Regulation of the Ministry of Finance22.12.2017 nr 105
“Establishment of the Guidelines of the Accounting Standards Board”
Annex 2

ASBG 2 REQUIREMENTS FOR PRESENTATION IN THE FINANCIAL STATEMENTS

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OBJECTIVE AND BASIS FOR PREPARATION

1. The objective of this Accounting Standards Board's guideline ASBG 2 "Requirements for Presentation in the Financial Statements" is to prescribe rules for the presentation of financial information in the financial statements prepared in accordance with the Estonian financial reporting standard (hereinafter also *the financial statement).* Estonian financial reporting standard is a body of financial reporting requirements directed at the public and based on the internationally accepted accounting and reporting principles, which principal requirements are established by the Accounting Act and which is specified by a regulation of the minister responsible for the area established on the basis of subsection 34 (4) of the Accounting Act (hereinafter *guideline of the Standards Board* or for short *ASBG*).

2. ASBG 2 is based on IFRS for SMEs Sections 2 "*Concepts and Pervasive Principles*" 3 "*Financial Statement Presentation*", 4 "*Statement of Financial Position*", 5 "*Statement of Comprehensive Income and Income Statement*", 6 "*Statement of Changes in Equity and Statement of Income and Retained Earnings*", 7 "*Statement of Cash Flows*", 8 "*Notes to the Financial Statements*" and 33 "*Related Party Disclosures*"). The guideline contains references to the specific paragraphs of IFRS for SMEs that the requirements of the guideline are based on. The comparison of ASBG 2 with IFRS for SMEs is presented in clauses 56-58. In areas where ASBG 2 does not specify a particular accounting policy but that are covered by IFRS for SMEs, it is recommended to abide by the accounting policy described in IFRS for SMEs.

SCOPE

3. ***ASBG 2 "Requirements for Presentation in the Financial Statements" shall be applied to all financial statements prepared in accordance with the Estonian financial reporting standard.***

DEFINITIONS

4. ***The following terms and definitions are used in this guideline with the meanings specified:***

<u>Balance sheet</u> means a financial statement which shows the financial position (assets, liabilities and owners' equity) of an accounting entity at a given date.

<u>Income statement (statement of financial performance)</u> means a financial statement which shows the financial performance (income, expenses and profit or loss) of an accounting entity during an accounting period.

<u>Cash flow statement</u> means a financial statement which presents the cash flows ([1] receipts and payments of cash and cash equivalents) of an accounting entity during an accounting period.

[1] In practice, often the term "cash equivalents" is used instead of "cash approximations".

***Statement of changes in owners' equity** means a financial statement presenting the changes which have occurred in the owners' equity of an accounting entity during an accounting period.*

COMPONENTS OF THE FINANCIAL STATEMENTS AND GENERAL REQUIREMENTS FOR PREPARATION

5. ***A complete set of financial statements of an entity shall include the following main statements and notes (IFRS for SMEs 3.17):***

> ***(a) balance sheet;***
> ***(b) income statement (entities that incur gains and losses not recognised in the income statement according to clause 31 of this guideline shall also submit a statement of comprehensive income);***
> (c***) cash flow statement;***
> ***(d) statement of changes in equity; and***
> ***(e) notes pursuant to requirements of clauses 5-58 of ASBG 15 "Disclosures in the Notes".***

6. According to Sub-section 15 (2^1) of the Accounting Act, a micro undertaking and small undertaking[2] may prepare abridged financial statements instead of a complete set of financial statements, based on the following requirements:

> ***(a) the abridged financial statements of a small undertaking shall comprise at least two main statements – balance sheet and income statement and notes set out in clause 59 of ASBG 15 "Disclosures in the Notes";***
> ***(b) the abridged financial statements of a micro undertaking shall comprise at least two main statements – balance sheet and income statement and notes set out in clause 60 of ASBG 15 "Disclosures in the Notes";***

7. A micro and small undertaking may prepare financial statements of a higher category, instead of the abridged financial statements of a micro or small undertaking.

8. The financial statements shall clearly be distinguished from other information presented in the same document (e.g. the annual report). The financial statements shall clearly identify the accounting period that they have been prepared for. (IFRS for SMEs 3.23).

9. Financial statements shall be prepared in Estonian and in the currency officially applicable in Estonia, and the degree of precision used for the figures shall be indicated (for example, in thousands of currency units). (IFRS for SMEs 3.23 (d), (e))

BALANCE SHEET

[2] The terms and definitions have been defined in Section 3 of the Accounting Act.

General Rules

10. ***An accounting entity which prepares its financial statements in accordance with the Estonian financial reporting standard (except for accounting entity, specified in clause 12 of this guideline) shall use the balance sheet format set out in Note 1 to the Accounting Act.***

11. Note 1 of this guideline contains a table with the explanation of balance sheet items as well as an overview of different accounting policies for balance sheet items and references to other guidelines of the Accounting Standards Board where accounting for these items is addressed in more detail.

Specific Balance Sheet Formats

12. ***In industries where it is appropriate because of the nature of operating activities (e.g. credit institutions, insurance providers, investment firms, fund managers, non-profit associations and state accounting entities), an accounting entity may use a balance sheet format other than that provided in Note 1 of the Accounting Act.***

13. When selecting a different balance sheet format other than that described in Note 1 of the Accounting Act, the purpose of the financial statements, set out in Section 15 of the Accounting Act, the requirements of other legislation regulating the given field of activity, internationally accepted accounting and reporting principles, guidelines of the Board regulating the respective areas and international practice in the relevant field shall be followed; for state accounting entities also the requirements of the public sector financial accounting and reporting guidelines.

Current and Non-Current Distinction of Assets and Liabilities

14. ***Assets and liabilities are classified in the balance sheet based on their useful life and payment term. Short-term assets are called current assets and long-term assets are called non-current assets. Based on the payment term, a distinction is made between short-term and long-term liabilities. (IFRS for SMEs 4.4).***

15. In selecting a balance sheet format other than that described in Note 1 of the Accounting Act (see clauses 12-13), an accounting entity may consider it appropriate not to classify its assets as short- and long-term use assets and liabilities as short- and long-term liabilities (for example, in the case of financial institutions where in accordance with the international practice there is no such distinction in the balance sheet). In this case, the accounting entity is required to present its assets and liabilities in the balance sheet in order of liquidity. (IFRS for SMEs 4.4).

16. ***The following assets are recorded as current assets:***

> ***(a) cash and cash equivalents, except when they cannot be used at least within the next 12 months after the reporting date;***
>
> ***(b) assets expected to be disposed of during the normal business cycle of an entity (even if it is longer than 12 months; e.g. inventories and some trade receivables);***

> ***(c) assets held primarily for the purpose of trading (e.g. financial investments held for the purpose of trading); and***
> ***(d) assets expected to be disposed of within the next 12 months after the reporting date (for example financial investments that are expected to be sold and are likely to be sold within the next 12 months).***

All other assets are recognised as non-current assets. (IFRS for SMEs 4.5, 4.6).

17. The following liabilities are recognised as current:

> ***(a) liabilities expected to be settled during an entity's normal operating cycle (e.g. trade payables);***
> ***(b) liabilities held primarily for the purpose of trading;***
> ***(c) liabilities with the maturity date within 12 months after the reporting date (for example short-term loans).***

All other liabilities are recognised as non-current. (IFRS for SMEs 4.7, 4.8).

18. A loan with the maturity date within 12 months after the reporting date shall be recognised as a current liability, except when the entity can either roll over or refinance the loan (e.g. a respective agreement has been entered into) at the reporting date and it plans to use this option. However, if the entity plans to roll over or refinance the loan but there is no certainty about the fulfilment of this plan by the reporting date (e.g. there is no agreement to either roll over or refinance the loan), this loan shall be recorded as a current liability even if after the reporting date it was either rolled over or refinanced. (IFRS for SMEs 4.7 (d))

19. When an entity has breached the terms and conditions of a long-term loan agreement as a result of which the lender has the right to immediately call the loan at the reporting date, this loan shall be classified as current liability even if the lender has agreed after reporting date not to exercise that right.

Offsetting Assets and Liabilities (Recognition in Net Amount)

20. ***Assets and liabilities shall not be offset in the balance sheet unless an entity has a legal right for offsetting assets and liabilities and it is probable that it uses this right. (IFRS for SMEs 2.52).***

<u>Example 1 – Recognition of receivables and liabilities in the balance sheet in net amount</u>
An entity has entered into an agreement with another party according to which their mutual receivables and liabilities are not paid off on an ongoing basis but they are set off once a year.
Based on the aforementioned agreement, the entity will recognise the receivables and liabilities with the other party in the net amount in its balance sheet.

<u>Example 2 – Recognition of receivables and liabilities in the balance sheet in net amount is not permitted</u>
An entity plans to set off the existing receivables and liabilities with the other party and it is probable that the other party agrees to it. By the reporting date, no such offsetting agreement had been entered into.
As the entity had no legal basis for offsetting receivables and liabilities on the reporting date, these cannot be recognised in the net amount in the balance sheet.

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

Income statement - General Rules

21. ***An accounting entity which prepares its financial statements in accordance with the Estonian financial reporting standard (except for accounting entity, specified in clause 26 of this guideline) shall use the balance sheet format set out in Note 2 to the Accounting Act.***

22. In format 1 of the income statement, operating expenses are classified based on the nature of expenses (e.g. raw material costs, labour costs, depreciation expense). Format 1 is generally easier to apply, as it does not require the allocation of expenses among the entity's different functions. Smaller companies that do not need to classify expenses by functions often use Format 1, but so do also larger companies in industries where according to the international practice it is customary to prepare income statements based on the nature of expenses rather than on their function.

23. In format 2 of the income statement, operating expenses are classified according to the function of an entity's expenses (e.g. cost of goods sold, distribution expenses, general and administrative expenses). It is usually more difficult to implement format 2 since a decision needs to be made regarding which functions operating expenses relate to. Certain costs (e.g. labour costs) must be allocated between different functions pursuant to their relationship with different functions. The income statement presented according to format 2 provides a better overview of the cost of different functions at the company to the readers of the income statement, at the same time the classification of expenses according to the function is subjective and the income statements of different entities using format 2 may not be comparable.

24. The choice of an appropriate income statement format depends on which classification provides more relevant and truthful information to the users of the formation of the financial result of the entity, taking into account the international practice in the industry. (IFRS for SMEs 5.11) In the transition from one income statement format to the other, comparative information of the prior period shall be adjusted retrospectively (in accordance with the new presentation).

25. Note 2 of the current guideline provides a table with general descriptions of income statement items. The exact outline of income statement items depends on an entity's industry and the established international practice in this area. In its accounting policies and procedures, every accounting entity, except for a micro entity, is required to provide a detailed description of which income and expenses are recorded in which income statement items, and consistently adhere to the same outline.

Specific Income Statement Formats

26. ***In industries in which it is appropriate because of the nature of economic activities (e.g. credit institutions, insurance providers, investment firms, fund managers, non-profit institutions and state accounting entities), an accounting entity***

may use an income statement format other than those provided in Note 2 of the Accounting Act.

27. When selecting a different income statement format other than that described in Note 2 of the Accounting Act, the purpose of the financial statements, set out in Section 15 of the Accounting Act, the requirements of other legislation regulating the given field of activity, internationally accepted accounting and reporting principles, guidelines of the Board regulating the respective areas and international practice in the relevant field shall be followed; for state accounting entities also the requirements of the public sector financial accounting and reporting guidelines.

Offsetting Income and Expenses (Recognition in Net Amount)

28. ***Income and expenses shall not be offset in the income statement except for income and expenses not related to core activities that have resulted from one and the same or several similar transactions and that are immaterial when considered separately. (IFRS for SMEs 2.52).***

29. In general, income and expenses are recorded separately in the income statement, without any offsetting. Income and expenses relating to non-core activities may be offset in the income statement if it provides a more realistic view of the nature of transactions. The following are examples of situations of offsetting any income with related expenses and the result is recognised in the net amount in the income statement:

(a) profits (losses) arising from the sale of non-current assets are reported on a net basis (proceeds from the sale of non-current assets less the carrying amount of sold assets and related costs to sell) (IFRS for SMEs 2.52 (b));

(b) rental expense of the lessee is offset with the rental income received from the sublease of the same space (assuming that leasing is not the main activity of the entity);

(c) gains (losses) arising from foreign exchange rate differences are reported on the net basis in the income statement;

(d) litigation costs are offset against income from the same litigation in the income statement (e.g. compensation from the third party);

(e) profits (losses) from the application of the equity method are reported on the net basis in the income statement;

(f) gains (losses) on the sale and revaluation of financial investments are reported on the net basis in the income statement.

Statement of Comprehensive Income

30. ***Entities that incur gains and losses that are not recognised in the income statement according to clause 31 of this guideline (other comprehensive income or loss) shall present a statement of comprehensive income in addition to the income statement. The statement of comprehensive income shall be presented as a separate statement after the income statement. (IFRS for SMEs 5.2 (b), 5.7)***

31. According to the guidelines of the Board, certain gains and losses are not reported in the income statement. Such gains and losses constitute other comprehensive income or loss and these are (IFRS for SMEs 5.4):

(a) differences arising from the translation of financial data of a foreign business from its functional currency to presentation currency (ASBG 1 clause 91);
(b) other gains and losses whose recognition is unregulated by the guidelines of the Board but which pursuant to IFRS for SMEs or IFRS are recognised in the statement of comprehensive income (e.g. the effective portion of gains and losses incurred in revaluation of cash flow hedges pursuant to section 12 of IFRS for SMEs or the Standard IAS 39).

32. The statement of comprehensive income presents the comprehensive income of the period that comprises the profit/loss of the accounting period reported in the income statement and components of other comprehensive income and loss listed in clause 31 of this guideline. The total comprehensive income for a period expresses a change in an entity's equity not resulting from transactions with owners.

33. The statement of comprehensive income shall be presented as a separate statement after the income statement. An example of the statement of comprehensive income is provided in Note 2 of this guideline.

CASH FLOW STATEMENT

General Rules

34. ***A cash flow statement reports the inflows and outflows of an accounting entity during the accounting period, classified according to their purpose as cash flows from operating, investing and financing activities. A micro and small enterprise does not need to present a cash flow statement in its abridged financial statements.***

35. The objective when preparing the cash flow statement is to provide an overview of cash generated by an entity and cash used by an entity, the sources of financing and changes in the entity’s cash and cash equivalents. Disclosures in the cash flow statement are relevant for the assessment of an entity’s ability to generate cash and cash equivalents which in turn is used for determining the value of the entity. Note 3 of this guideline provides an example of the cash flow statement prepared under the indirect method.

36. Cash equivalents are short-term (generally up to 3 months), highly liquid investments that are convertible to known amounts of cash and that have no significant market value risk, for example, short-term deposits and units of money market funds (assuming that the fund invests in financial assets that meet the definition of cash approximation). (IFRS for SMEs 7.2).

Cash flows from operating activities

37. In recording cash flows from operating activities, either a direct or an indirect method may be used. (IFRS for SMEs 7.7).

38. Under the direct method, all major classes of cash inflows and outflows from operations are presented as gross amounts, such as (IFRS for SMEs 7.4, 7.9):

(a) cash receipts from the sale of goods and rendering of services;
(b) cash payments for goods, raw materials and services;
(c) wages and salaries paid;
(d) income tax paid (as an alternative, income tax on dividends may be presented under financing activities, IFRS for SMEs 7.17);
(e) interest paid (as an alternative, interest paid may be presented under financing activities; IFRS for SMEs 7.15).

39. Under the indirect method, the profit or loss is adjusted (IFRS for SMEs 7.8):
(a) the effect of non-cash business transactions (e.g. depreciation; setting up of a provision);
(b) the changes in the balances of assets and liabilities related to operating activities; and
(c) income and expenses relating to cash flows from investing or financing activities (e.g., profit from the sale of non-current assets or financial investments).

Cash flows from investing activities

40. Cash flows from investing activities are recognised using the direct method (IFRS for SMEs 7.9, 7.10). All major classes of receivables and payments are presented as gross amounts (payments made for purchases shall be presented separately from sales receipts), including (IFRS for SMEs 7.5):
(a) purchase and sale of property, plant and equipment and intangible assets;
(b) purchases and sales of investment property;
(c) purchases and sales of subsidiaries and associates;
(d) purchases and sales of other financial investments (financial institutions record purchases and sales of short-term financial investments under operating activities);
(e) loans made to other parties (except for financial institutions for which lending is a main activity);
(f) receipts from the repayments of loans made (except for financial institutions for whom lending is one of the main activities);
(g) purchase and sale of derivatives acquired for the purpose of trading (except for financial institutions for which it is a main activity);
(h) interests and dividends received (except for financial institutions for whom this is a part of operating cash flows). Alternatively, also other companies are allowed to record interests and dividends received under operating activities. (IFRS for SMEs 7.15).

Cash flows from financing activities

41. Cash flows from financing activities are recognised using the direct method (IFRS for SMEs 7.9, 7.10). All major classes of receipts and payments (each separately) relating to financing activities are presented as gross amounts, including (IFRS for SMEs 7.6):
(a) receipt of loans;
(b) repayment of loans received;
(c) finance lease payments;
(d) issuance of shares;

(e) purchases and sales of treasury shares;
(f) payment of dividends.

Reporting Foreign Currency Transactions in the Cash Flow Statement

42. Cash flows from transactions denominated in foreign currency are translated into the entity's functional currency by applying the exchange rate applicable at the date of the cash flow (for practical purposes, the weighted average rate for the period may also be used). (IFRS for SMEs 7.11).

43. Cash flows of subsidiaries and other businesses located abroad are translated into the parent's presentation currency by applying the exchange rate applicable at the date of cash flow (for practical purposes, the weighted average rate for the period may also be used). (IFRS for SMEs 7.12).

44. The effect of foreign exchange rates on cash and cash equivalents held in foreign currency shall be recognised separately from operating, investing and financing cash flows. (IFRS for SMEs 7.13).

STATEMENT OF CHANGES IN EQUITY

45. ***All changes in equity items of an accounting entity that occurred during the accounting period shall be recorded in the statement of changes in equity. A micro and small enterprise does not need to present a statement of changes in owner's equity in its abridged financial statements.***

46. The statement of changes in equity reports separately (IFRS for SMEs 6.2, 6.3):
(a) amount of contributions made by owners into the capital (e.g. increase of share capital);
(b) distributions from equity made to shareholders (e.g. dividend distribution);
(c) net profit or loss for the accounting period recorded in the income statement (entities preparing a statement of comprehensive income according to clause 30 of this guideline shall report the total comprehensive income for a period instead of net profit or loss);
(d) the effect on the equity items arising from the changes in accounting policies (e.g., the retrospective adjustment to retained earnings in conjunction with the application of a new guideline of the Board);
(e) increases and decreases of reserves (including changes in legal reserve);
(f) the effect of the correction of errors on equity items;
(g) transactions with treasury shares;
(h) cancellation of shares;
(i) other business transactions with an effect on equity items.

47. The format provided in Note 4 of this guideline is recommended to be used for the preparation of the statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS

48. ***The disclosures in the notes to the financial statements shall correspond to the minimum requirements specified in the Accounting Act and the requirements presented in ASBG 15 “Disclosures in the Notes”.***

49. ***In the notes to the complete set of financial statements, an accounting entity shall additionally disclose (IFRS for SMEs 8.2):***

(a) additional information on material items presented in the main statements and changes therein during the accounting period (the main statements shall contain references to the notes which explain information presented in the main statements in greater detail);

(b) other information, which is necessary for giving a relevant and truthfully presented overview on the financial condition, performance and cash flows of an accounting entity.

50. The notes to the financial statements shall be presented in a systematic manner, for example in the following order (IFRS for SMEs 8.3, 8.4):

(a) accounting policies;

(b) notes explaining the line items of the primary statements (possibly in the same order as the primary statements and the line items presented in them);

(c) other explanatory notes.

DEFINITION OF RELATED PARTIES

51. A related party is a person or entity related to the entity preparing the financial statements (reporting entity) to the extent that transactions between them may not occur under market conditions. In order to understand the potential effect of related party transactions on the entity's financial position and profit, additional information on related parties must be disclosed in the financial statements. (IFRS for SMEs 33.1, 33.2).

52. A person or a close member of that person’s family (i.e. a family member for whom significant influence may be presumed, such as a spouse, civil partner or child) is related to the reporting entity if that person (IFRS for SMEs 33.2(a)):

(a) is a member of the management of the reporting entity or of its parent entity (i.e. a person with authority to directly or indirectly plan, direct and control the entity's operations and who bears responsibility for it); or

(b) has control or significant influence over the reporting entity (for example via equity ownership).

53. An entity is related to a reporting entity if one or several of the following conditions applies (IFRS for SMEs 33.2(b)):

(a) an entity and the reporting entity are under common control (i.e. they are either members of the same group or under control of the same person (or a close family member of that person));

(b) one entity is an entity under the control of a third party (who can be an entity or person) and the other entity is an entity under significant influence of that

third party (if a person is the third party, this person or a close family member of that person);
(c) an entity has dominant or significant influence over the reporting entity;
(d) an entity is under the reporting entity's dominant or significant influence;
(e) entities over which persons defined in sub-clause 52 (a) (or close family members of these persons) have dominant or significant influence;
(f) entities with persons (or close family members of these persons) in their management who have dominant or significant influence over the reporting entity.

54. In considering possible related party relationships, an entity shall assess the substance of the relationship and not merely the legal form. (IFRS for SMEs 33.3).

55. The following are not related parties (IFRS for SMEs 33.4):
(a) two entities simply because they have a member of management in common;
(b) for example, the entity's providers of finance, state authorities, or other similar bodies, even though they may affect the freedom of action of an entity or participate in its decision-making process;
(c) for example customers, suppliers, distributors, or other persons, with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

COMPARISON WITH IFRS FOR SMES

56. The requirements set out in ASBG 2 on the components of a complete set of financial statements and their presentation is generally in conformity with the requirements established in Sections 2-8 of IFRS for SMEs (IFRS for SMEs does not provide for a possibility to prepare abridged financial statements, as it is allowed to micro and small enterprises in Estonia pursuant to the Accounting Act). Section 5 of IFRS for SMEs permits the presentation of a statement of comprehensive income either instead of the income statement or in addition to it. As Estonia's Accounting Act requires entities to present an income statement, pursuant to ASBG 2, a statement of comprehensive income may only be presented in addition to the income statement and not instead of it. ASBG 2 requires only those entities to present a statement of comprehensive income that incur gains and losses that are not reported in the income statement, section 5 of IFRS for SMEs requires all entities to present a statement of comprehensive income. Section 3 of IFRS for SMEs permits entities in certain cases to present a “Statement of income and retained earnings”as one statement instead of an income statement and a statement of changes in equity. Estonia's Accounting Act requires entities, who prepare a complete set of financial statements, to present a statement of changes in equity, while ASBG 2 does not permit that choice. Section 5 of IFRS for SMEs requires that profit/loss from discontinued operations be reported on a separate line in the income statement. ASBG 2 does not impose that requirement.

57. Unlike ASBG 2, sections 4 and 5 of IFRS for SMEs do not set out specific formats for the balance sheet and income statement but describe general requirements for the preparation of the balance sheet and income statement. The balance sheet and income statement formats established for the complete set of financial statements in the

Accounting Act of Estonia and ASBG 2 are in compliance with the general requirements of sections 4 and 5 of IFRS for SMEs.

58. The definition of related parties is in accordance with section 33 of IFRS for SMEs: unlike in IFRS for SMEs there is no separate provision in the guidelines of the Accounting Standards Board (see ASBG 11 "Business Combinations and Accounting for Subsidiaries and Associates"), for the definition of and accounting for joint ventures; instead, these are addressed as associates. Therefore, the related party definition provided in this guideline does not contain references to joint ventures. According to the opinion of the Board, the vast majority of Estonian entities shall experience no differences in identifying related parties pursuant to the Estonian financial reporting standard and IFRS for SMEs.

NOTE 1 – EXPLANATION OF BALANCE SHEET ITEMS

The following table provides an overview of the substance of different balance sheet items and accounting policies of the items reported in the specific item, and it refers to the other guidelines of the Board where accounting for these items is addressed in more detail. Depending on the specific nature of business activities of a given accounting entity, it may be appropriate to change the contents of these items or add additional items.

Notes present subdivisions of balance sheet entries, if it makes for greater clarity and legibility of the balance sheet or is required in the Accounting Act or guidelines of the Board. Depending on the size of the entity, the Accounting Act may require or permit presentation of certain entries instead of balance sheet in the notes of the financial statements.

As the table provides only a very brief overview of the accounting policies used for balance sheet entries, then for the purpose of correct accounting and reporting it is necessary to get acquainted with the accounting policies in the guideline of the Board referred to in the table.

Balance sheet item	***Item content and subdivisions***	***Accounting policy***	***Reference to the guideline***
ASSETS (ASSETS)			
Current assets			
Cash	Cash on hand and at bank; deposits on demand; short-term investments in money market funds and other highly liquid funds	Amortised cost or fair value	ASBG 3
Financial investments	Financial assets likely to be realised within the next 12 months: investments in securities held for the purpose of trading and other short-term investments in securities (shares, bonds, debentures, fund units, etc.)	Fair value, cost or amortised cost	ASBG 3
Receivables and prepayments	Short-term receivables and prepayments made. Main groups: trade receivables, prepaid taxes and receivables for reclaimed taxes, other short-term receivables, prepayments for services, loans	Amortised cost (generally equal to nominal value less any write-downs), except prepayments and tax balances	ASBG 3 (except prepaid expenses and tax balances)

	granted (at remaining term of up to 12 months).		
Inventories	Inventories according to the definition of ASBG 4. Main groups: raw materials and materials, work-in-progress, finished goods, goods purchased for resale, prepayments for inventories	The lower of cost and net realisable value. Publicly traded inventories in brokers' reports: at fair value less costs to sell	ASBG 4
Biological assets	Biological assets according to the definition of ASBG 7	Fair value (if fair value cannot be determined reliably without undue cost or effort, cost less accumulated depreciation and impairment)	ASBG 7
Total current assets			
Non-current assets			
Investments in subsidiaries and associates	Shares of subsidiaries (this sub-line item is used only in separate financial statements), shares of associates	Cost, fair value or equity method	ASBG 11
Financial investments	Financial assets unlikely to be realised within the next 12 months: other shares and securities (shares, bonds, debentures, fund units, etc.) unlikely to be sold within the next 12 months, as well as securities with fixed maturity dates whose maturity date is over 12 months after the reporting date	Amortised cost, fair value or cost method	ASBG 3
Receivables and prepayments	Long-term loans and other receivables, deferred tax	Amortised cost, except prepayments and deferred income tax	ASBG 3, deferred tax ASBG 6 and section 29 of IFRS for SMEs
Investment property	Investment property according to the definition of ASBG 6	Fair value (if fair value cannot be determined reliably without undue cost or effort, cost less accumulated depreciation and impairment)	ASBG 6
Property, plant and equipment	Property, plant and equipment according to the definition of ASBG 5. The groups of property, plant and equipment: land, buildings (buildings, facilities, roads), machinery and equipment (production equipment, vehicles and other equipment), other property, plant and equipment (fixtures, furniture, office appliances), construction in progress and prepayments	Cost less accumulated depreciation and impairment	ASBG 5
Biological assets	Biological assets according to the definition of ASBG 7	Fair value (if fair value cannot be determined reliably without undue cost or effort, cost less accumulated	ASBG 7

		depreciation and impairment)	
Intangible assets	Intangible assets according to the definition of ASBG 5. The groups of intangible assets: goodwill (goodwill arising on business combinations according to the ASBG 11), other intangible assets, prepayments for intangible assets	Cost less accumulated depreciation and impairment	ASBG 5
Total non-current assets			
TOTAL ASSETS (ASSETS)			

LIABILITIES AND SHAREHOLDER'S EQUITY (LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Short-term liabilities			
Loan liabilities	Short-term (with a term of up to 12 months) loans, bonds and finance lease liabilities, overdraft and other borrowings created for financing, repayments of long-term loan liabilities during the next year (i.e. within the nearest 12 months), convertible debt (short-term convertible bonds or preference shares that can be converted into the entity's shares)	Amortised cost (in case of convertible debt, the equity component should be separated if necessary). Use ASBG 9 for accounting for finance lease liabilities	ASBG 3, finance lease liabilities ASBG 9
Payables and prepayments received	Short-term payables and prepayments received. Main groups: trade payables, payables to employees, tax liabilities, other liabilities, prepayments received	Amortised cost, except prepayments and tax balances	ASBG 3 (except prepayments received and tax balances)
Provisions	Liabilities of uncertain timing and amount; likely to be settled within the next 12 months or during the ordinary business cycle of an entity (e.g. warranty provisions, restructuring provisions, provision for potential expenses relating to litigation, etc.)	Management's estimate on the most probable amount necessary for settling the liability relating to a provision	ASBG 8
Government grants	Government grants received that do not yet meet the criteria to be recognised in income and which are expected to meet the requirements within 12 months	Fair value of assets received or to be received less amounts recorded as income	ASBG 12
Total short-term liabilities			
Long-term liabilities			
Loan liabilities	Loans, bonds and finance lease liabilities (the portion repayable in over 12 months' time), convertible debt (long-term convertible bonds or preference shares that can be converted into the entity's shares)	Amortised cost (in case of convertible debt, the equity component should be separated if necessary). Use guideline ASBG 9 for accounting for finance lease liabilities	ASBG 3, Finance lease liabilities - ASBG 9
Payables and prepayments received	Long-term liabilities (those repayable later than within 12 months after the reporting date), prepayments received, deferred income tax	Amortised cost, except prepayments and deferred income tax.	ASBG 3, deferred tax ASBG 8 and section 29 of IFRS for SMEs
Provisions	Liabilities of uncertain timing and amount; likely to be settled later than within 12 months after the reporting date (e.g. pension provision, provision for	Management's estimate on the most probable amount (discounted if the effect is material) that is necessary for settling the liability relating to a provision. In	ASBG 8

	potential expenses relating to litigation, etc.)	case of pension provisions, the estimate of an actuary or another specialist on the present value of the pension liability.	
Government grants	Government grants received that do not yet meet the criteria to be recognised as income and which are expected to meet the requirements later than within 12 months	Fair value of assets received or to be received less amounts recorded as income	ASBG 12
Total long-term liabilities			
Total liabilities			
Equity			
Minority interest (this item is used only in consolidated financial statements)	The portion of the net assets of subsidiaries in the consolidation group not belonging to the parent entity	According to the accounting method described in ASBG 11	ASBG 11
Share capital belonging to the shareholders of the parent company (this sub-item is used only in consolidated financial statements)			
Nominal value of share capital[3]	Nominal value of share capital issued (not including preference shares which are classified as liabilities according to ASBG 3)	Nominal value of shares	
Unregistered share capital	Shares issued by the reporting date but not yet registered in the commercial register. In case an application for the registration of new shares has not been submitted to the commercial register by the reporting date, consideration from such shares are recorded as a liability in the balance sheet.	Issue price of shares (after registration their nominal value is recorded in the line “Share capital” and the potential share premium in the line “Share premium”)	
Share premium	Payment received over the nominal value upon issuing shares. In case of transactions with treasury shares, the difference between the cost and the sales price; upon cancelling treasury shares, the difference between the cost and the nominal value; (less) direct costs associated with share transactions. In case of business combinations involving entities under common control – the difference between the cost and the book value of acquired net assets.	Fair value of the payment received upon issuance of shares (less costs related to the issuance of shares), less the nominal value of shares issued. In case of sale of repurchased shares, the difference between the cost and the sales price. Upon cancelling repurchased shares, the difference between the cost and the nominal value. The balance of the line item “Share premium” cannot be negative.	Transactions with treasury shares - ASBG 3; Business combinations of entities under common control -ASBG 11

[3] An accounting entity with no share capital replaces it with a similar item describing this equity category.

		If the positive residual previously recorded in the line item “share premium” is not sufficient for deducting the differences arising from share transactions, the differences exceeding the positive balance are recorded as a reduction of the line item “Retained earnings”	
Treasury shares (minus)	Shares previously issued by the entity that are held by the entity itself (e.g., repurchased)	Fair value of the amount paid for repurchased shares	ASBG 3
Legal reserve	Legal reserve established according to the requirements of the Commercial Code		
Other reserves	Unrealised gains and losses that in accordance with the guidelines of the Board are not recorded in the income statement (for example, the reserve of exchange rate differences arising on the consolidation of foreign subsidiaries in accordance with ASBG 11; differences arising from the translation of the financial statements from functional currency to presentation currency in accordance with the ASBG 1, etc.). Reserves set up for other purposes (e.g. to limit the amount of available equity)	Establishment of the reserve of exchange rate differences arising on the consolidation of foreign subsidiaries is regulated in ASBG 11. Translation from functional currency to presentation currency is regulated in ASBG 1.	Reserve of exchange rate differences arising in consolidation – ASBG 11; Reserve arising from translation of statements from functional currency to presentation currency - ASBG 1
Other equity	Other equity than those separately recorded in other equity items (e.g. unpaid share capital (less))		ASBG 3
Retained earnings (accumulated loss)	Retained earnings/accumulated loss of prior periods that have neither been distributed as dividends nor used for any other purpose by an entity (e.g. for increasing share capital or reserves).	The sum of accumulated profits less amounts used. Retained earnings (accumulated loss) may be impacted by changes in accounting policies and correction of errors (ASBG 1).	Changes in accounting policies and correction of errors – ASBG 1.
Profit (loss) of the accounting year	Profit (loss) of the accounting year		
Total equity			
TOTAL LIABILITIES AND SHAREHOLDER’S EQUITY (LIABILITIES AND SHAREHOLDER’S EQUITY)			

NOTE 2 – EXPLANATION OF INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME ITEMS

Notes present subdivisions of income statement entries, if it makes for greater clarity and legibility of the income statement or is required in the Accounting Act or guidelines of the Board. Depending on the size of the entity, the Accounting Act may require or permit presentation of certain entries in the notes of the financial statements, instead of income statement. Depending on the specific nature of business activities of a given accounting entity it may be necessary to change the titles or content of certain items assuming that it makes for greater clarity and legibility of the income statement. For the sake of clarity, it is recommended to present expense items either in brackets or with a negative sign.

Income statement - format 1

Revenue	Revenue received from the sale of products, goods and services in the accounting period (accounted for according to ASBG 10 "Revenue Recognition")
Other income	Irregular income earned from business activities, incl. profit from the sale of property, plant and equipment, intangible assets, and investment properties; gain from revaluation of investment property; fines and interest on arrears received; net gain arising on exchange rate changes on trade receivables and trade payables (if the result is a net loss, it its recognised in "Other operating expenses")
Change in balance of agricultural produce	Changes in the balance of agricultural produce, whereas the decreases of balances are recognised as an expense and the increases of balances as a decrease of expenses
Gain (loss) from biological assets	The gains and losses arising from initial recognition of a biological asset at its fair value and from subsequent changes in fair value
Changes in inventories of finished goods and work-in-progress	Changes in inventories of finished goods and work-in-progress, whereas the decreases of balances are recognised as an expense and the increases of balances as a decrease of expenses ("negative expense")
Work performed by an entity in the production of non-current assets for its own purpose and capitalised	Materials and services that have been used in the production of non-current assets and that have been recognised as an expense under another income statement item are recognised as a decrease of expenses in this item ("a negative expense")
Goods, raw materials and services	The cost of goods, raw materials, and services purchased for core activities (e.g. production or sales activities)
Other operating expenses	The cost of services and supplies purchased for administrative and other purposes not directly related to core activities (e.g. the cost of bookkeeping services, consulting expenses, office expenses, advertising expenses, insurance, start-up and research expenses, expenses related to setting up provisions, the expense for the allowance of doubtful receivables, etc.)
Staff costs	Wages, bonuses, holiday pay, retirement benefits and other monetary and non-monetary compensations to employees for the accounting period (regardless of whether or not they have been paid out) and taxes thereon that are paid by the employer
Depreciation and impairment of non-current assets	Depreciation charge and impairment losses (write-downs and/or write-offs) calculated on property, plant and equipment, intangible assets and investment property recognised at cost
Significant impairment of current assets	Allowance for doubtful receivables, inventories and other current assets
Other expenses	Irregular expenses incurred during operating activities, incl. loss on the sale of property, plant and equipment, intangible

	assets and investment properties; loss on revaluation of investment property; fines and interest on arrears; net loss arising on exchange rate changes on trade receivables and liabilities to the suppliers (if the result is a net gain, it is recognised under the item "Other operating income")
Operating profit (loss)	
Profit (loss) from subsidiaries	Profit/loss calculated on investments in subsidiaries at equity method or fair value model dividend income and allowances and profit/loss from the sale of subsidiaries in case of cost method
Profit (loss) from associates	Profit/loss calculated on investments in associates at equity method or fair value model dividend income and allowances and profit/loss from the sale of subsidiaries in case of cost method
Gain (loss) from financial investments	Gain (loss) from long-term and short-term financial investments, incl. sale and revaluation to fair value
Interest income	Interest income on loans, bonds, finance lease agreements and other interest-bearing financial assets
Interest expenses	Interest expenses on loans, bonds, finance lease agreements and other interest-bearing borrowings
Other financial income and expenses	Profit (loss) arising from exchange rate changes of receivables and liabilities denoted in foreign currencies and related to financing and investing activities (e.g. loans given and received), interest income and other financial income and expenses not related to subsidiaries or associates or other financial investments
Profit (loss) before tax	
Income tax	Income tax expense on dividends (recognised at the time of declaring dividends) and income tax expense or benefit arising from foreign subsidiaries and deferred tax expense or income
Profit (loss) of the accounting year	
Incl. Share of profit belonging to the shareholders of the parent company	This item is used in the consolidated income statement for presenting the share of the group's profit (loss) that belongs to the shareholders of the parent company.
Share of profit attributable to the minority shareholders	The item is used in the consolidated income statement for presenting the share of the group's profit (loss) that belongs to minority shareholders.

Income statement - format 2

Revenue	Revenue received from the sale of products, goods and services in the accounting period (accounted for according to ASBG 10 "Revenue Recognition")
Cost of goods (goods and services) sold	The cost (incl. depreciation charge and write-downs of non-current assets relating to production activities) of products, goods and services sold during the accounting period as well as production losses and other similar production expenses that are not included in the cost of goods sold. The cost of goods and services sold is calculated using the same principles and amounts as in the case of revenue.
Gross profit (loss)	
Gain (loss) from biological assets	The gains and losses arising from initial recognition of a biological asset at its fair value and from subsequent changes in fair value
Distribution costs	Expenses incurred for the distribution function of an entity (incl. remuneration for the personnel engaged in distribution, depreciation charge and write-downs of non-current assets relating to distribution, transportation expenses incurred for distribution purposes, advertising expenses, etc.)
Administrative costs	Expenses incurred for the administrative function at the entity (incl. remuneration for administrative personnel and management, depreciation charge and write-downs of administrative facilities and equipment, major portion of consulting expenses, etc.)
Other income	Irregular income earned from business activities, incl. profit from the sale of property, plant and equipment, intangible assets, and investment properties; gain from revaluation of investment property; fines and interest on arrears received; net gain arising on exchange rate changes on trade receivables and trade payables (if the result is a net loss, it its recognised in "Other operating expenses")
Other expenses	Irregular expenses incurred during operating activities, incl. loss on the sale of property, plant and equipment, intangible assets and investment properties; loss on revaluation of investment property; fines and interest on arrears; net loss arising on exchange rate changes on trade receivables and liabilities to the suppliers (if the result is a net gain, it is recognised under the item "Other operating income")
Operating profit (loss)	
Profit (loss) from subsidiaries	Profit/loss calculated on investments in subsidiaries at equity method or fair value model dividend income and allowances and profit/loss from the sale of subsidiaries in case of cost method
Profit (loss) from associates	Profit/loss calculated on investments in associates at equity method or fair value model dividend income and allowances and profit/loss from the sale of subsidiaries in case of cost method
Gain (loss) from financial investments	Gain (loss) from long-term and short-term financial investments, incl. sale and revaluation to fair value
Interest income	Interest income on loans, bonds, finance lease agreements and other interest-bearing financial assets
Interest expenses	Interest expense on loans, bonds, finance lease agreements and other interest-bearing financial assets

Other financial income and expenses	Profit (loss) arising from exchange rate changes of receivables and liabilities denoted in foreign currencies and related to financing and investing activities (e.g. loans given and received), interest income and other financial income and expenses not related to subsidiaries or associates or other financial investments.
Profit (loss) before tax	
Income tax	Income tax expense on dividends (recognised at the time of declaring dividends) and income tax expense or benefit arising from foreign subsidiaries and deferred tax expense or income
Profit (loss) of the accounting year	
Incl. share of profit belonging to the shareholders of the parent company	This item is used in the consolidated income statement for presenting the share of the group's profit (loss) that belongs to the shareholders of the parent company.
Share of profit attributable to the minority shareholders	The item is used in the consolidated income statement for presenting the share of the group's profit (loss) that belongs to minority shareholders.

Statement of Comprehensive Income

Entities that incur gains and losses that are not recognised in the income statement according to clause 31 of this guideline (other comprehensive income or loss) shall present a statement of comprehensive income in addition to the income statement. The statement of comprehensive income shall be presented as a separate statement after the income statement.

Income statement

[Prepared based on format 1 or 2]

Statement of Comprehensive Income

Profit (loss) of the accounting year	From the income statement
Other comprehensive income (loss)	
Unrealised exchange rate differences	Differences arising from the translation of financial data of a foreign business from its functional currency to presentation currency (ASBG 1 clause 91);
(Name of other profit or loss)	Other gains and losses whose recognition is unregulated by the guidelines of the Board but which pursuant to IFRS for SMEs or IFRS are recognised in the statement of comprehensive income (e.g. the effective portion of gains and losses incurred in revaluation of cash flow hedges pursuant to section 12 of IFRS for SMEs or the Standard IAS 39).
Other comprehensive income (-loss) of the accounting period	
Total comprehensive income (loss) of the accounting period	Profit (loss) + other comprehensive income (loss)
Share of total comprehensive income (loss) attributable to owners of the parent	

Share of minority shareholders of comprehensive income (-loss)	

NOTE 3 – EXAMPLE CASH FLOW STATEMENT (indirect method)

	20X0	20X1
Cash flows from operating activities		
Operating profit		
Adjustments:		
Depreciation and impairment of non-current assets		
Profit (loss) from the sale of non-current assets		
Change in receivables and prepayments related to operating activities		
Change in inventories		
Change in liabilities and prepayments related to operating activities		
Interest paid[4]		
Corporate income tax paid[5]		
Government grants received		
Total cash flows from operating activities		
Cash flows from investing activities		
Paid upon acquisition of property, plant and equipment, and intangible assets		
Received from the sale of property, plant and equipment, and intangible assets		
Paid upon acquisition of biological assets		
Proceeds from sale of biological assets		
Purchases of investment property		
Government grants received		
Government grants received		
Paid upon acquisition of subsidiaries		
Proceeds from sale of subsidiaries		
Paid upon acquisition of associates		
Proceeds from sale of associates		
Purchases of other financial investments		
Proceeds from sale of other financial investments		
Loans granted		
Loan repayments received		
Interest received[6]		
Dividends received[7]		
Total cash flows from investing activities		
Cash flows from financing activities		
Proceeds from borrowings		
Loan repayments made		

[4] As an alternative it may be recorded in cash flows from financing activities.
[5] As an alternative it may be recorded in cash flows from financing activities.
[6] As an alternative it may be recorded in cash flows from operating activities.
[7] As an alternative it may be recorded in cash flows from operating activities.

Change in overdraft balance
Finance lease principal payments
Proceeds from share issuance
Proceeds from sale of treasury shares
Purchases of treasury shares
Dividends paid
Total cash flow from financing activities

Total cash flow

Cash and cash equivalents at the beginning of period
Change in cash and cash equivalents
Effects of exchange rate changes

Cash and cash equivalents at the end of period

NOTE 4 – EXAMPLE STATEMENT OF CHANGES IN EQUITY

(a) In a consolidated statement

	Share capital belonging to the shareholders of the parent company							Minority interest	**Total**
	Share capital	Share premium	Treasury shares	Legal reserve	Other reserves	Retained earnings	**Total**		
Balance at 1 Jan 20X0	**X**	**X**	**(X)**	**X**	**(X)**	**X**	**X**	**X**	**X**
Effect of changes in accounting policies						(X)	**(X)**		**(X)**
Adjusted balance	**X**	**X**	**(X)**	**X**	**(X)**	**X**	**X**	**X**	**X**
Total comprehensive income for the period					X	X	**X**	X	**X**
Dividends distributed						(X)	**(X)**	(X)	**(X)**
Changes in reserves				X		(X)	-		-
Share capital issued	X	X					**X**		**X**
Balance at 31 Dec 20X0	**X**	**X**	**(X)**	**X**	**(X)**	**X**	**X**	**X**	**X**
Total comprehensive income for the period					(X)	X	**X**	X	**X**
Dividends distributed						(X)	**(X)**	(X)	**(X)**
Share capital issued	X	X					**X**		**X**
Other changes in equity	X/(X)	X/(X)	X/(X)	X/(X)	X/(X)	X/(X)	X/(X)	X/(X)	X/(X)
Balance at 31 Dec 20X1	**X**	**X**	**(X)**	**X**	**(X)**	**X**	**X**	**X**	**X**

(b) In an unconsolidated statement

	Share capital	Share premium	Treasury shares	Legal reserve	Retained earnings	**Total**
Balance at 1 Jan 20X0	**X**	**X**	**(X)**	**X**	**X**	**X**
Effect of changes in accounting policies					(X)	**(X)**
Adjusted balance	**X**	**X**	**(X)**	**X**	**X**	**X**
Total comprehensive income for the period					X	**X**
Dividends distributed					(X)	**(X)**
Changes in reserves				X	(X)	-
Share capital issued	X	X				**X**
Balance at 31 Dec 20X0	**X**	**X**	**(X)**	**X**	**X**	**X**
Total comprehensive income for the period					X	**X**
Dividends distributed					(X)	**(X)**
Share capital issued	X	X				**X**
Other changes in equity	X/(X)	X/(X)	X/(X)	X/(X)	X/(X)	X/(X)
Balance at 31 Dec 20X1	**X**	**X**	**(X)**	**X**	**X**	**X**