. In 1998, preparation of a new accounting methodology for public sector entities was started, but the project has not been completed (Vil-\"lis, Kazlauskienė, 2012). New accounting procedures in the public sector were developed and approved only in 2001. They presented a model chart of ledger accounts and
Transformation of accounting in Lithuania since 1990

detailed description of the procedure for registration of transactions. However, this document did not regulate the principles, procedures or sequence of consolidation of financial statements. On the 19th of July, 2002, the European Parliament and the Council adopted Regulation (EC) no. 1606/2002 *On the Application of International Accounting Standards*. It further emphasized the need to accelerate the creation of an internal market for financial services. This regulation states that accounting in all EU countries should be conducted and guided by common principles of accounting. Thus, accounting for transactions of public sector entities required new accounting methods (Лакис, Камараускене, 2012).

Public sector accounting reform in Lithuania also was conducted in accordance with the plan of modernizing financial management in the European Union. The first step in this direction was the application of the accrual based accounting principle. According to the plan of the European Commission, in January 2005 a new accounting system came into effect and new rules for accounting, based on International Public Sector Accounting Standards (IPSAS) were set. Transactions which were not regulated by IPSAS had to be recorded in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). The major advantage of the started reform was that financial statements had to be prepared based on the same principles in all EU Member States. This meant that their contents could be compared and analysed (Лакис, Камараускене, 2012).

It was as early as 2004–2005 when, before the accounting reform, the Ministry of Finance thoroughly analysed the demand and possibilities of how the changes should proceed, while research of public sector bookkeeping and financial accounting outlined the problem of the absence of the integrity of the accounting system of public sector entities as well as other equally important drawbacks, represented in Figure 2.

The absence of the integrity of the accounting system of public sector entities, detected in the research, was influenced by different regulation and different application of bookkeeping principles, i.e.: profit oriented entities of the public sector (for example, state and municipal companies) and non-profit oriented entities of the public sector (for example, public institutions), except for budget institutions, had applied the accumulative principle of bookkeeping; budget institutions had applied modified cash principle; bookkeeping in the state social insurance fund board had been based on the accumulative principle whereas financial statements had been prepared according to the International Accounting Standards; accounting in the Central Bank of the Republic of Lithuania had been carried out according to the accumulative principle, whereas its financial statements had been prepared based on European Central Bank guidelines, which are provided for the central banks which take part in the European central banks system (Lietuvos Respublikos Vyriausybės nutarimas Dėl viešojo..., 2013).
In order to tackle the absence of an integral bookkeeping system, the Ministry of Finance initiated a reform of the public sector, which enhances the state, municipal and budget institutions as well as public health care institutions under their control, also state social care, tax and other resource funds, accounting and financial statements system (Lietuvos Respublikos Viešojo..., 2013). The purpose of the reform was to progress to bookkeeping based on the accumulative principle in the public sector and also to reform the public sector bookkeeping system in order to accomplish trustworthy and objective information, which is necessary for adopting management and other economic decisions. It should be helpful to have more efficient management of state resources at all management levels and to have their utilization more transparent in the future, as only properly prepared financial statements assist in analyzing and assessing an entity’s activities, controlling, revealing drawbacks and foreseeing measures to tackle them.

Implementation of the reform of public sector accounting would influence the presentation of information presented in financial statements, based on the accumulative principle and revealing true and proper financial status of an entity, activity results and cash flows to users of the information. Thorough representation of assets and liabilities would enable assessment of funds to be dedicated to usability of the assets to be maintained, and liabilities to be implemented. Financial statements would also reveal the sources (own or borrowed) of financed state activity, they would assist in providing thorough and objective information which would enable budget institutions to be assessed, not according to their ability to control expenditures but accord-
ing to the efficiency of their activity (whether the results are achieved in the most economical way), they would provide conditions to plan resources and their distribution in a more rational manner and to assist in the assessment of management of working capital efficiency (Lietuvos Respublikos Vyriausybės nutarimas Dėl viešojo..., 2013).

The Law on Public Sector Financial Statements in the Republic of Lithuania came into force on the 1st January, 2008 (Lietuvos Respublikos Viešojo..., 2013). It defined financial accounting and the responsibilities for budget accomplishment of public sector entities, composition of financial sets, requirements for their development and responsibility for the preparation of the financial statements set as well as their representation (Subaciene, Budrionyte, 2011), according to which public sector entities prepare, submit and announce sets of financial statements from 2010 onwards. From December 2007 till December 2008 all 26 public sector accounting and financial reporting standards (PSAFRS), which denote separate areas of accounting systems, were approved and publicized. However, during the implementation of the reform, from the end of 2009 till the beginning of 2010, all the standards without exception were revised and amended due to drawbacks and inaccuracies. At the moment 27 PSAFRS have legitimized. In order to enhance the implementation of the reform, an obligatory chart of accounts for the public sector entities was announced, and manuals for bookkeeping of various types of public sector entities (budget institutions, treasury, resources fund and others) were prepared at the end of 2008; in mid-2009 an inventory for the transfer of ledger accounts balances into the accounts of the chart of accounts was prepared (Subaciene, Budrionyte, 2011).

However, even such comprehensive regulation of the reform implementation has imposed certain problems. Firstly, transfer to the accumulative principle increased the costs for the development, implementation and maintenance of the accounting information system, as public sector entities had to: develop new accounting politics and procedures for preparing financial statements; revise current or purchase new software for computer accounting; and improve qualification of the staff responsible for financial reporting. The reform of public sector accounting includes several periods for reporting, and it raises problems for assessment and comparison of information during the period of transition as well as bringing the necessity of double accounting during this period (Subaciene, Budrionyte, 2011).

After the accounting reform in the public sector, from 2010 accounting regulations considered three levels (Figure 3).

The first accounting regulation level – The Law on Accounting, which is valid for all subjects in the private and public sectors. The second accounting regulation level – other laws which regulate the preparation of financial statements (the Law on Financial Statements and the Law on Consolidated Financial Statements for the private sector; the Law on Public Sector Financial Statements for the public sector), and the third accounting regulation level — Business Accounting Standards or International

**Figure 3.** Levels of accounting regulation in Lithuania

<table>
<thead>
<tr>
<th>First level</th>
<th>The Law on Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector</td>
<td>Public sector</td>
</tr>
<tr>
<td>Second level</td>
<td>The Law on Financial Statements, the Law on Consolidated Financial Statements</td>
</tr>
<tr>
<td>Third level</td>
<td>BAS or IAS/IFRS</td>
</tr>
<tr>
<td></td>
<td>The Law on Public Sector Financial Statements</td>
</tr>
<tr>
<td></td>
<td>PSAFRS</td>
</tr>
</tbody>
</table>

Source: Rudzioniene, Christauskas (2010).

The Authority of Auditing and Accounting issues BAS and the Ministry of Finance issues PSAFRS. They are published in the law journal „News of the State”, so they become laws – they have the same status like other laws issued by the Government and they are compulsory to every subject. Only BAS have their methodical recommendations which explain their requirements (Rudzioniene, Christauskas, 2010).

4. **The Authority of Auditing and Accounting**

The first institution for the supervision of the development of accounting and auditing in Lithuania was established in 1995 as the Institute of Audit and Accounting. Its purpose was to participate in the preparation of legislation for accounting and audit, as well as to control the development of accounting and audit in Lithuania.

In order to expedite the accounting development process and to harmonize accounting regulations with the IFRS and EU Directives, the Institute of Audit and Accounting was reorganized as the Institute of Accounting in 2002. It carried out the following functions (Lakis, Kazlauskienė, 2008):

- to draw up business accounting standards;
- to prepare methodical recommendations for the implementation of BAS;
to give suggestions for the preparation of new legal acts, the elaboration of existing ones and for corresponding amendments;
- to issue periodical, methodical, and other literature on accounting;
- to arrange courses, seminars, conferences, and other professional events.

The Board of Standards, the Commission of Experts, and the Committee of Consultation function under the Institute of Accounting, which is described in Table 3.

**Table 3. Description of governance of the Institute of Accounting**

<table>
<thead>
<tr>
<th>Title</th>
<th>Number of members</th>
<th>Term of office of members</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Board of Standards</td>
<td>5 specialists in accounting and audit</td>
<td></td>
<td>Confirms and announces BAS and methodical recommendations</td>
</tr>
<tr>
<td>The Commission of Experts</td>
<td>9 members</td>
<td>3 years</td>
<td>Takes part in preparing exposure drafts of BAS and methodical recommendations, discusses them and submits to the Board of Standards</td>
</tr>
<tr>
<td>The Committee of Consulting</td>
<td>17 members</td>
<td></td>
<td>It submits to the Board of Standards its opinion on the drafts of BAS and methodical recommendations as well as its suggestions for drafts’ improvement</td>
</tr>
</tbody>
</table>

Source: compiled by the authors according to Lakis, Kazlauskienė (2008).

Exposure drafts of BAS were prepared according to the plan approved by the Board of Standards. It also approved the structure of the standard in preparation. Up to 3 months were given for preparation of the standard, but in some cases this period might be extended. Members of the Commission of Experts and the Committee of Consulting analysed the exposure draft for 15 workdays. Their comments and proposals were submitted to the Institute of Accounting. It sorted received comments by group and directed them to the Board of Standards. Subsequently, the exposure draft was discussed at the meeting of the Board of Standards attended also by the members of the Committee of Consulting and the Commission of Experts. The Board of Standards confirmed the exposure draft or organized a working group for its improvement. All concerned persons are able to state their opinions on the content of the standard 3 months after the announcement of an exposure draft. Afterwards, the Board of Standards confirmed and announced the particular BAS (Lakis, Kazlauskienė, 2008).

During the period from 2002 to 2008, 32 business accounting standards and the same number of guidelines for their implementation were developed and approved by the Institute of Accounting (Лакис, 2013).

The Institute of Accounting was reorganized to the Authority of Audit and Accounting (AAA) on the 28th of August, 2008. During 2007–2008, following the update of the EU Directive on Statutory Audit, the Lithuanian Parliament decided not to establish a new separate body for public audit oversight, but delegated these functions to the AAA to establish an independent system of regulation for the auditing profession. As a result of this reform, the responsibilities of the Institute of Accounting were
expanded to include the functions of Public Audit Supervision; and the name of the Institute was changed accordingly to the Authority of Audit and Accounting. The AAA is a public entity, accountable to the Ministry of Finance. It operates according to the Constitution of the Republic of Lithuania, the Civil Code of the Republic of Lithuania, the Law on Public Institution, the Law on Audit, Accounting Law, other laws and the AAA Charter, which was approved by the Order of the Minister of Finance of the 28th of August, 2008 (Basis for Establishment, 2013). The AAA is Lithuania’s independent regulator of the audit profession with primary responsibility in Lithuania in relation to standards of financial reporting and audit. In 2009, the AAA became a member of the International Forum of Independent Audit Regulators (IFIAR) and EGAOB (European Group of Audit Oversight Bodies). Membership in the IFIAR and participation in EGAOB work will allow the exchange of information on audit oversight with relevant audit oversight institutions of other countries and to enhance cooperation in the field of audit oversight (Mission and Responsibility / Authority, 2013).

The work of the Authority of Audit and Accounting is coordinated with two Advisory Committees (Structure, 2013), consisting of high level experts from financial market supervision institutions, the Ministry of Finance, the Tax Inspectorate, the Department of Statistic, Universities, and Audit and Accounting firms: the Audit Oversight Committee and the Accounting Standards Committee. Through audit investigations, the AAA has the right to inspect directly all auditors and audit firms registered in Lithuania and, with the help of the Audit Oversight Committee, to issue compulsory regulations in this field. Quality assurance of audits carried out by auditors and audit firms is implemented by the AAA together with the Chamber of Auditors. The Chamber of Auditors established the implementation of the procedure for the quality assurance of the carried out audit in the Chamber of Auditors, and coordinates it with the AAA. The AAA is informed if anyone other than controller’s members or employees of the Chamber of Auditors who are appointed, are responsible for the performed audit quality assurance, or other persons selected to carry out this function (Activities related …, 2013). With the help of the Accounting Standards Committee, the AAA sets Lithuanian standards for accounting and helps implement those standards through its consultation functions.

Conclusions

After detailed investigation of the accounting development system and the stages of the accounting transformation process, it may be stated that Lithuania’s accounting system has gone through several stages of development. Before the declaration of Lithuania’s independence, accounting was based on detailed rules and instructions adjusted for a central planned economy. On the 17th of December, 1991, Government of Republic of Lithuania issued a resolution For the Organization of Accounting and
Financial Statements no. 564, although this enactment did not make a big influence in practical application but it was the first step in the accounting transformation.

The background of the accounting system development was the Law on the Principles of Accounting issued on the 18th of June, 1992. Besides other regulations, the mentioned Law defined the Lithuanian accounting system’s conformity with the provisions of International Accounting Standards and European Union Directives, and in this way transformed the accounting regulations from detailed instructions to the application of Generally Accepted Accounting Principles used in market economies. Such financial statements as Balance Sheet, Income Statement, Profit (Losses) Allocation Statement, Cash Flow Statement and Explanatory Notes were approved on the 27th of October, 1993, by the Government of the Republic of Lithuania, which issued the Order for the drawing up of financial statements.

In 2001 three new laws: the Law on Accounting, the Law on Financial Statements, and the Law on Consolidated Financial, which began another important stage of Lithuanian accounting transformation, were approved. These laws complied with the European Union Directives and were the background for accounting regulations in Lithuania.

Since 2004, national accounting standards, so-called business accounting standards (BAS) were legitimized. BAS were prepared by adapting international financial reporting standards and were more oriented towards the information needs of business owners, which caused a number of differences between financial and tax accounting. The application of BAS moved Lithuania’s accounting towards principles-based accounting rather than instructions.

Due to different economic and political reasons, the absence of the integrity of the account systems of public sector entities, the Ministry of Finance initiated the accounting reform of the public sector. Public sector accounting reform in Lithuania also was conducted in accordance with the plan of modernizing financial management in the European Union. The purpose of the reform was to change over to bookkeeping based on the accumulative principle in the public sector and also to reform the public sector bookkeeping system in order to accomplish trustworthy and objective information, which is necessary for adopting management and other economic decisions. 26 public sector accounting and financial reporting standards (PSAFRS) were issued from December 2007 till December 2008. During the implementation of PSAFRS from the end of 2009 till the beginning of 2010 all the standards were revised and amended. At the moment, 27 PSAFRS are legitimized. An obligatory chart of accounts for the public sector, manuals for bookkeeping of various types of public sector entities, and inventory for the transfer of balances of ledger accounts into the accounts of the chart of accounts were prepared.

The Institute of Audit and Accounting was established in 1995 for the supervision of accounting and auditing in Lithuania. It participated in the preparation of legislation for accounting and audit, and controlled the development of accounting and audit in Lithuania. In 2002 the Institute of Audit and Accounting was reorganized into the
Institute of Accounting in order to expedite the accounting development process and
to harmonize accounting regulations with the IFRS and EU Directives. After 6 years
the responsibilities of the Institute of Accounting were expanded to include the functions
of Public Audit Supervision and on the 28th of August, 2008 it was reorganized
into the Authority of Audit and Accounting.

At the moment, the Lithuanian accounting system is regulated at three levels: the
first accounting regulation level is regulated by the Law on Accounting and is valid
for all subjects in private and public sectors; the second accounting regulation level
includes other laws which regulate the preparation of financial statements; the third
accounting regulation level consists of Business Accounting Standards or Internation-
Al Financial Reporting Standards for private sector and Public Sector Accounting and

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Summary
In Lithuania, the transition to a market economy required fundamental changes in many areas of business, and this directly influenced accounting development process. The purpose of the article is to present the process of the transformation of accounting in Lithuania since 1990. For that purpose the following methods were used: analysis of academic materials, legislation, filing of information, comparison and summarizing. The background of the accounting system development was the Law on the Principles of Accounting issued in 1992. In 2001 three new laws: the Law on Accounting, the Law on Financial Statements, and the Law on Consolidated Financial, which complied with EU Directives and were the background of accounting regulation in Lithuania, were approved. Since 2004 BAS came into force, and 39 BAS have been issued. The AAA sets Lithuanian standards for accounting. The purpose of the public sector accounting reform was to change over to bookkeeping based on the accumulative principle in the public sector to accomplish trustworthy and objective information. 27 PSAFRS have been issued. At the moment Lithuanian accounting systems are regulated at three levels: the first – the Law on Accounting; the second – other laws which regulate preparation of financial statements; the third – BAS or IFRS for private sector and PSAFRS for public sector.

Keywords: accounting, accounting system transformation, accounting regulation, Lithuania.

Streszczenie
Transformacja rachunkowości na Litwie po roku 1990

Słowa kluczowe: rachunkowość, transformacja systemu rachunkowości, regulacja rachunkowości, Litwa.