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ARMENERGO STATE ENTERPRISE ACCOUNTING MANUAL FOR GENERATION COMPANIES

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ARMENERGO STATE ENTERPRISE
ACCOUNTING MANUAL
for

GENERATION COMPANIES

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I. INTRODUCTION

This manual presents an accounting system designed to accumulate financial information and report such data in accordance under two different bases of accounting:

- the statutory basis of accounting currently required by the Government of Armenia, and
- International Accounting Standards.

Utilization of the first five digits of the Account Code Format (included in Section VI) will permit recording transactions in two different sets of accounts while making only a single code number entry from source documents.

The majority of the information included herein relates to financial accounting. Implementation of the system will enable Armenergo to prepare and present adequate financial statements, initially to potential creditors in order to provide evidence of ability to repay loans and, ultimately to the public in order to pursue potential equity investors.

The manual includes recommended account numbers and descriptions for the system, plus information on the concepts and standards used in its preparation It is important that individuals with responsibility for guiding implementation of the new system be familiar with all of the topics discussed herein.

In addition to financial accounting, there is a brief discussion and presentation of management accounting. Management Accounting is the process of compiling information for internal users in order to enhance the operations of the enterprise by maximizing resource utilization Given the computing power and supporting systems necessary for effective and efficient utilization of management accounting, it is not anticipated that Armenergo will implement this at the present time.

By Section, the manual includes

Section I. Introduction - General information on the manual, including manual administration

Section II. Finance and Accounting Organization - Basic information on the concepts of organization design and staffing, including a sample organization chart for Finance and Accounting

Section III. Accounting Overview - A review of the major international accounting principles and philosophies. This section provides a basic education in accounting, and includes extensive information on International Accounting Standards

Section IV. Chart of Accounts - A listing of account numbers and titles, accompanied by detailed descriptions of the accounts' contents This section is prefaced with a discussion of the method used for coding the account numbers, and concluded with a variety of sample transactions

Section V. Financial Statements - Background information on international style financial statements, accompanied by a complete set of pro-forma financial statements and information on financial disclosure.

Section VI. Management Accounting Concepts - A presentation of the basic concepts of Management Accounting, including discussion of Responsibility Centers, Resource Codes, and the multi-field Account Code Format.

Administration of this manual is the responsibility of the Chief Financial Officer. This individual retains primary custody of the manual, including controlling the number of copies, authorizing revisions and updates, and shall take necessary actions to ensure distribution of revisions and updates to appropriate personnel. Any questions or revision requests regarding the contents of this manual should be directed to the Chief Financial Officer or the Chief Financial Officer's designee

II. FINANCE AND ACCOUNTING ORGANIZATION

A. ORGANIZATION STRUCTURE

The organization of an enterprise is intended to provide clear lines of authority and responsibility A well designed organization will inherently demonstrate the following to the interested observer

- The desired outcome(s) of the functions included in the organization,
- The reporting relationships among the various organizations, and
- The level of emphasis placed on functions by the enterprise

Additional items to consider when designing an organization include

- Span of control, the number of individuals reasonably expected to be supervised by one manager. This number can generally range from three to fifteen, depending on the nature of the work performed by the organization.
- Anticipated growth or emphasis in certain areas (or the lack thereof) that will impact both the number of personnel required and the relative importance of the function
- Qualifications required for positions included within an organization. For example, individuals in problem-solving positions will require supervision differing from that of pattern-following positions
- Internal control requirements, specifically, maintaining adequate separation of duties

In designing and implementing an organization, it must be recognized that there is no ideal generic structure Any organization design must take into account both the results to be accomplished and also the personnel available to fill the positions specified. The organization will evolve as the needs and business environment change New laws, technology, and mere growth of the enterprise will necessitate adaptation of the organization structure.

Regardless, there are certain functions that are generally viewed as necessary to Finance and Accounting These are represented on the following sample organization chart Following the chart are brief descriptions of the functions shown

B. JOB DESCRIPTIONS

Job Descriptions should be prepared for every individual and position in the organization These serve to clarify the expectations between management and individual employees, and when properly detailed, also provide a basis for performance evaluations Accurate job descriptions also serve to narrow the field of candidates when considering adding employees

A comprehensive job description should contain the following elements.

- Position title

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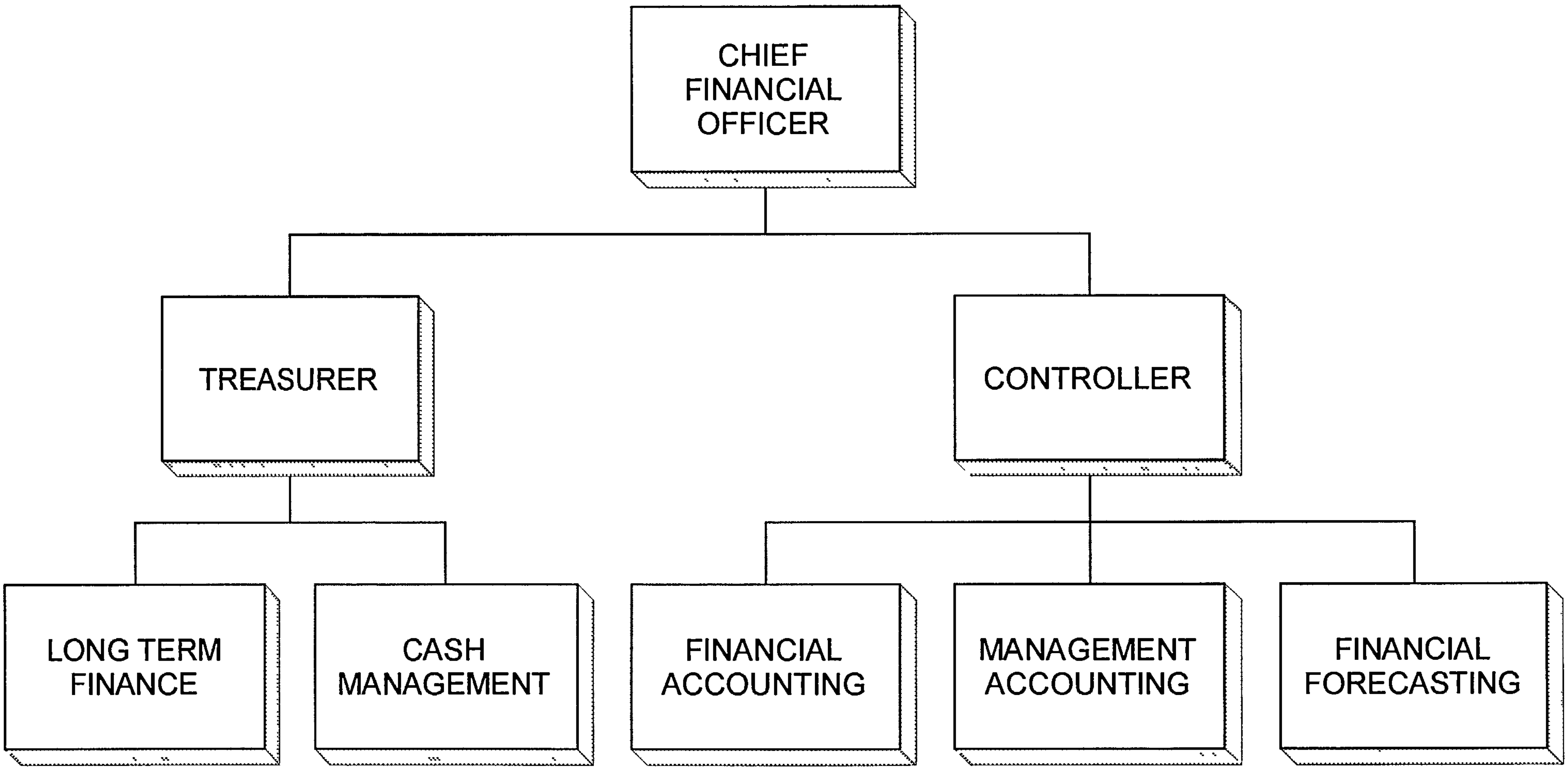
- Title of the superior's position
- Title(s) of subordinates' positions, if any
- Statement of the general responsibilities of the position
- Delineation of specific duties/tasks required of the position
- Description of position authority
- Listing of minimum and desired qualifications and skills for the position

Ideally, job descriptions will be prepared jointly by the employee and the employee's supervisor This will eliminate misunderstandings between the two individuals and will assist in attaining desired job performance

Armenergo State Enterprise: Finance and Accounting Functions

SAMPLE ORGANIZATION CHART



Other Functions for Potential Inclusion

- Tariff Accounting and Regulation
- Payroll
- Accounts Receivable
- Fixed Asset Accounting

Supplement to Sample Organization Chart

Chief Financial Officer

This position is responsible for the overall guidance and direction of the financial and accounting functions Generally viewed as part of the senior management team, the individual will also participate in the determination of the higher level goals for the enterprise.

Treasurer

This position is responsible for the Long Term Finance and Cash Management functions. The individual will establish goals, monitor performance, and will select personnel to fill particular positions within the organizations

Long Term Finance

The Long Term Finance function is responsible for managing the debt and equity funding for the enterprise This includes planning for new issuances and maintaining same, and seeking new sources for additional funding Other activities will include managing longer term (exceeding one month) investments, and performing financial analyses for other organizations.

Cash Management

Cash Management is the process of managing the daily cash operations. Cash management personnel are responsible for ensuring there is adequate cash available to cover checks and drafts This department is responsible for investing any excess funds on a short term basis, and also for arranging short term financing. The function represents the enterprise involving its relationships with financial institutions

Controller

Often referred to as "Chief Accounting Officer," this individual has overall responsibility for the enterprise's accounting activities. Of equal importance is the individual's role in ensuring the adequacy of the internal control environment

Financial Accounting

This function is responsible for the proper recording of all transactions to the subsidiary and general ledgers, summarizing data, and generating financial statements and reports Financial Accounting includes the preparation and submittal of tax reports

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Management Accounting

These personnel accumulate and report financial data for internal users to assist in the attainment of enterprise goals The primary role is that of the enterprise budget, both in consolidating input and output data, and in communicating budgetary needs throughout the enterprise.

Financial Forecasting

Financial Forecasting is the process of long term financial planning. With input and assistance from other major enterprise organizations, Financial Forecasting prepares two, five, ten and fifteen year high level forecasts. Information included would be customer loads, anticipated revenues, costs, and financing requirements.

Other Organizations for Potential Inclusion

There are numerous other functions (see examples below) that could conceivably be placed within the Finance and Accounting organization Placement of these is dependent on the relative importance of the function to the overall enterprise, volume of transactions involved, and the nature of the technical expertise required.

Tariff Accounting and Regulation
Payroll
Accounts Receivable
Fixed Asset Accounting

III. ACCOUNTING OVERVIEW

A. ACCOUNTING PRINCIPLES, CRITERIA, AND CONCEPTS

This section reviews the main accounting principles and philosophies used in the preparation of international financial statements. These principles are the rules and conventions of accounting As defined by the American Institute of Certified Public Accountants, Accounting Principles are "a general law or rule adopted or professed as a guide to action; a settled ground or basis of conduct or practice"[1] This definition implies that accounting principles do not prescribe exactly how each event occurring in an organization should be recorded Their objective is to set a general law that is to be used as a guide action.

Before describing the accounting principles it is useful to review the purpose of accounting and its different applications and users. There are a lot of available definitions of accounting but for the purpose of this manual the most appropriate would be one that focuses on accounting as an aid to decision making With such objective, accounting could be defined as: "the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information " Traditionally, accounting information has been classified as managerial or financial

Management Accounting. Managers do not have time to examine the details of operating information. Instead they rely on summaries of this information to carry out their management responsibilities Management accounting information is used in three management functions: (i) control, (ii) coordination, and (iii) planning.

Accounting information is used in the control process as a means of communication, motivation, and appraisal. As a means of communication, accounting reports can assist in informing employees about management plans and policies As a means of motivation, accounting reports can induce members of the organization to act in a way that is consistent with the organization's overall goals and objectives. As a means of appraisal, accounting helps to show how well members have performed.

The several parts of the organization must work together to achieve its objectives, and this requires the activities of each unit to be coordinated with the activities of other units Accounting aids in this coordination process.

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[1] American Institute of Certified Public Accountants, "Review and Résumé", *Accounting Terminology Bulletin* No 1 (New York, 1953), p 9

Planning is the process of deciding what action should be taken in the future. Planning involves making decision and accounting is useful especially in the analysis step of the decision-making process. One important form of planning is called budgeting Budgeting is the process of planning the overall activity of the organization for a specific period of time

Financial Accounting. Financial accounting information is intended both for managers and also for the use of parties external to the business, including shareholders, bankers and other creditors, government agencies, and the general public. When a company wants to borrow money, banks and other lenders want information that will show that the company is sound and there is a high probability that the loan will be repaid In addition, shareholders who have furnished capital to the company want information on how well the company is doing Prospective buyers of these shares need similar information.

The end product of the financial accounting process is a set of reports called financial statements A complete set of financial statements includes a balance sheet, an income statement, a statement of cash flows, a statement of retained earnings, and complementary notes that disclosure principles used in the preparation of the statements and further information. See section V for a presentation of a complete set of pro-forma financial statements designed for Armenergo

The preparation of these financial statements is guided by a set of principles which provide the groundwork for practice and also a common framework for communicating financial information allowing meaningful comparisons among enterprises across the world Accounting principles, unlike the principles of natural sciences, are man made. Their validity is not verifiable by observation and experiment Instead accounting principles have constantly been evolving.

The general acceptance of an accounting principle or practice usually depends on how well it meets three criteria.

- relevance,
- objectivity, and
- feasibility.

A principle is relevant to the extent that it results in information that is meaningful and useful to those who need to know. A principle is objective to the extent that the information is not influenced by personal bias or judgement of those who furnish it. Objectivity connotes reliability, representational faithfulness, and verifiability which means that there is some way of ascertaining the correctness of the information reported A principle is feasible to the extent that it can be implemented without undue complexity or cost.

In developing new principles, the essential problem is to get the right balance between relevance, on the one hand, and objectivity and feasibility, on the other. It is easy to criticize accounting on the grounds that accounting information is not as relevant as it might be. These critics often overlook the fact that proposals to increase relevance almost always involve a sacrifice of objectivity and feasibility. On balance, such sacrifice may not be worthwhile

Accounting principles are built on a foundation of a few basic concepts. Accounting could be constructed on a foundation of quite different concepts Indeed, some accounting theorists argue that certain present concepts are wrong and should be changed Nevertheless, in order to understand the present form of accounting, one must understand what the underlying concepts currently are. Although there is no standard classification of the accounting concepts, the following 11 concepts are widely accepted as representative:

- money measurement,
- entity;
- going concern,
- dual aspect;
- time period;
- accrual basis;
- prudence;
- realization;
- matching;
- consistency; and
- materiality

Money measurement concept. In financial accounting, a record is made only of information that can be expressed in monetary terms The advantage of doing this is that money provides a common denominator by which heterogeneous facts about an entity can be expressed as numbers that can be added and subtracted Despite its advantage, this concept imposes a severe limitation on the scope of an accounting report Accounting therefore does not give a complete account of the happenings in an organization or a full picture of its condition

Entity concept. Accounts are kept for entities, as distinguished from the persons who are associated with these entities It is sometimes difficult to define with precision the entity for which the accounts are kept A corporation is a legal entity, separate from the persons who own it, and the accounts of many corporations correspond exactly to the scope of the legal entity However, complications can arise In the case of a group of legally separate corporations that are related to one another by shareholdings, the whole group may be treated as a single entity for financial reporting purposes, giving rise to what is called consolidated accounting statements.

Going concern concept. Unless there is good evidence to the contrary, accounting assumes that an entity will continue to operate indefinitely The significance of this assumption can be indicated by contrasting it with a possible alternative, namely, that the entity is about to be liquidated. Under the liquidation assumption, accounting would attempt to measure at all times what the entity's resources are currently worth to potential buyers. By contrast, under the going concern, it is assumed that the resources currently available to the entity will be used to create goods or services that will eventually be sold to customers At the time such a sale takes place, accounting recognizes the value of the goods as evidenced by their selling price

Dual aspect concept. The economic resources of an entity are called assets The claims of various parties against these assets are called liabilities and equity. Liabilities are the claims of creditors, that is, everyone that has loaned funds to the business Equity is the claim of the owners of the business Since all the assets of a business are claimed by either creditors or owners, and the total of these claims cannot exceed the amount of assets, it follows that:

ASSETS = LIABILITIES + OWNERS' EQUITY

Accounting systems are set up in such a away that each record consits of two aspects which in essence are changes in assets and changes in liabilities or owners' equity. This implies that each accounting entry affects at least two items, complying with the above equation, thus accounting is called a double-entry system.

Time period concept. Management and other interested parties need to know the results of the enterprise at regular and frequent intervals. This need leads to the time period concept accounting measures activities for a specified interval of time, called the accounting period For the purpose of reporting to outsiders, one year is the usual accounting period. Management and government and/or regulatory agencies need information more often than once a year, usually quarterly or even monthly. These reports are called interim reports to distinguish them from the annual reports

Accrual basis concept. Under the accrual basis concept, the effects of transactions and other events are recognized when they occur (as compared to when cash is received or paid) and are recorded in the accounting records in the period in which they are recognized This method allows decision makers to evaluate the economic impact of transactions when they occur and not always when the physical receipt or payment of cash takes place. The concept allows decision makers to evaluate current financial position based on past transactions as well as future obligations and anticipated cash to be received The accrual concept of accounting should be used in conjunction with the concept of matching revenues and expenses.

Prudence concept. The basis for this concept is that recognition of increases in an entity's equity (e g revenues) requires stronger evidence than recognition of decreases(e.g expenses) The prudence concept has two aspects.

1. Recognize revenues only when they are reasonably certain

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2. Recognize expenses as soon as they are reasonably possible.

For example, the prudence concept leads to more conservative financial statements, leading additional integrity to the data.

Realization concept. Realization refers to inflows of cash or claims to cash arising from the sale of services or assets. The realization concept states that: (i) revenues are usually recognized in the period in which goods were delivered to customers or in which services were rendered, and (ii) the amount recognized as revenues is the amount that is reasonably certain to be realized There is room for judgment as to how reasonably certain is; but the concept does indicate clearly that the amount of revenue recorded may be less than the sales value of the goods and services sold

Matching concept. The sale of merchandise or the delivery of services has two aspects (i) a revenue aspect; (ii) and an expense aspect Correct measurement of the net effect of this sale on owners' equity requires that both of these aspects be recognized in the same accounting period The matching concept says. when a given event affects both revenues and expenses, the effect on each should be recognized in the same accounting period

Consistency concept. It requires that once an entity has decided on one method of accounting, it will treat all subsequent events of the same character in the same fashion unless it has a sound reason to do otherwise. If an entity made frequent changes in the manner of handling a given class of events in the accounting records, comparison of its accounting figures for one period with those of another period would be difficult.

Materiality concept. The accountants do not attempt to record events so insignificant that the work of recording them is not justified by the usefulness of the results The materiality concept is important in the process of determining the expenses and revenue for a given accounting period. Many of the expense items are necessarily estimates, and in some cases they are not very close estimates. Beyond a certain point it is not worthwhile to attempt to refine these estimates.

Materiality is also used in another sense in accounting The principle of full disclosure requires that all material information about the financial condition and activities of an entity must be disclosed in reports prepared for outside parties.

AN INTRODUCTION TO INTERNATIONAL ACCOUNTING STANDARDS

PRICE WATERHOUSE LLP
SEPTEMBER 1994

B. SUMMARY OF INTERNATIONAL ACCOUNTING STANDARDS

INTRODUCTION

Many countries use International Accounting Standards as a benchmark or as a basis for national accounting requirements. In addition, a number of stock exchanges require or permit foreign issuers to present financial statements in accordance with International Accounting Standards. As a result, an increasing number of companies disclose the fact that their financial statements conform with International Accounting Standards

The International Accounting Standards Committee (IASC) was established in 1973 as an autonomous body to develop and publish authoritative International Accounting Standards It has a membership of over 100 organizations from more than 80 countries The business of the IASC is conducted by a Board comprising representatives of accountancy bodies in up to thirteen countries and of various other organizations having an interest in financial reporting Its activities are supported by the International Federation of Accountants (IFAC) and the International Organization of Securities Commissions (IOSCO) as well as the business community and stock exchanges worldwide.

The following, written by Price Waterhouse Europe, provides an introduction to International Accounting Standards and is intended for readers who wish to gain a basic understanding of the main principles. This is not intended as a comprehensive study of all aspects of International Accounting Standards and in particular does not address all of the various disclosure requirements in each standard. This is not a substitute for reading the actual standards when dealing with points of doubt or difficulty. Readers should consult their nearest Price Waterhouse office for assistance when analyzing specific situations

The structure of this document is as follows:

- Development of International Accounting Standards
- General Principles
- Group Financial Statements
- Business Combinations
- Foreign Currency Translation
- Income Statement
- Balance Sheet
- Statement of Cash Flows

- Notes to the Financial Statements
- Financial Instruments
- List of International Accounting Standards Extant at September 1994

While every care has been taken in the preparation of this document, no warranty is given as to the correctness of the information contained herein and no liability is accepted for any statement or opinion, nor for any error or omission

DEVELOPMENT OF INTERNATIONAL ACCOUNTING STANDARDS

International Accounting standards ("IAS") deal with topics that are important internationally They aim to be sufficiently detailed and comprehensive that they can be interpreted in the same way in different countries. The IASC seeks to achieve these objectives by ensuring that the standards set out broad principles; avoid overly detailed rules, and deal with the substance of events and transactions

Standing alone, the IASC does not have the power to enforce international agreement or compliance with IAS The success of the IASC's efforts is dependent upon the recognition and support for its work from many different interested groups acting within the limits of their own jurisdictions IAS are not mandatory unless and until a particular country or enterprise chooses to adopt them Many countries that do not have their own standard-setting body adopt IAS as their national standards. Other countries use IAS as a basis for their own national standards Frequently, IAS are used as an international benchmark for those countries which develop their own standards On occasion, multinational enterprises use IAS to assist users from different countries in understanding their financial statements, particularly in cross-border offerings and filings.

The procedure for the development of an International Accounting Standard starts with the appointment of a Steering Committee which prepares a Point Outline. After receiving comments from the IASC Board on the Point Outline, the Steering Committee prepares and publishes for comment (typically for about three months) a Draft Statement of Principles, which sets out the underlying accounting principles that will form the basis for the preparation of the Exposure Draft The comments received are reviewed and a final Statement of Principles is prepared for approval by the Board The Committee then proceeds to prepare the Exposure Draft, which, following approval by at least two-thirds of the Board, is published for comment (typically for about six months) The Steering Committee reviews the comments received and prepares the International Accounting Standard which is published following approval by at least three quarters of the Board The "lead time" of a standard from the date

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of publication to the beginning of the year of required implementation is typically at least twelve months.

Because of the inherent difficulty in obtaining worldwide consensus on uniform standards, many IAS historically permitted a choice of alternative accounting treatments for the same item. Whilst this liberal approach may have assisted the initial acceptance of improved financial reporting in many countries, it limited to some extent the acceptability and use of IAS in the major world markets.

At the end of 1993 the IASC completed a five year program entitled "Comparability of Financial Statements" which eliminated many of the choices of alternative accounting treatments in 10 standards (IAS 2, 8, 9, 11, 16, 18, 19, 21, 22 and 23), where choices remain, these are now clearly categorized as "benchmark" and "allowed alternative" treatments As part of this project the IASC also made many other changes and improvements in the guidance sections and in the required disclosures, in order to meet the demands of the capital markets and the international business community Finally, the format of each IAS was changed in order to distinguish more clearly the standards (in bold italic type) from the accompanying background material and guidance (in light type). The 10 revised IAS were published in December 1993 and come into force for accounting periods beginning on or after 1 January 1995 The main features of these 10 revised IAS are discussed in this document under the appropriate subject heading

There are currently 29 extant International Accounting standards of which two (IAS 26 -Retirement Benefit Plans and IAS 30 - Disclosures in the Financial Statements of Banks and Similar Financial Institutions) relate to specialized entities and are outside the scope of this introductory material. A full list of the standards extant at September 1994 can be found in the listing at the conclusion of this material.

GENERAL PRINCIPLES

BASIS OF MEASUREMENT

International Accounting standards do not specify the pre-eminence of any particular basis of measurement For example, IAS 16 allows property, plant and equipment to be carried at either historical cost or revalued amounts, whilst under IAS 25 current asset investments may be carried at either cost or market value Indeed, the preface to the IASC's "Framework for the Preparation and Presentation of Financial Statements" (which provides a conceptual framework within which individual IAS are developed) notes that although financial statements are most commonly prepared on the basis of historical cost, the framework has been developed in such a way as to be applicable to a range of measurement bases

FUNDAMENTAL ASSUMPTIONS

IAS 1 identifies three fundamental accounting assumptions

- going concern
- consistency
- accrual

and requires that any departure from these should be disclosed and explained

In addition, IAS 1 requires that the selection and application of accounting policies (which should be clearly and concisely disclosed) should be governed by the consideration of

- prudence
- substance over form
- materiality.

COMPARATIVES

Financial statements should show corresponding figures for the preceding period (IAS 1)

PRESENTATION OF FINANCIAL STATEMENTS

One notable gap in the present set of International Accounting standards is a comprehensive standard dealing with the presentation of financial statements Some existing standards, notably IAS 5, deal with certain aspects of this but there is nothing that brings everything together in one standard IASC has decided to develop a standard on Presentation of Financial Statements which will include combining the relevant parts of IAS 1, 5 and 13

Other areas likely to be addressed in this wide-ranging project include the following

- selection, application and presentation of accounting policies
- structure for the presentation of notes to the financial statements
- directors' approval of the financial statements

- statements of compliance with IAS
- timeliness of the financial statements
- information disclosed outside the financial statements

A draft Statement of Principles is expected to be issued in 1995 followed by an exposure draft in 1996.

FUNDAMENTAL ERRORS

Fundamental errors (previously referred to as prior period items) are restricted to those errors discovered in the current period which are of such significance that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue.

Benchmark treatment

The amount of the correction should be reported by adjusting opening retained earnings The comparative information is restated unless it is impracticable to do so IAS 8 recommends (but does not mandate) that historical summaries of financial data should also be restated

Allowed alternative treatment

The amount of the correction is including in determining net profit/loss of the current period Comparative information should be presented as reported in the financial statements of the prior period Additional pro forma information, prepared in accordance with the benchmark treatment, should be presented unless it is impracticable to do so

CHANGES IN ACCOUNTING POLICIES

A change in an accounting policy should be made only if required by statute or by an accounting standard setting body, or if the change will result in a more appropriate presentation of events or transactions in the financial statements, in all cases, an explanation of the reason for the change should be made.

IAS 8 clarifies that a change in accounting policy which is made on the adoption of an IAS should be accounted for in accordance with the specific transitional provisions, if any, in that IAS The transitional provisions may require either retrospective or prospective application of a change in accounting policy In the absence of any transitional provisions and for all other changes in accounting policy, an enterprise should use the benchmark treatment or the allowed

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alternative treatment.

Benchmark treatment

The change in accounting policy is applied retrospectively by adjusting opening retained earnings, unless them amount is not reasonably determinable Comparative information should be restated unless it is impracticable to do so IAS 8 recommends (but does not mandate) that historical summaries of financial data should also be restated.

As an exception to the general requirement, the change in accounting policy should be applied prospectively when the amount of the adjustment to the opening balance of retained earnings cannot be reasonably determined.

Allowed alternative treatment

The change in accounting policy is applied retrospectively unless the amount is not reasonably determinable; the cumulative amount of the change is included in the determination of net profit or loss for the current year.

The change in accounting policy should be applied prospectively when the cumulative amount of the change to be included in net profit or loss for the current year cannot be reasonably determined. Comparative information should be presented as reported in the financial statements of the prior period Pro forma comparative information, prepared in accordance with the benchmark treatment, should be presented unless it is impracticable to do so.

FUTURE CHANGES IN ACCOUNTING POLICY

When a standard has been published but has not yet come into force, IAS 8 encourages the enterprise to disclose the nature of the future change in accounting policy and an estimate of the effect of the change on its net profit or loss and financial position. The traditionally long "lead time" of the IASC's standards from publication date to the date of required implementation can make such disclosure important to the understanding of the financial statements.

CHANGES IN ACCOUNTING ESTIMATES

A change in an accounting estimate should be accounted for as part of income from the ordinary activities of the enterprise in the period of change and in any future periods which are also affected. If material, the effect of the change should be separately quantified and disclosed. If it is impracticable to quantify the amount, this fact should be disclosed

GROUP FINANCIAL STATEMENTS

CONSOLIDATION

Where an enterprise has one or more subsidiaries, IAS 27 requires that it should present consolidated financial statements unless.

- it is itself a wholly (or virtually wholly) owned subsidiary and the approval of the minority shareholders, where appropriate, has been obtained by its parent; and

- disclosure is made of the reason why consolidated financial statements are not presented, the bases used to account for subsidiaries in the enterprise's separate financial statements and the identity of its parent

A subsidiary is defined in IAS 27 as an enterprise, the financial and operating policies of which the parent has the power to govern so as to obtain benefits from its activities

Consolidated financial statements should include all subsidiaries unless

- control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future, or

- the subsidiary operates under severe long term restrictions which significantly impair its ability to remit funds to the parent.

In these circumstances, the subsidiary should be accounted for as if it were an investment, in accordance with IAS 25

Exclusion of a subsidiary from consolidation on the grounds of dissimilar activities is not permitted.

IAS 27 also sets out the procedures to be adopted in the preparation of consolidated financial statements. These are essentially a codification of existing practice and include

- elimination of intra group items and resulting unrealized profits,

- uniform accounting policies (or disclosure of any departures);

- coterminous year ends (or adjustments for significant transactions in the period between different year ends, which in any event should not be more than three months), and

- separate disclosure of minority interests

ASSOCIATES

IAS 28 defines an associate as an enterprise in which the investor has significant influence, but which is neither a subsidiary nor a joint venture of the investor Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control over those policies Significant influence is presumed to exist when the investor holds at least 20% of the investee's voting power but not to exist when less than 20% is held; both of these presumptions may be rebutted if there is clear evidence to the contrary.

Where the investment is acquired and held exclusively with a view to its disposal in the near future or the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, the carrying amount of the investment in the investor's consolidated balance sheet should be cost or where appropriate a lower valuation The consolidated income statement should include only distributions from the investee's post acquisition accumulated net profits.

In all other cases the equity method should be used; i.e., the carrying amount of the investment is the investor's share of the investee's net assets The consolidated income statement should include as separate items the investor's share of the profits/losses and any extraordinary items of the investee

IAS 28 outlines the procedures appropriate for the application of the equity method - these are broadly similar to the consolidation procedures set out in IAS 27 Where an associate has net liabilities, provision should be made only to the extent that the investor has incurred obligations or made payments on behalf of the associate that the investor has guaranteed or otherwise committed

The carrying amount of an investment in an associate should be reduced to recognize a decline, other than temporary, in the value of the investment, such reduction being determined and made for each investment individually

Required disclosures.

- an appropriate listing and description of significant associates, including the proportion of ownership interest and, if different, the proportion of voting power held,

- the methods used to account for such investments

In the investor's separate financial statements, the investment should be accounted for either using the method adopted in the consolidated financial statements (i.e , equity method or cost method) or as a long term investment under IAS 25 (i e., cost or revalued amount) Where the latter policy is adopted and consolidated financial statements are not prepared, disclosures should be made of the effect had the equity method been applied

JOINT VENTURES

IAS 31 describes accounting treatments for the following types of interests in joint ventures

- investor in a joint venture - a party to a joint venture which does not have joint control over that joint venture.

- venturer - a party to a joint venture which has joint control over that joint venture

An investor in a joint venture should account for its interest as either an associate or an investment, depending on whether or not it has significant influence.

The appropriate accounting treatment by a venturer will depend on the particular form that the joint venture takes

- jointly controlled operations (whereby the joint venture uses the assets and other resources of the venturers but no separate entity is established) - the venturer should recognize the assets that it controls, the liabilities and expenses that it incurs, and its share of the income that it earns from the sale of goods or services by the joint venture

- jointly controlled assets (without the establishment of a separate entity) - the venturer should recognize its share of these assets and of any jointly incurred liabilities and expenses, any liabilities or expenses which it has itself incurred and any income from the sale or use of its share of the output of the joint venture.

- jointly controlled entities - in its consolidated financial statements, the venturer should report its interest using either proportionate/proportional (i.e , line by line) consolidation (preferred by IAS 31) or the equity method If the interest is acquired and held exclusively with a view to its subsequent disposal in the near future, or the entity operates under severe long term restrictions that significantly impair its ability to transfer funds to the venturer, the interest should be accounted for as an investment

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IAS 31 also specifies how profits and losses are to be recognized on transactions between a venturer and a joint venture.

BUSINESS COMBINATIONS

GENERAL RULES

A business combination should be accounted for by using the purchase (acquisition) method unless it is deemed to be a uniting of interests in which case the pooling of interests (merger) method must be used (IAS 22).

PURCHASE METHOD

Under the purchase method, the identifiable assets and liabilities of the acquired enterprise are restated to their fair values at the date of acquisition by reference to their intended use by the acquiring party. Provision may be made for certain costs relating to the acquired enterprise (eg employee termination costs, restructuring provisions, plant closure costs) provided that these arise as a result of the acquisition and are recognized as at the date of the acquisition IAS 22 specifically prohibits the creation of provisions to cover future operating losses, since such losses do not constitute a liability at the date of acquisition.

The results of the acquired enterprise are included in the purchaser's consolidated income statement from the date on which control is obtained The cost of acquisition includes any non- cash element at fair value and also includes any contingent consideration to the extent that payment is probable and can reasonably be estimated at the date of acquisition.

HINDSIGHT PERIOD

Assets and liabilities which are acquired but which do not satisfy the criteria for separate recognition when the acquisition is initially accounted for, should be recognized subsequently as and when they satisfy the criteria The carrying amounts of assets and liabilities acquired should be adjusted when, subsequent to acquisition, additional evidence becomes available as to the amounts assigned to those assets and liabilities at the time of initially accounting for the acquisition. The goodwill or negative goodwill amount should also be adjusted, when necessary, provided that the amount of the adjustment is probable of being recovered from the expected future economic benefits and such adjustment is made by the end of the first annual accounting period commencing after the acquisition, otherwise the adjustment should be recognized as income or expense

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TREATMENT OF MINORITY INTEREST

Benchmark treatment

The allocation of cost, on the basis of fair values, is limited to the proportion of the assets and liabilities to be acquired; i.e., goodwill is the difference between the cost of the acquisition and the fair values of the acquiring party's interest in the identifiable assets and liabilities acquired The minority interest is stated at the minority's proportion of the pre-acquisition carrying amounts of the net assets of the subsidiary Since the minority's proportion has not been part of the exchange transaction to effect the acquisition, the minority's interest in the assets and liabilities is not restated.

Allowed alternative treatment

All identifiable assets and liabilities acquired are stated at their fair values, without distinguishing between the parent's and the minority's respective ownership interests. Accordingly, goodwill represents the difference between the cost of the acquisition and the acquiring party's share of the fair values of the identifiable assets and liabilities acquired The minority interest is measured as the minority's proportion of the fair values of the identifiable assets and liabilities acquired No goodwill is attributed to the minority interest

GOODWILL

Goodwill arising on acquisition must be recognized as an intangible asset and amortised to zero over its useful life. Goodwill can no longer be written off to reserves.

The useful life of goodwill is not to exceed five years unless a longer period (not exceeding twenty years) can be justified When the useful life exceeds five years, the enterprise must disclose its justification of the period adopted. The straight-line basis of amortisation should be used unless another amortisation method is more appropriate in the circumstances

The unamortized balance of goodwill should be reviewed at each balance sheet date and, to the extent that recovery of the balance from expected future economic benefits is not probable, it should be recognized immediately as an expense Any such write-down of goodwill should not be reversed in a subsequent period.

NEGATIVE GOODWILL

Benchmark treatment

The value of non-monetary assets acquired (both depreciable and non-depreciable) should be

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reduced proportionally until the negative goodwill is eliminated This approach seeks to reduce the carrying amounts of the non-monetary assets so that the acquisition is not recorded at more than its cost But if any negative goodwill remains after the allocation to non-monetary assets, it is treated as deferred income and amortised as above.

Allowed alternative treatment

The full amount of the negative goodwill is treated as deferred income and amortised as above

POOLING OF INTERESTS METHOD

A uniting of interests (merger) occurs when the shareholders of two or more combining enterprises combine control over the whole, or effectively the whole, of their net assets and operations to achieve a continuing mutual sharing in the risks and benefits attaching to the combined entity such that neither party can be identified as the acquiree For this purpose there must be a substantially equal exchange of voting common shares.

Under the pooling of interests method, the combined assets, liabilities and reserves are recorded at their existing carrying amounts after having made any adjustments necessary to conform the accounting practices No goodwill is recognized on acquisition, however, the difference between the amount recorded for share capital issued (plus any additional consideration in the form of cash or other assets) and the amount recorded for the share capital acquired should be adjusted against equity. The financial statements of the combined enterprise include the results of operations and the assets and liabilities of the pooled enterprises as if they had been combined from the beginning of the earliest year presented

FOREIGN CURRENCY TRANSLATION

FOREIGN CURRENCY TRANSACTIONS

A transaction in a foreign currency is recorded in the reporting currency using the exchange rate at the date of the transaction For practical reasons, the enterprise can use a rate which approximates to the actual rate, in this regard IAS 21 permits an average rate for all transactions during the week or month in which the transactions occur. However if exchange rates fluctuate significantly, the use of the average rate for a period may be unreliable.

At the balance sheet date, foreign currency monetary items are reported using the closing rate Non-monetary items carried at historical cost denominated in a foreign currency (for example, an item of plant acquired from a foreign supplier) must be reported using the exchange rate at the date of the transaction Non-monetary items carried at fair value denominated in a foreign currency must be reported using the exchange rates that existed when the fair values were

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determined.

Exchange differences arising on foreign currency transactions should be recognized as income or expense for the period except for those exchange differences:

- arising on a monetary item that, in substance, forms part of an enterprise's net investment in a foreign entity (eg long term loan receivable).

- arising on a foreign currency liability (eg borrowings) accounted for as a hedge of an enterprise's net investment in a foreign entity.

Such exchange differences should be classified as equity until the disposal of the net investment, at which time they should be recognized as income or expense

IAS 21 does not deal with hedge accounting for foreign currency items other than the classification of exchange differences arising on a foreign currency liability accounted for as a hedge of a net investment in a foreign entity Proposals for other aspects of hedge accounting are included in E48 - Financial Instruments

Exchange differences may result from a severe devaluation or depreciation of a currency against which there is no practical means of hedging This may affect liabilities which cannot be settled and which arise directly on the recent acquisition of an asset invoiced in a foreign currency; an example is when, as a result of exchange controls, there is a delay in obtaining foreign currency IAS 21 sets out two approaches for such exchange differences:

- Benchmark treatment - follow the same approach as set out above for exchange differences on foreign currency transactions.

- Allowed alternative treatment - include in the carrying amount of the related asset, provided that the adjusted carrying amount does not exceed the lower of the replacement cost and the amount recoverable from the sale or use of the asset.

The financial statements of a foreign operation that is integral to the operations of the reporting enterprise are translated as if all the transactions had been carried out by the reporting enterprise itself.

FOREIGN ENTITY

A foreign entity is a foreign operation whose activities are not an integral part of those of the parent; i.e., the foreign operation carries out its transactions substantially in its local currency When translating the financial statements of a foreign entity, all assets and liabilities should be

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translated at the closing rate. Income statement items should be translated at the exchange rates at the dates of the transactions or at an average rate that approximates the actual rates (the closing rate is no longer permitted).

All translation differences are stored and classified as a separate component of equity until the disposal of the net investment On disposal, the cumulative amount of the related translation differences should be included as part of the gain or loss on disposal and recognized in the income statement for the period It follows that suitable records need to be maintained in order to track the translation adjustment relating to each investment.

Where, as permitted by IAS 27, the financial statements of the foreign entity are drawn up to a different reporting date from that of the reporting enterprise (a gap of up to three months is permitted), the assets and liabilities of the foreign entity are translated at the exchange rate at the balance sheet date of the foreign entity

IAS 21 also addresses goodwill arising on the acquisition of a foreign entity and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign entity These items are treated as either

- assets and liabilities of the foreign entity and translated at the closing rate; or

- assets and liabilities of the reporting entity which either are already expressed in the reporting currency or are non-monetary foreign currency items which are reported using the exchange rate at the date of the transaction

HYPERINFLATION

The financial statements of a foreign entity that reports in the currency of a hyperinflationary economy should be restated to current values in accordance with IAS 29, before they are translated into the reporting currency of the reporting enterprise The comparatives must be restated to current values at the latest balance sheet date IAS 29 also requires that the gain or loss on the net monetary position should be included in net income and separately disclosed

Where the foreign entity reports in the currency of a hyperinflationary economy, all its financial statements (including the income statement) are translated at the closing rate. (This requirement does not apply to a foreign entity that operates in a country which is a hyperinflationary economy when the foreign entity reports in a stable currency)

When the economy ceases to be hyperinflationary, the foreign entity discontinues the preparation of financial statements in accordance with IAS 29 At that point the foreign entity should use the amounts expressed in the measuring unit at the date of discontinuation as the historical costs for translation into the reporting currency of the reporting enterprise

INCOME STATEMENT

FORMAT

IAS 8 requires all items of income and expense which are recognized in a period to be included in the determination of the net profit or loss for the period, unless an International Accounting standard requires or permits otherwise, such as·

- Benchmark treatment for corrections of fundamental errors and adjustments resulting from changes in accounting policies (IAS 8)
- Revaluation surpluses (IAS 16)
- Foreign currency translation differences (IAS 21).

A combination of IAS 5 and 8 requires that, at minimum, the face of the income statement discloses:

- sales;
- profit or loss from ordinary activities;
- interest,
- extraordinary items;
- tax, and
- net profit or loss for the period.

REVENUE

General Rules

IAS 18 includes a general revenue measurement standard revenue should be measured at the fair value of the consideration received or receivable, this is usually the amount of cash or cash equivalents received or receivable

When the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of such consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognized as interest revenue.

When goods or services are exchanged for goods or services which are of a similar nature and value, the change is not regarded as a transaction which generates revenue In other cases, the amount of the revenue is the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred

Sale of Goods

The conditions in IAS 18 for recognizing revenue arising from the sale of goods emphasize the importance of measuring reliably the revenues and the costs and assessing the probability that economic benefits will flow to the enterprise. Revenue should be recognized when the following conditions have been fulfilled·

- the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods,
- the enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the enterprise, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue and expenses that result from the same transaction are recognized simultaneously For revenue to be recognized, the costs incurred, or to be incurred, in respect of the transaction must be able to be measured reliably When the costs cannot be measured reliably, revenue cannot be recognized, in such circumstances any consideration already received is recognized as a liability

Rendering of Services

The old IAS 18 permitted a relatively free choice between the percentage of completion method and the completed contract method. The new IAS 18 only permits the percentage of completion method.

When the outcome of the transaction can be reliably estimated, revenue should be recognized by reference to the state of completion of the transaction at the balance sheet date. When the outcome of the transaction cannot be reliably estimated, revenue should be recognized only to the extent of recoverable expenses recognized (i e , no profit is recorded). IAS 18 provides extensive guidance and examples in interpreting these rules

Interest, Royalties and Dividends

Revenues for these items should be recognized on the following bases:

- Interest· on a time proportion basis, taking into account the effective yield on the asset.

- Royalties: on an accrual basis reflecting the substance of the royalty agreement

- Dividends from investments not accounted for under the equity method· when the shareholder's right to receive payment is established

CONSTRUCTION CONTRACTS

IAS 11 deals with the accounting for construction contracts in the financial statements of contractors. It includes extensive guidance on the determination of the components of contract revenue and costs as well as subjects such as variations in contract work, claims made by the contractor and incentive payments.

IAS 11 requires that revenue and expenses should be recognized using the percentage of completion method When the outcome of the contract can be estimated reliably, revenue and costs should be recognized by reference to the stage of completion of the contract activity at the balance sheet date

When the outcome of the contract cannot be estimated reliably, revenue should be recognized only to the extent of costs incurred that it is probable will be recoverable. In such a case, contract costs should be recognized as an expense in the period in which they are incurred

When it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately

RESEARCH AND DEVELOPMENT COSTS

Research costs are recognized as an expense in the period incurred and are not recognized as an asset in a subsequent period Development costs should be recognized as an expense in the period unless the criteria for asset recognition are met Once expensed, development costs should not be recognized as an asset in a subsequent period.

CAPITALISED DEVELOPMENT COSTS

The development costs of a project should be recognized as an asset only costs when all of the following criteria are met

- the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably,
- the technical feasibility of the product or process can be demonstrated;
- the enterprise intends to produce and market, or use, the product or process;
- the existence of a market for the product or, if it is to be used internally rather than sold, its usefulness to the enterprise, can be demonstrated; and
- adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process

The amount capitalised cannot exceed the amount probable of being recovered from related future economic benefits. IAS 9 provides guidance on considering such future economic benefits.

Amortisation

The amount of capitalised development costs should be amortised on a systematic basis, reflecting the pattern in which the related economic benefits are recognized Amortisation commences when the product or process is available for sale or use

The IASC believes that the uncertainties inherent in predicting the recoverability of development costs and the difficulties in estimating future revenues and costs make it appropriate to use a short amortisation period. Therefore, IAS 9 recommends (but does not mandate) that capitalised development costs should be amortised over a period not exceeding five years.

Impairment

Capitalised development costs are written down or written off to the extent that the unamortized balance is no longer probable of being recovered from the expected future economic benefits.

Amounts written down/off should be written back when the circumstances that caused the write down/off cease to exist and there is persuasive evidence that the new circumstances will persist for the foreseeable future. The amount of the write back is reduced by the amount that would have been recognized as amortisation had the write down/off not occurred

PROFIT FROM ORDINARY ACTIVITIES

IAS 8 defines "ordinary activities" as "any activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from these activities."

IAS 8 requires the separate disclosure, within profit or loss from ordinary activities, of items of income and expense, that are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period. IAS 8 does not use the term "exceptional item", but gives the following examples of items which may warrant separate disclosure (usually in the notes):

- Write-down of inventories to net realizable value, or property, plant and equipment to recoverable amount, as well as the reversal of such write-downs
- Restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring.
- Disposals of property, plant and equipment
- Disposals of long term investments.
- Discontinued operations
- Litigation settlements.
- Other reversals of provisions

EXTRAORDINARY ITEMS

IAS 8 emphasizes that virtually all items of income and expense arise in the course of the ordinary activities of the enterprise and that extraordinary items (previously referred to as "unusual items") are expected to be rare. Extraordinary items must be clearly distinct from the
ordinary activities of the enterprise. Therefore, income and expense that arise from events that are under the control of management are unlikely to be extraordinary items IAS 8 includes only two examples of extraordinary items: the expropriation of assets and an earthquake or other natural disaster

The disclosure of the nature and amount of each extraordinary item can be made on the face of the income statement or in the notes. If the disclosure is given in the notes, the total of all extraordinary items must be disclosed separately on the face of the income statement.

DISCONTINUED OPERATIONS

IAS 8 addresses discontinued operations and requires various disclosures in respect of discontinuance of a separate major line of business, of which the assets, net profit and activities can be distinguished physically, operationally and for financial reporting purposes An example of such an operation might be a segment determined in accordance with IAS 14 A discontinuance may include the sale or abandonment of the operation.

The results of a discontinued operation are generally included in profit or loss from ordinary activities
However, in the rare circumstances that the discontinuance is the result of events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly, the income or expense arising from the discontinuance is treated as extraordinary For example, if a subsidiary is expropriated by a foreign government, the income or expense that arise from the expropriation may qualify as an extraordinary item The disclosure requirements in IAS 8 are applied for all discontinued operations including those that give rise to extraordinary items

IAS 8 does not deal with other issues relating to discontinued operations, for example, the recognition and measurement of gains and losses The IASC intends to deal with this area in a separate future project.

EARNINGS PER SHARE

The IASC's Earnings per Share Steering Committee issued a draft Statement of Principles in October 1993 This proposes the disclosure of basic and fully diluted net profit (earnings) per share.

The components of basic net profit per share are.

- net profit or loss for the period after deducting all claims against it other than those of the ordinary shareholders (eg preference dividends and minority interests), and

- weighted average number of ordinary shares outstanding during the reporting period

Where there is a change in the number of ordinary shares outstanding without a corresponding change in resources (eg bonus or rights issue), the comparative net profit per share should be restated to reflect the change in the weighted average number of ordinary shares outstanding

An enterprise should disclose fully diluted net profit per share unless basic net profit per share is a loss per share For the purposes of calculating fully diluted net profit per share, the net profit attributable to ordinary shareholders and the weighted average number of shares outstanding should be adjusted for the effects of all dilutive potential ordinary shares

The IASC proposes also to permit presentation of additional net profit per share amounts calculated at a different level of profit However, the amounts should be calculated using the same weighted average number of ordinary shares

The exposure draft (E50) on earnings per share is expected to be published in 1995

BALANCE SHEET

FORMAT

IAS 5 does not prescribe a standard format for the balance sheet; it does, however, set minimum disclosures of items in the balance sheet. The principle categories are set out below

Long-term assets

- Property, plant and equipment

- Other long-term assets

Current assets

- Cash

- Marketable securities

- Receivables
- Inventories

Current liabilities

- Bank loans and overdrafts
- Current portions of long-term liabilities
- Payables

Long-term liabilities

Other liabilities and provisions

Shareholders' interests

- Share capital
- Reserves and other categories of equity

IAS 5 also specifies further disclosures of items within the above headings; such disclosures could be made in the notes or on the face of the balance sheet.

IAS 13 permits an enterprise to present current assets and current liabilities as separate classifications in its financial statements and contains rules on the current/non-current distinction of an asset or liability

Importantly, the current portion of a long-term liability may be excluded from current liabilities if the enterprise intends to refinance the obligation on a long-term basis and there is reasonable assurance that the enterprise will be able to do so.

Offsetting a current asset or current liability is not permitted unless a legal right of set-off exists and there is an expectation that the items will be settled on a net basis.

INTANGIBLE ASSETS

IASC's Intangible Assets Steering Committee published a draft Statement of Principles in January 1994. It includes the following key proposals·

- An intangible asset is recognized as an asset when it is probable that future economic benefits associated with the asset will flow to the enterprise and the cost of the asset can be measured reliably. The criteria for recognition as an asset are strict, so that internally generated intangible assets are unlikely to be capitalised under IAS

- Once recognized as an asset, an intangible asset is carried at cost (benchmark) or revalued amount (allowed alternative)

- Whichever treatment is adopted, amortisation is mandatory The residual value of an intangible asset at the end of its useful life should be zero unless a different amount can be measured reliably Consistent with the rules for goodwill in IAS 22 (page 13), the maximum period of amortisation is five years unless a longer period not exceeding twenty years can be justified.

The draft Statement of Principles also proposes guidance on related topics such as impairment, disposals, frequency of revaluations and disclosures, all of which is consistent with the rules in IAS 16 (Property, plant and equipment) The exposure draft (E51) on intangible assets is expected to be published in 1995

PROPERTY, PLANT AND EQUIPMENT

IAS 16 requires an item of property, plant and equipment to be recognized as an asset when it is probable that future economic benefits associated with the asset will flow to the enterprise and the cost of the asset to the enterprise can be measured reliably

An item of property, plant and equipment acquired in exchange for a dissimilar asset should be measured at fair value Where the item is acquired in exchange for a similar asset which has a similar use in the same line of business and which has a similar fair value, the cost of the new asset is the carrying amount of the asset given up

IAS 16 includes both a benchmark and an allowed alternative treatment for measurement of an item of property, plant and equipment subsequent to its initial recognition.

Benchmark treatment

The asset should be carried at its cost treatment less any accumulated depreciation

Allowed alternative treatment

The asset should be carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation.

Revaluations

When an item of property, plant and equipment is revalued, the entire class to which that asset belongs should be revalued IAS 16 suggests that revaluations be kept sufficiently up to date so that the carrying amount does not differ materially from the fair value Items which experience significant movements in fair value will need to be revalued annually For items with only insignificant movements in fair value, a revaluation every three or five years may be sufficient.

Revaluation increases and decreases should only be offset where they relate to the same asset The rules on revaluation increases and decreases are as follows:

- A revaluation increase is credited to shareholders' equity under the heading of revaluation surplus.

- A revaluation increase relating to a revaluation decrease previously charged to income should be recognized as income to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense

- A revaluation decrease is recognized as an expense. However, a revaluation decrease on the asset is charged to shareholders' equity under the heading of revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset.

IAS 16 contains guidance on the 'realization' of the revaluation. The revaluation surplus included in shareholders' equity may be transferred directly to retained earnings when the surplus is realized, eg on disposal of the asset Part of the revaluation surplus may be realized as the asset is used by the enterprise, in such a case, the amount of the surplus realized is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. This transfer from revaluation surplus to retained earnings is not made through the income statement

Impairment

IAS 16 requires a periodic review of the carrying amount of property, plant and equipment and does not permit the carrying amount of an item to exceed its recoverable amount. Any write-downs to recoverable amount should be recognized as expense unless they reverse a previous revaluation, in which case they are charged against the revaluation reserve.

IAS 16 requires the reversal of impairment write-downs when the recoverable amount subsequently increases. Where the benchmark (cost) treatment is used, the amount written back is reduced by the amount that would have been recognized as depreciation had the writedown or writeoff not occurred. Where the allowed alternative (revalued amount) treatment is used, the rules on revaluation increases and decreases in IAS 16 apply

Disposals

Fixed assets are eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Profits/losses are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized as income or expense in the income statement

Depreciation

The depreciable amount (i e., gross carrying value less estimated residual value) of a depreciable asset should be allocated on a systematic basis over its useful life IAS 16 emphasizes that depreciation is required even if the current value of the asset exceeds its carrying amount. It also emphasizes that buildings have a limited life and are therefore, depreciable assets (Land normally has an unlimited life and therefore is not depreciated)

Useful lives should be estimated after considering all relevant factors and should be reviewed periodically.

No particular method of depreciation is specified, although IAS 16 requires that the basis used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise.

IAS 16 requires that the depreciation method should be reviewed periodically, if there has been a significant change in the expected pattern of economic; benefits from those assets, the method should be changed to reflect the changed pattern When such a change in depreciation method is necessary, the change should be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.

Capitalization of Borrowing Costs

Benchmark treatment

Borrowing costs should be recognized as an expense in the period in which they are incurred, regardless of how the borrowings are applied.

Allowed alternative treatment

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Borrowing costs should be recognized as an expense in the period in which they are incurred, except that they should be capitalised where they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Determination of borrowing costs eligible for capitalization

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset is determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings

To the extent that funds are borrowed generally for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization should be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.

Capitalization begins when expenditure and borrowing costs for the asset are incurred and activities necessary to prepare the asset for its intended use or sale are in progress Capitalization is suspended during extended periods in which active development is interrupted. Capitalization ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

GOVERNMENT GRANTS

Government grants, including non-monetary grants (e.g., the transfer of land for the use of the enterprise) should be recognized only when there is reasonable assurance that the enterprise will comply with the conditions attaching to them and the grants will be received

Such grants should not be credited directly to shareholders' interests but should be recognized in the income statement on a systematic and rational basis over the periods necessary to match them with the related costs which they are intended to compensate

Grants related to assets should be presented in the balance sheet either as deferred income or as a deduction in arriving at the carrying amount of the relevant assets

Grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no further related costs, should be recognized in the income statement of the period in which it becomes receivable.

A government grant that becomes repayable should be accounted for as a revision to an accounting estimate. Repayment of a grant related to income should be applied first against any unamortized deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment should be charged immediately to income Repayment of a grant related to an asset should be recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable The cumulative additional depreciation that would have been charged to date in the absence of the grant should be charged immediately to income

LEASES

Under IAS 17, a lease is classified as a finance lease if it transfers to the lessee substantially all the risks and rewards incidental to ownership, otherwise, it is classified as an operating lease Although it is noted that the classification of a lease is determined by the substance of the transaction, the following are identified as examples of situations in which a lease would normally be classified as a finance lease

- The lease transfers ownership of the asset to the lessee by the end of the lease term

- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised.

- The lease term is for the major part of the useful life of the asset

- The present value, at the inception of the lease, of the minimum lease payments is greater than or equal to substantially all of the fair value of the leased asset net of grants and tax credits to the lessor at that time

Lessee Accounting and Reporting

Finance leases

Finance leases are recorded in the balance sheet as an asset and a liability at amounts equal at the inception of the lease to the fair value of the leased property net of grants and tax credits receivable by the lessor or, if lower, at the present value of the minimum lease payments The discount factor to be used for present value calculations is the interest rate implicit in the lease (if it is practicable to determine this) or the lessee's incremental borrowing rate.

Rentals should be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge should be allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The asset should be depreciated in accordance with the lessee's normal depreciation policy, although if there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the shorter of the lease term or its useful life.

Operating leases

The charge to income under an operating lease should be the rental expense for the accounting period, recognized on a systematic basis that is representative of the time pattern of the user's benefit (even if the payments are not made on that basis)

Sales and leaseback

Where a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount should be deferred and amortised over the lease term

Where a sale and leaseback transaction results in an operating lease and it is clear that the transaction is established at fair value, any profit or loss should be recognized immediately If the sale price is below fair value, any profit or loss should be recognized immediately except that, if a loss is compensated by future rentals at below market price, it should be deferred and amortised in proportion to the rental payments over the period for which the asset is expected to be used. If the sale price exceeds fair value, the excess over fair value should be deferred and amortised over the period for which the asset is expected to be used. In any event, a shortfall in fair value in relation to the carrying amount of the asset should be recognized immediately.

Lessor Accounting and Reporting Finance Leases

Finance leases

An asset held under a finance lease should be recorded in the lessor's balance sheet not as property, plant and equipment but as a receivable, at an amount equal to the net investment in

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the lease This is the aggregate of minimum lease payments and any unguaranteed residual value accruing to the lessor less any unearned finance income.

Subject to the consideration of prudence, the recognition of finance income should be based on a pattern reflecting a constant periodic rate of return on either the lessor's net investment or net cash investment in the lease. The method used should be applied consistently to leases of a similar financial character

Net cash investment comprises the balance of cash outflows and inflows in respect of the lease (excluding flows relating to insurance, maintenance, and similar rechargeable costs but including tax flows) and may be used only where the income tax factors affecting cash flows are predictable with reasonable certainty.

Manufacturer or dealer lessors should recognize sales revenue at the inception of the lease, at an amount equal to fair value of the asset, or, if lower, the sum of the present values of the minimum lease payments and the estimated unguaranteed residual value accruing to the lessor, computed at a commercial rate of interest The cost of sale recognized at the inception of the lease is the cost, or carrying amount if different, of the leased asset Initial direct costs should be charged to income at the inception of the lease

Operating leases

Assets held for use in operating leases should be recorded in the lessor's balance sheet as property, plant and equipment and should be depreciated on a basis consistent with the normal depreciation policy for similar owned assets.

Rental income should be recognized on a straight line basis over the lease term, (even if the receipts are not on such a basis) unless some other systematic basis is more representative of the time pattern of the earnings process contained in the lease (i.e , the time pattern in which the benefit from the leased asset is receivable)

INVESTMENTS

Long-term Investments

Long-term investments should be carried at either cost or revalued amounts (IAS 25) However, marketable equity securities may be carried at the lower of cost and market value determined on a portfolio basis Reductions in carrying value (determined on an individual investment basis) should be made to recognize a decline other than temporary in the values of long-term investments Where long-term investments are carried at revalued amounts, a policy for the frequency of revaluations should be adopted and an entire category of such investments should be revalued at the same time.

An increase in carrying amount arising from the revaluation of long-term investments should be credited to shareholders' equity as a revaluation surplus To the extent that a decrease in carrying amount offsets, for the same investment, a previous increase that has been credited to revaluation surplus and not subsequently reversed or utilized, it should be charged against that revaluation surplus. In all other cases, a decrease in carrying amount should be charged to income An increase on revaluation directly related to a previous decrease for the same investment that was charged to income, should be credited to income to the extent that it offsets the previously recorded decrease.

Current Asset Investments

Current asset investments should be carried at either market value or the lower of cost and market value, determined either on an aggregate portfolio basis, in total or by category of investment, or on an individual investment basis (IAS 25) Where current asset investments are carried at market value, any changes should either be included in income or credited to shareholders' equity as revaluation surplus.

Disposals

On disposal of any investment, the profit or loss is calculated as the difference between net disposal proceeds and the carrying amount For current asset investments carried on a portfolio basis at the lower of cost and market value, the profit or loss on sale of an individual investment should be based on cost, however, the impact on the aggregate market value of the portfolio needs to be assessed.

If the investment was previously revalued, or was carried at market value and an increase in carrying amount was transferred to revaluation surplus, any remaining amount included in the revaluation surplus in respect of the investment should either be credited to income or transferred to retained earnings; however, the policy adopted should be applied consistently

Transfers

For long term investments reclassified as current investments, transfers should be made at the lower of cost and carrying amount or at the carrying amount, depending on whether current investments are carried at the lower of cost and market value or at market value Any remaining related revaluation surplus should be reversed unless current investments are carried at market value, in which case it may be credited to income if this is the policy for accounting

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for such changes in market value. For current investments reclassified as long term investments, transfers should be made at the lower of cost and market value, or at market value if they were previously stated at that value.

INVENTORIES

Inventories should be valued at the lower of historical cost and net realizable value IAS 2 establishes a benchmark treatment which is either the first-in-first-out valuation method (FIFO) or weighted average cost The last-in-first-out valuation method (LIFO) is, however, permitted as an allowed alternative treatment Where an enterprise values inventory using the LIFO method, it must quantify and disclose the difference between that method and the benchmark method.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. It includes a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads should be based on the normal capacity of the production facilities.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by using specific identification of their individual costs

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale The comparison between cost and net realizable value should be performed on an item by item basis or for groups of similar or related items.

DEFERRED TAX

IAS 12 deals with Taxes on Income and, in particular, deferred tax IAS 12 allows the use of either the deferral method (whereby provision is made at the tax rate at the time the timing differences originate) or the liability method (whereby provision is made at the rate at which the differences are expected to reverse).

Under IAS 12 deferred tax should normally be calculated on all timing differences. However, an enterprise may exclude the tax effects of certain timing differences when there is reasonable evidence that these timing differences will not reverse for some considerable period (at least three years) ahead. There should also be no indication that after this period these timing differences are likely to reverse The amount of timing differences not accounted for, both current and cumulative, should be disclosed.

Deferred tax debit balances should not be carried forward unless there is a reasonable expectation of realization

The potential tax saving relating to a tax loss carryforward may be included in net income for the period of the loss if there is assurance beyond any reasonable doubt that future taxable income will be sufficient to allow the benefit of the loss to be realized If this criterion is not satisfied, the tax saving relating to a tax loss carryforward should be included in net income to the extent of the net credits in the deferred tax balance that will reverse or can be reversed within the period during which the loss can be claimed as a tax benefit

New proposals

Exposure draft E49 - Income Taxes, proposes that full deferred tax should be provided using the liability method. In following the liability method, E49 adopts the balance sheet approach (similar to the US Standard FAS 109) Under the balance sheet approach the temporary differences are the differences between the tax and book bases of assets and liabilities, the deferred tax expense is the change during the period in deferred tax liabilities and assets

This approach contrasts with the income statement approach in IAS 12 where timing differences are differences between taxable and accounting income. The two methods may often result in the same deferred tax liabilities/assets. However, the balance sheet approach proposed by E49 may require the recognition of more deferred tax liabilities and assets than the income statement approach, this is likely to occur when the definition of temporary differences in E49 captures items that do not meet the definition of timing differences (for example, differences between the fair values and the tax values of assets and liabilities acquired in a business combination accounted for under the purchase method)

STATEMENT OF CASH FLOWS

INTRODUCTION

IAS 7 was revised in 1992 and came into force for accounting periods beginning on or after 1 January 1994 It requires a cash flow statement to be provided for each period for which financial statements are presented

The objective of IAS 7 is to provide information about the changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period from operating, investing and financial activities.

CASH EQUIVALENTS

Cash equivalents are defined in IAS 7 as "short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value". IAS 7 indicates that an investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition

Changes in bank borrowings are generally considered to be financing activities. However, the IASC recognizes that in some countries bank overdrafts which are repayable on demand form an integral part of an enterprise's cash management. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to negative In these circumstances, IAS 7 permits bank overdrafts that are repayable on demand to be included as a component of cash and cash equivalents. Movements in short term bank borrowings, other than bank overdrafts, would be classified as financing activities

An enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet. An enterprise should also disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by the group

DIRECT/INDIRECT METHOD

Enterprises may report cash flows from operating activities using either the direct or indirect method. Under the direct method the cash flows disclosed are derived from aggregating cash receipts and payments associated with operating activities Under the indirect method operating cash flows are derived by adjusting net income for transactions of a non-cash nature, eg depreciation

Although IAS 7 does not specify either method as the benchmark, it encourages use of the direct method as this method provides information which may be useful in estimating cash flows and which is not available under the indirect method. Where the direct method is used, IAS 7 does not require the disclosure of a reconciliation of net income to net cash flows from operating activities.

NON-CASH TRANSACTIONS

Investing and financing transactions that do not require the use of cash and cash equivalents, are not reflected in the cash flow statement Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities. Examples of non cash activities include conversion of debt to equity, acquisition of assets by means of a finance lease and exchanges of assets or liabilities.

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CLASSIFICATION OF CASH FLOWS

The cash flows should be classified into the three separate groups of operating, investing and financing activities.

Operating Activities - cash receipts and payments relating to:

- sale of goods and the rendering of services
- royalties, fees, commissions and other revenue
- suppliers for goods and services
- employees
- income taxes unless these are specifically identified with financing or investing activities

Investing Activities - cash receipts and payments relating to:

- sales or purchases of property, plant and equipment, intangibles and other long-term assets
- sales or purchases of equity or debt instruments of other enterprises, and interests in joint ventures
- cash advances and loans made to other parties and repayments thereof (other than advances and loans made by a financial institution)
- futures, forward, option and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts and payments are classified as financing activities

When a contract is accounted for as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing Activities - cash receipts and payments relating to

- issue or redemption of shares or other equity instruments

- issue or repayment of debentures, loans, notes, bonds, mortgages and other short or long term borrowings, including payments made under finance leases

REPORTING CASH FLOWS ON A NET BASIS

Cash flows arising from the following operating, investing or financing activities may be reported on a net basis.

- cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the enterprise, for example rents collected on behalf of, and paid over to, the owners of properties

- cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short, for example short-term borrowings (typically commercial paper programs) which have a maturity of three months or less

EXTRAORDINARY ITEMS

The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed.

INTEREST AND DIVIDENDS

IAS 7 recognizes that there is no consensus internationally on the classification of interest and dividends in the statement of cash flows An entity should therefore classify interest and dividends paid in a consistent manner from period to period as operating or financing cash flows Interest and dividends received should be classified consistently as operating or investing cash flows. The amounts should be separately disclosed, to enable users to make their own comparisons of cash flows from interest and dividends with other cash flows

FOREIGN CURRENCY CASH FLOWS

Cash flows from transactions in a foreign currency should be recorded in the enterprise's reporting currency using the exchange rate at the date of the cash flow or using an exchange rate that approximates the actual rate (for example, a weighted average exchange rate for the period) Use of the exchange rate at the balance sheet date is not permitted The same approach applies to the translation of the cash flows of a foreign subsidiary.

Unrealized exchange gains and losses arising from changes in exchange rates are not cash flows. However, the effect of exchange rate changes on foreign currency cash and cash equivalents is reported, usually in the notes to the cash flow statement, in order to reconcile cash and cash equivalents at the beginning and the end of the period

NOTES TO THE FINANCIAL STATEMENTS

RETIREMENT BENEFITS COST

IAS 19 applies to all enterprises accounting for the cost of retirement benefit plans (pension plans). It also applies to any employment termination indemnity arrangements which meet the definition of a retirement benefit plan IAS 19 does not deal with other post-employment benefits such as health care costs, although it stresses that it is appropriate to account for these costs in a similar manner to the costs of retirement benefit plans, if the substance of the arrangements is the same as those of retirement benefit plans

Retirement benefits are provided to employees under differing arrangements through the world These arrangements can be identified either as defined contribution plans or defined benefit plans and either be funded or unfunded by the employer's enterprise Funding may involve a separate fund or an insurance policy.

The enterprise's contributions to a defined contribution plan in respect of service in a particular period should be recognized as an expense in that period

Defined Benefit Plans

The current service cost, being the cost for services rendered in the current period by participating employees, should be recognized as an expense in the current period Past service costs, experience adjustments, the effects of changes in actuarial assumptions and the effects of plan amendments in respect of existing employees should be recognized as an expense or as income systematically over the expected remaining working lives of those employees.

As exceptions to this general requirement, IAS 19 requires the use of shorter amortisation periods for certain plan amendments in order to reflect the effective time period of economic benefits received by the enterprise For example, when plan amendments are made regularly, the additional cost may be recognized as an expense or income systematically over the period to the next expected plan amendment IAS 19 also requires the immediate write off of the costs of plan terminations, curtailments and settlements and plan amendments in respect of retired employees.

In determining the cost of retirement benefits, an enterprise should use appropriate and compatible actuarial assumptions, guidance is included on the choice of appropriate actuarial assumptions.

IAS 19 includes benchmark and allowed alternative treatments for the actuarial valuation method.

Benchmark treatment

The cost of retirement benefits is determined using an accrued benefit valuation method, which determines the cost of providing retirement benefits on the basis of services rendered by employees to the date of the actuarial valuation The annual current service cost applicable to each employee typically increases as his or her retirement approaches However, for the benefit plan as a whole, annual current service cost tends to bear a systematic relationship to remuneration in each period, provided the number and age distribution of participating employees remain relatively unchanged

Allowed alternative treatment

The cost of retirement benefits is determined using a projected benefit valuation method Projected benefit valuation methods determine the present value of the cost of providing retirement benefits on the basis of service both rendered and to be rendered by employees as at the date of the actuarial valuation These methods spread the cost evenly, either in absolute amounts or as a percentage of salaries, over all periods of service making up the working lives of participating employees, and typically achieve a relatively level annual current service cost

A change in the actuarial valuation method from the allowed alternative treatment to the benchmark treatment should be accounted for and disclosed as a change in accounting policy in accordance with IAS 8

CONTINGENCIES

IAS 10 requires that a contingent loss should be accrued by a charge in the income statement if:

- it is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability incurred at the balance sheet date, and

- a reasonable estimate of the amount of the resulting loss can be made

If either of these conditions is not met, disclosure of the contingent loss should be made unless the possibility of a loss is remote The following disclosures are required by IAS 10

- the nature of the contingency,

- the uncertainties that may affect the future outcome, and

- an estimate of the financial effect (or a statement that such an estimate cannot be made)

The existence and amount of guarantees, obligations arising from discounted bills of exchange and similar obligations are disclosed, event though it is remote that a loss will occur

Contingent gains should not be accrued and should be disclosed only if it is probable that the gain will be realized.

RELATED PARTY TRANSACTIONS

IAS 24 requires that related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties However, such disclosure (and other provisions of the standard) only apply to certain specified relationships (including holding companies, subsidiaries and associates, major shareholders and key management personnel but excluding, for example, providers of finance, government departments and agencies and significant customers and suppliers).

If there have been transactions between related parties, disclosure should be made of the nature of the relationship, the types of transactions and the elements of the transactions necessary for an understanding of the financial statements (eg volume, amounts outstanding, pricing policies).

Items of similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of how related party transactions have affected the financial statements.

SEGMENT REPORTING

IAS 14 requires that publicly quoted enterprises and other economically significant entities should describe the activities of each significant industry segment and indicate the composition of each significant geographical segment in which it operates

For each such segment, disclosure should be made of

- sales or other operating revenues (analyzed between external customers and other segments),

- result,
- net assets employed, and
- basis of inter-segment pricing

Reconciliations between the sum of the information on individual segments and the aggregated information in the financial statements should be given.

Disclosure should also be made of the nature of any change in the identification of segments or in the way in which segmental information is reported, the reasons for the change and, if determinable, the effect of the change

New Proposals

During the years since IAS 14 was published in 1981, a number of standard setting bodies have issued standards dealing with the disclosure of segment information These standards are based on, or reflect IAS 14 but some include requirements which differ from IAS 14

IASC has decided to revise IAS 14 in order to clarify and extend its disclosure requirements and to provide clearer guidance for defining industry and geographical segments and for identifying and measuring the segment results

A draft Statement of Principles, setting out revised proposals, is expected to be published during 1995.

POST BALANCE SHEET EVENTS

Assets and liabilities should be adjusted for events occurring after the balance sheet date which (a) provide additional evidence to assist with the estimation of amounts relating to conditions existing at the balance sheet date or (b) indicate that the going concern assumption in relation to the whole or part of the enterprise is not appropriate (IAS 10)

Disclosure (but not adjustment) should be made for events occurring after the balance sheet date that do not affect the condition of assets or liabilities at the balance sheet date but are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions

Required disclosures for post balance sheet events.

- the nature of the event, and
- an estimate of the financial effect (or a statement that such an estimate cannot be made)

Dividends which relate to the period covered by the financial statements but which are not declared until after the balance sheet date should be either adjusted for or disclosed

INFLATION ACCOUNTS

Where enterprises choose to present inflation accounting information, IAS 15 requires them to adopt an accounting method which reflects the effects of changing prices and to use this method to calculate the following items which should be disclosed within the financial statements.

- depreciation adjustment

- cost of sales adjustment

- where appropriate, adjustments relating to monetary items, the effect of borrowing or equity interests (discussed in paragraphs 15 to 17 of IAS 15), and

- the net effects of these adjustments and any other relevant items on the enterprise's results

IAS 15 does not specify any preference between the general purchasing power and the current cost methods to inflation accounting. However, where the latter is used, the current cost of property, plant and equipment and of inventories should also be disclosed

Compliance with IAS 15 is not required for financial statements to conform with International Accounting Standards, although the Board of the IASC encourages presentation of inflation accounting information.

FINANCIAL INSTRUMENTS

INTRODUCTION

In September 1991 the IASC published E40, an exposure draft on financial instruments, which was developed in conjunction with the Canadian Institute of Chartered Accountants (CICA) This as the first attempt to establish comprehensive standards in this difficult area Not surprisingly, therefore, E40 stimulated considerable debate and controversy, a revised Exposure Draft E48 - Financial Instruments - was published in January 1994

SCOPE

E48 deals with all financial assets and financial liabilities (with limited exceptions such as commodity contracts). It applies to financial institutions and non financial institutions, but excludes insurance companies The objective of E48 is to develop broad standards for the recognition, measurement and disclosure of financial instruments. The appendix to E48 illustrates the application of the standards to specific financial instruments.

DEFINITIONS

Financial instruments are defined as any contract which gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise Traditional financial instruments include cash, equity instruments, borrowings, debtors and creditors The

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term financial instruments also covers derivatives such as options, futures, forward contracts, interest rate swaps and currency swaps.

RECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

E48 proposes that a financial asset or of financial liability should be recognized in the balance sheet when substantially all of the risks and rewards associated with it have been assumed and the item can be measured reliably.

A recognized financial asset or financial liability should be removed from an enterprise's balance sheet when substantially all of the risks and rewards associated with the asset or liability have been transferred to others and the fair value of any risks and rewards retained can be measured reliably, or the underlying right or obligation has been exercised, discharged or cancelled, or has expired

SEPARATION OF COMPONENT PARTS OF FINANCIAL INSTRUMENTS

When a financial instrument has both a maturity date and either a right of exchange for an asset other than cash or a right to convert into an equity instrument of the issuer (e g , convertible debt), the issuer should, on initial recognition, identify the instrument's component parts and account for them separately according to their particular characteristics When an enterprise acquires such an instrument with the intention of holding it for the long-term or to maturity, on initial recognition the enterprise should identify the component parts and account for them separately.

CLASSIFICATION BETWEEN LIABILITIES AND EQUITY

E48 also proposes that the classification of a financial instrument (or its component parts) between liabilities and equity, should reflect the substance of the contractual arrangement on initial recognition The distinction between liabilities and equity broadly depends upon whether or not the issuer has a contractual obligation to deliver cash or another financial asset to the holder of the instrument, regardless of the legal form of the instrument On this analysis, redeemable preferences shares would be regarded as liabilities rather than equity instruments, even though in legal form they may be termed equity

Interest and dividends payable are recognized as an expense in the income statement where they relate to items shown in the balance sheet as liabilities, and are recognized as reductions in shareholders' equity where they relate to equity instruments.

OFFSETTING

A financial asset and a financial liability should be offset and the net amount reported in the balance
sheet when an enterprise has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously

MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

When a financial asset or a financial of financial liability is recognized initially, it should be measured at the fair value of the consideration given or received for it. Subsequent to initial recognition, E48 proposes a benchmark measurement standard, which is based on management's intent in entering into the transaction Historical cost is used for those financial assets and liabilities held for the long term or to maturity Those items held for hedging purposes are accounted for as a hedge when various specified criteria are met for hedge accounting, the traditional criteria for hedge accounting (identification, designation and high correlation) is extended to include anticipated transactions (narrowly defined and existence must be disclosed).

Subsequent to initial recognition and measurement, a financial asset or a financial liability that is not intended to be held for the long term or to maturity and is not classified as a hedging instrument is reported at fair value; gains and losses from changes in fair value are recognized in the income statement.

E48 also contains an allowed alternative measurement standard· all financial assets and liabilities are reported at fair value; gains and losses from changes in fair value are recognized in the income statement, except when the financial asset or financial liability is accounted for as a hedge of an anticipated future transaction.

DISCLOSURE

E48 proposes a significant array of disclosures about all financial instruments, whether or not recognized on the balance sheet, including terms and conditions, accounting policies and methods adopted, fair values and exposures to interest rate risk and credit risk

REVISIONS OF OTHER STANDARDS

E48, once it is finalized as an International Accounting Standard, will necessitate revisions to IAS 25 and IAS 30, and possibly other existing standards

INTERNATIONAL ACCOUNTING STANDARDS EXTANT AT SEPTEMBER 1994

IAS 1	Disclosure of Accounting Policies
IAS 2	Inventories*
IAS 4	Depreciation Accounting
IAS 5	Information to be Disclosed in Financial Statements
IAS 7	Cash Flow Statements
IAS 8	Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*
IAS 9	Research and Development Costs*
IAS 10	Contingencies and Events occurring After the Balance Sheet Date
IAS 11	Construction Contracts*
IAS 12	Accounting for Taxes on Income
IAS 13	Presentation of Current Assets and Current Liabilities
IAS 14	Reporting Financial Information by Segment
IAS 15	Information Reflecting the Effects of Changing Prices
IAS 16	Property, Plant and Equipment*
IAS 17	Accounting for Leases
IAS 18	Revenue*
IAS 19	Retirement Benefit Costs*
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates*
IAS 22	Business Combinations*
IAS 23	Borrowing Costs*
IAS 24	Related Party Disclosures
IAS 25	Accounting for Investments
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
IAS 28	Accounting for Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
IAS 31	Financial Reporting of Interests in Joint Ventures
IAS 32	Financial Instruments Disclosure and Presentation **

* These standards have been revised as part of the IASC's Comparability/Improvements Project. The revised standards first apply to accounting periods beginning on or after January 1, 1995

** Recently released, not covered in this summary.

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C. DIFFERENCES BETWEEN ARMENIAN AND INTERNATIONAL ACCOUNTING STANDARDS

This section highlights the main differences between transactions recorded under the Armenian standards and IAS.

1. Provision for Bad Debt

Armenian standards require that bad debt expense be recognized after the time for recoveries has expired. Thus, no provision for bad debt expense is recorded at the point of sale. However, financial reporting under IAS requires assets to be stated at their realizable value This would include accounts receivables (A/R), and in valuing these assets the collectability would be evaluated and a provision for uncollectible accounts would be established.

2. Accrual Basis of Accounting

Enterprises in Armenia use the cash basis of accounting for recording revenue recognition The main reason for using this cash basis is to defer calculation and payment of taxes until cash is received. Armenian standards require recognition of the cost of goods sold or services performed at the same time that the revenue is recognized, following the matching principle

IAS requires the recognition of revenue when earned, generally when the goods or services are delivered to the customer IAS also follows the matching principle recognizing cost of goods sold when the service is delivered However, there is a timing difference when the revenues and expenses are recognized under these two systems This timing difference will require certain accounts be maintained separately for IAS reporting and for Armenian statutory reporting.

3. Deferred Taxes

Under the cash basis of accounting revenue and expense, recognition occurs upon the receipt of cash. Income taxes would then be calculated and become payable at the time of recognition. Following IAS 12, which takes into account accrual accounting, taxes on income are considered to be an expense incurred by the enterprise in earning income and are accrued in the same periods as the revenue and expense to which they relate. In cases where revenue is recognized in the financial statements prior to the tax reporting basis and where expenses are recognized in the financial statements subsequent to the tax reporting basis, tax expense would be recorded in the income statement and recorded as deferred tax liability for taxes payable in the future

4. Revaluation of Assets

In accordance with IAS assets are generally carried on the balance sheet at their net realizable value. The following is a list of IAS that covers revaluation of certain asset categories.

a) Property Plant/Equipment. IAS 16 requires that after the initial recognition, at cost, of plant and equipment a line item of property and plant should be carried at a revalued amount, which should reflect its fair value less accumulated depreciation Increases in revaluations should generally correspond with an increase in a revaluation surplus account within owner's equity. Revaluation increases reversing prior revaluation decreases should be recognized as income Decreases in asset values based on revaluation should be recorded with a corresponding expense. However, any revaluation decreases reversing prior revaluation surpluses should be recorded as decreases to such surplus

b) Inventories. IAS 2 requires that inventories should be measured at the lower of cost or net realizable value Write-downs of inventories to net realizable value should be recognized as an expense in the period of write-down Reversals of prior write-downs should be reflected as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs

c) Long-Term Investments. In accordance with IAS 25, long-term investments should be carried at either cost or revalued amounts. However, marketable securities may be carried at lower of cost and market value determined on a portfolio basis. Increases in the carrying value of investments should be credited to owner's equity as a revaluation surplus. Decreases in the investments' carrying value based on revaluations should be recorded with a corresponding expense. However, any revaluation decreases reversing prior revaluation increases should be recorded as decreases to revaluations surplus

Detailed records of valuation adjustments should be retained for a time period exceeding the life of the asset. This information will be required when determining the future years' revaluations.

5. Elimination of Reserve Funds

The Armenian standards use special funds to allocate the enterprise's resources for certain specified purposes The enterprise's profits are allocated to special or reserve funds These funds are created for purposes such as payment of social and welfare benefits, construction of future assets, and also may be set aside for future losses and expenditures

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IAS only allows the establishment of reserves when management has determined that identifiable future expenditures are both: (i)considered to be probable of occurrence and, (ii) estimable in amount. The creation and additions to these reserves would be included as reductions in the determination of net income Under IAS reserves represent the prudent accrual of expenses for which the obligation creating the expenditure has already occurred No other reserves should be established since these would reflect discretionary debits to net income that do not represent current activities. If resources are set aside for future activities they should be considered appropriations to retained earnings for such purposes.

6. Determination of Net Income

In accordance with IAS guidelines, the presentation of net income in the income statement would include all items properly recognized as revenue or expense for the period All items of revenue (including accrued revenues) and all expenses (including income taxes) would be included in the calculation of net income (or loss). IAS presentation of net income would not make distinctions for items that are considered taxable or non-taxable for profits and other taxes payable determinations.

Under Armenian accounting guidelines, Account 46, " Sales of Goods and Services" records all the revenues and expenses associated with the sales of goods and/or services of the enterprise's main line of business. Accounts 47 and 48 serve similar recording functions for sales of other goods and services. These accounts are closed to Account 80, "Profit and Loss" Account 81 records certain expenses not allowable for profit and other tax calculations In addition, account 81 also records the allocations of profits for special funds

Given the differences in the presentation of net income under the IAS and the Armenian standards, certain adjustments must be made to the Armenian records to comply with IAS requirements in the presentation of net income. The following transactions would be required

- Transactions related to sales recorded in accounts 46,47,48 would be presented as revenues and expenses Expenses recorded in Account 81, due to their non-taxable nature, would also be included as expenses in the calculation of net income

- The income statement would record the allocation of profits for reserve obligations that are considered probable of occurrence, estimable, and already occurred in the period reported. All other allocations for reserves are not considered expenses thus they should not be included in the determination of net income.

- Profit taxes recorded in Account 81 should be presented as a separate item of expenses in the determination of net income

7. Financial Statement Presentation

Financial statements are read by a wide range of parties who have different purposes in the use of the financial information. For example, management is interested in the internal operation of the enterprise, equity investors are interested in the long-run perspectives, and creditors are interested in the liquidity of the firm. Financial statements prepared under IAS are intended to be presented in a uniform manner so they can be understood by a wide range of parties around the world. Information provided by financial statements includes the firm's assets, liabilities and equity, results of operations, sources and uses of funds and the principles used in their preparation.

A complete set of financial statements includes a balance sheet, an income statement, a statement of cash flows, a statement of changes in owners' equity, and complementary notes that disclose principles used in the preparation of the statements and further information

8. Inclusion of Daughter Enterprises in Financial Statements

Where an enterprise has one or more subsidiaries, IAS 27 requires that it should present consolidated financial statements A subsidiary is defined in IAS 27 as an enterprise, the financial and operating policies of which the parent has the power to govern so as to obtain benefits from its activities.

All the financial information for Armenergo's DEs should be consolidated into the financial statements of Armenergo. This would include the non-utility related operations such as the capital construction companies, management construction companies, and supply stores

Consolidation of these daughter enterprises in Armenergo's financial statements would eliminate duplication of certain transactions, including inter-company sales and profits and cost allocations, thereby avoiding overstating revenues and expenses of combined operations

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IV. CHART OF ACCOUNTS

A. ORGANIZATION OF CHART OF ACCOUNTS

The chart of accounts has been developed to accumulate and report financial information most relevant to the electric utility industry. This is a uniform chart of accounts for the entire industry Many of the accounts are for specific functions, such as thermal generation or transmission, and may not be applicable to all companies in the industry

The accounting system proposed is to be used during the transition from a tax-based accounting system to a system using International Accounting Standards (IAS) It is designed so that all input documents record a transaction in two different sets of books with a single entry. One set of books is to be maintained under the rules set forth in the Accounting and New Procedures for Financial Reporting in the Republic of Armenia. The other set will use IAS The Chart of Accounts presented lists the most common combinations of account numbers. The Armenian number is represented by the first two digits. The final three digits are those used for international accounting.

Because there are many similarities between the Armenian and international accounting practices, most transactions can be entered with dual account numbers. When the accounting practices diverge, transactions are to be recorded using zeroes on one side of the account number. That way one set of books will not be affected by an entry that is used solely by the other.

The organization of the chart of accounts is based on the last three digits of the account number. The account numbers begin with the XX100 series of accounts and run through the XX900 series This account number sequencing is intended to mirror the format of the financial statement presentation. While the first two digits have been included to allow for reporting purposes in accordance with Armenian regulations, their number sequencing has not determined the organization of this new chart of accounts

The chart of accounts is adequate for operations as they currently exist within Armenergo Should a number of new financial accounts become necessary, whether due to acquiring additional operations, or to meet regulatory requirements, it may be necessary to expand the account code format and provide a fourth digit within the Financial Accounting field.

Asset Accounts

The assets accounts, the XX100 series, start with the electric plant accounts, construction accounts and other plant related accounts They are listed first to correspond with financial statement presentations of western utility companies These items appear first on the balance sheet because they are the focus of utility companies' investments The electric plant accounts are followed by other related property and investments accounts

Current assets are presented next in the chart of accounts since these accounts are presented in financial statements after property and plant items

Liabilities and Owners' Equity Accounts

Liabilities and proprietary capital accounts are represented next in the chart of accounts under the XX200 series of accounts. Proprietary capital accounts and long-term debt accounts appear first in this sequence of accounts. This placement is based on the relative significance of these items and the fact that these items are intended to match the presentation of the electric plant accounts on the assets side of the balance sheet which, as discussed above, are also listed first. These capitalization accounts are generally the primary means that western utilities have used for the financing of the electric plant construction

Detailed Electric Plant Sub Accounts

The XX300 series of accounts are used as sub-accounts providing additional detail of the electric plant accounts. These accounts provide further classification of property and plant accounts into types of electric plant assets. The sub accounts are grouped by function--thermal generation, hydraulic generation, transmission, distribution, and general plant Only general plant will apply to all entities

Income Statement Accounts

The chart of accounts now moves to the XX400 series to report income statement activities The beginning of the XX400 series of accounts starts with utility operating income accounts This group includes the utility operating revenues account, followed in sequence by operating, maintenance, and depreciation expense accounts. This entire group of accounts represents what is considered by western utilities to be utility operations accounts. This reference means that all of these revenue and expense accounts are the primary elements of a utility company's business They are placed at the top of the income statement to reflect this significance

Following these items are the accounts that comprise the remaining portion of the income statement which is considered to be non-utility operations accounts That is to say, these accounts represent all of the other revenues and expenses generated and expended by a utility company in activities other than electric service and sales These items would appear on the lower part of the income statement and cover such activities as interest and extraordinary items, if applicable.

The accounting sequence then includes sub-accounts of the operating revenue account to provide additional details of the sources of operating revenues As summarized in the accounts descriptions, these accounts provide classifications for types of operating revenues generated by the utility's sale of electricity and related activities

The XX500 series of accounts which follow are sub-accounts of operations and maintenance expense accounts. Similar to the operating revenue sub-accounts, these accounts provide detailed classifications for utility operations activities In these cases, the classifications report types of electric plant operation and maintenance activities.

The XX900 series of accounts are sub-accounts of general and administrative expense accounts Similar to the operation and maintenance expense sub-accounts, these provide detailed classifications for general and administrative activities related to the utility operations.

CHART OF ACCOUNTS -- GENERATION

ACCOUNT NUMBER		ACCOUNT DESCRIPTION

BALANCE SHEET ACCOUNTS

1. UTILITY PLANT

01	101	Electric Plant in Service
03	101	Electric Plant in Service-Leased
04	101	Electric Plant in Service-Intangible Costs
01	103	Experimental Electric Plant
01	104	Electric Plant Leased to Others
01	105	Electric Plant Held for Future Use
01	106	Completed Construction Not Yet Classified
08	106	Completed Construction Not Yet Classified
07	107	Construction Work in Progress-Equipment to be Installed
08	107	Construction Work in Progress
10	107	Construction Work in Progress-Construction Materials
02	108	Accumulated Depreciation-Utility Plant
02	111	Accumulated Amortization-Utility Plant
05	111	Accumulated Amortization-Utility Plant-Intangible Costs
01	118	Other Utility Plant
02	119	Accumulated Depreciation/Amortization-Other Utility Plant
13	119	Accumulated Depreciation/Amortization-Other Materials and Other Current Assets

2. OTHER PROPERTY AND INVESTMENTS

01	121	Non-utility Property
04	121	Non-utility Property-Intangible Assets
08	121	Non-utility Property-Capital Investments
11	121	Non-utility Property-Animals
30	121	Non-utility Property-Non Capital Works
02	122	Accumulated Depreciation/Amortization-Non-utility Plant
05	122	Accumulated Depreciation/Amortization-Non-utility Plant-Intangible Property
06	123	Long Term Financial Investments-Associated Companies
06	124	Long Term Financial Investments-Other Investments
06	128	Other Special Funds

3. CURRENT AND ACCRUED ASSETS

51	131	Cash in Bank-Current Account
52	131	Cash in Bank-Foreign Currency Account
57	131	Cash in Bank-Transfer in Transit
55	134	Special Deposits
50	135	Petty Cash
56	136	Temporary Cash Investments-Monetary Documents
58	136	Temporary Cash Investments-Financial Investments
62	141	Customer Notes Receivable
45	142	Customer Accounts Receivable
62	142	Customer Accounts Receivable
61	143	Other Accounts Receivables-Advances Issued
63	143	Other Accounts Receivable-Claims
71	143	Other Accounts Receivable-Employees-Business Advances
73	143	Other Accounts Receivable-Employees-Nonbusiness

CHART OF ACCOUNTS -- GENERATION

ACCOUNT NUMBER		ACCOUNT DESCRIPTION
75	143	Other Accounts Receivable-Stock Subscriptions
76	143	Other Accounts Receivable-Other Debtors and Creditors
82	144	Accumulated Bad Debt Expense-credit
00	144	Accumulated Bad Debt Expense-credit-IAS
78	145	Notes Receivable from Associated Companies
78	146	Accounts Receivable from Associated Companies
79	146	Accounts Receivable from Internal Settlements
10	151	Fuel Stock
10	154	Plant Materials and Operating Supplies-Materials
12	154	Plant Materials and Operating Supplies-Low value, Short Life Assets
15	154	Plant Materials and Operating Supplies-Acquisition of Materials
16	154	Plant Materials and Operating Supplies-Deviation in Cost of Materials
21	155	Merchandise --Semi-finished Goods
40	155	Merchandise-Finished Goods
41	155	Merchandise -- Goods
42	155	Merchandise-Trade Mark-ups and Discounts on Purchases
10	156	Other Materials and Supplies
12	156	Other Materials and Supplies-Low value, Short Life Assets
44	163	Stores Expenses Undistributed
31	165	Prepayments-Expenditures of Future Periods
61	165	Prepayments-Advances Issued
76	171	Interest and Dividends Receivable
09	172	Rent Receivable-Long term Lease Obligations
76	172	Rents Receivable
00	173	Accrued Utility Revenues-IAS only
00	174	Miscellaneous Current and Accrued Assets-IAS only
12	174	Miscellaneous Current and Accrued Assets
20	174	Miscellaneous Current and Accrued Assets-Main Production

4. DEFERRED DEBITS

31	181	Unamortized Debt Expense
12	185	Temporary Facilities
30	185	Temporary Facilities
31	186	Miscellaneous Deferred Debits
00	190	Accumulated Deferred Profit Taxes-IAS only

LIABILITIES AND OTHER CREDITS

5. PROPRIETARY CAPITAL

85	201	Common Stock Issued
75	202	Common Stock Subscribed
85	204	Preferred Stock Issued
75	205	Preferred Stock Subscribed
85	207	Premium on Capital Stock
86	207	Premium on Capital Stock
85	213	Discount on Capital Stock
80	210	Gain on Resale/Cancellation of Reacquired Capital Stock
85	211	Miscellaneous Paid-in Capital
88	214	Revaluation Surplus

CHART OF ACCOUNTS -- GENERATION

ACCOUNT NUMBER		ACCOUNT DESCRIPTION
86	215	Appropriated Retained Earnings-Reserve Fund
88	215	Appropriated Retained Earnings-Special Purpose Funds
96	215	Appropriated Retained Earnings-Targeted Financing and Allocations
87	216	Unappropriated Retained Earnings
00	216	Unappropriated Retained Earnings-IAS only
56	217	Reacquired Capital Stock

6. LONG-TERM DEBT

95	221	Bonds
96	221	Bonds-Targeted Financing
78	223	Advances from Associated Companies
92	224	Other Long-term Debt-Bank Loans
95	224	Other Long-term Debt
96	224	Other Long-term Debt-Targeted Financing
83	225	Unamortized Premium on Long-term Debt
80	226	Unamortized Discount on Long-term Debt-debit
97	227	Obligations under Capital Lease

7. OTHER NONCURRENT LIABILITIES

89	228	Accumulated Miscellaneous Operating Provisions
76	229	Other Noncurrent Liabilities

8. CURRENT AND ACCRUED LIABILITIES

90	231	Notes Payable-Short term Bank Loans
94	231	Notes Payable-Other Short term Loans
60	232	Accounts Payable-Suppliers and Contractors
69	232	Accounts Payable-Social Insurance and Security and Private Insurers
70	232	Accounts Payable-Staff Salaries
76	232	Accounts Payable-Other Creditors
78	233	Notes Payable to Associated Companies
78	234	Accounts Payable to Associated Companies
79	234	Accounts Payable to Internal Settlements
64	235	Customer Deposits
68	236	Accrued Taxes Payable to Budget
76	237	Interest Payable
75	238	Dividends Payable
92	239	Matured Long-term Debt-Bank Loans
95	239	Matured Long-term Debt
96	239	Matured Long-term Debt-Targeted Financing
68	241	Tax Collections Payable
67	242	Miscellaneous Current and Accrued Liabilities-Non Budget Payments
76	242	Miscellaneous Current and Accrued Liabilities-Settlements with Others
97	242	Miscellaneous Current and Accrued Liabilities-Short term Bank Loans-- Employees

9. DEFERRED CREDITS

64	252	Customer Advances for Construction
00	253	Other Deferred Credits - IAS only

CHART OF ACCOUNTS -- GENERATION

ACCOUNT NUMBER		ACCOUNT DESCRIPTION
83	253	Other Deferred Credits - Future Period Income
00	255	Accumulated Deferred Profit Taxes - IAS only

Electric Plant (account xx 101) Subledger

1. INTANGIBLE PLANT

04	301	Organization Costs
04	302	Franchises and Consents
04	303	Miscellaneous Intangible Plant

2. PRODUCTION PLANT

A. STEAM PRODUCTION

01	310	Land and Land Rights-Thermal Electric Plant
01	311	Structures and Improvements-Thermal Electric Plant
01	312	Boiler Plant Equipment-Thermal Electric Plant
01	313	Engines and Engine-driven Generators-Thermal Electric Plant
01	314	Turbogenerator Units-Thermal Electric Plant
01	315	Accessory Electric Equipment-Thermal Electric Plant
01	316	Miscellaneous Power Plant Equipment-Thermal Electric Plant
01	317	Fuel Storage and Handling Equipment-Thermal Electric Plant

B. HYDRAULIC PRODUCTION

01	330	Land and Land Rights-Hydraulic Electric Plant
01	331	Structures and Improvements-Hydraulic Electric Plant
01	332	Reservoirs, Dams, and Waterways-Hydraulic Electric Plant
01	333	Water Wheels, Turbines, and Generators-Hydraulic Electric Plant
01	334	Accessory Electric Equipment-Hydraulic Electric Plant
01	335	Miscellaneous Power Plant Equipment-Hydraulic Electric Plant
01	336	Roads, Railroads and Bridges-Hydraulic Electric Plant

2. GENERAL PLANT

01	389	Land and Land Rights-General Plant
01	390	Structures and Improvements-General Plant
01	391	Office Furniture and Equipment
01	392	Transportation Equipment
01	393	Stores Equipment
01	394	Tools and Shop Equipment
01	395	Laboratory Equipment
01	396	Power Operated Equipment
01	397	Communication Equipment
01	398	Miscellaneous Equipment
01	399	Other Tangible Property

CHART OF ACCOUNTS -- GENERATION

ACCOUNT NUMBER		ACCOUNT DESCRIPTION

INCOME STATEMENT ACCOUNTS

1. UTILITY OPERATING INCOME

46	400	Electric Operating Revenues
00	400	Electric Operating Revenues-IAS
20	401	Electric Operating Expense
00	401	Electric Operating Expense-IAS
25	402	Electric Maintenance Expense
00	402	Electric Maintenance Expense-IAS
00	403	Depreciation Expense-IAS only
20	403	Depreciation Expense
25	403	Depreciation Expense
26	403	Depreciation Expense
44	403	Depreciation Expense
80	403	Depreciation Expense-Leased Assets
00	404	Amortization Expense-IAS only
25	404	Amortization Expense
26	405	General and Administrative Expense
00	405	General and Administrative Expense-IAS only
00	408	Taxes Other than Profit Taxes-IAS
80	408	Taxes Other than Profit Taxes
00	409	Profit Taxes-IAS only
81	409	Profit Taxes
00	410	Provision for Deferred Profit Taxes-IAS only
00	411	Gains/Losses from Disposition of Utility Plant- IAS only
47	411	Gains/Losses from Disposition of Utility Plant
80	412	Revenues from Electric Plant Leased to Others
00	413	Expenses of Electric Plant Leased to Others- IAS only
80	413	Expenses of Electric Plant Leased to Others
46	414	Other Utility Operating Income

2. OTHER INCOME AND DEDUCTIONS

46	415	Revenues from Non-utility Operations
23	416	Expenses of Non-utility Operations-Auxiliary Enterprises
28	416	Expenses of Non-utility Operations-Production Waste
29	416	Expenses of Non-utility Operations-Support Services
37	416	Expenses of Non-utility Operations-Issue of Output, Goods, and Services
43	416	Expenses of Non-utility Operations-Sales Expense
80	419	Interest and Dividend Income
48	421	Miscellaneous Nonoperating Income-Sale of Other Assets
80	421	Miscellaneous Nonoperating Income-Other
84	421	Miscellaneous Nonoperating Income-Shortage and Losses
81	426	Other Deductions

3. INTEREST CHARGES

87	427	Interest Expense on Long-term Debt
80	428	Amortization of Debt Discount and Expense

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CHART OF ACCOUNTS -- GENERATION

ACCOUNT NUMBER		ACCOUNT DESCRIPTION
80	429	Amortization of Premium on Debt -credit
20	431	Other Interest Expense
08	432	Allowance for Borrowed Funds Used During Construction-credit

4. EXTRAORDINARY ITEMS

80	434	Extraordinary Income
80	435	Extraordinary Deductions

CHART OF ACCOUNTS -- GENERATION

ACCOUNT NUMBER		ACCOUNT DESCRIPTION

Operating Revenue (account xx 400) Subledger

1. SALES OF ELECTRICITY

46	440	Residential Sales
83	440	Residential Sales - Future Period Income
46	442	Commercial and Industrial Sales
83	442	Commercial and Industrial Sales - Future Period Income
46	445	Sales to Public Authorities
83	445	Sales to Public Authorities - Future Period Income
46	447	Sales for Resale
83	447	Sales for Resale - Future Period Income

2. OTHER OPERATING REVENUES

80	456	Other Electric Revenues
83	456	Other Electric Revenues - Future Period Income

Operating (account xx 401) and Maintenance (account xx 402) Expense Subledgers

1. STEAM POWER GENERATION

Operation

20	500	Operation Supervision and Engineering-Thermal Power
20	501	Fuel Expense-Thermal Power
20	502	Steam Expenses-Thermal Power
20	503	Steam from Other Sources-Thermal Power
20	504	Steam Transferred-Credit-Thermal Power
20	505	Electric Expenses-Thermal Power
20	506	Miscellaneous Steam Power Expenses-Thermal Power
20	507	Rents-Thermal Power

Maintenance

25	510	Maintenance Supervision and Engineering-Thermal Power
25	511	Maintenance of Structures-Thermal Power
25	512	Maintenance of Boiler Plant-Thermal Power
25	513	Maintenance of Electric Plant-Thermal Power
25	514	Maintenance of Miscellaneous Steam Plant-Thermal Power

2. HYDRAULIC POWER GENERATION

Operation

20	535	Operation Supervision and Engineering-Hydro Power
20	536	Water for Power-Hydro Power
20	537	Hydraulic Expenses-Hydro Power
20	538	Electric Expenses-Hydro Power
20	539	Miscellaneous Hydraulic Power Generation Expense

CHART OF ACCOUNTS -- GENERATION

ACCOUNT NUMBER		ACCOUNT DESCRIPTION
20	540	Rents-Hydro Power

Maintenance

25	541	Maintenance Supervision and Engineering-Hydro Power
25	542	Maintenance of Structures-Hydro Power
25	543	Maintenance of Reservoirs, Dams and Waterways-Hydro Power
25	544	Maintenance of Electric Plant-Hydro Power
25	545	Maintenance of Miscellaneous Hydraulic Plant-Hydro Power

3. OTHER POWER SUPPLY EXPENSES

20	555	Purchased Power
20	556	System Control and Load Dispatching
20	557	Other Expense

Administrative and General Expense (account xx 405) Subledger

1. CUSTOMER ACCOUNTS, SERVICE EXPENSE

26	901	Supervision-Customer Accounts and Services
26	902	Meter Reading Expenses
26	903	Customer Records and Collection Expenses
26	904	Uncollectible Accounts
26	905	Miscellaneous Customer Accounts Expenses
43	912	Demonstration and Selling Expenses

2. ADMINISTRATIVE AND GENERAL EXPENSES

26	920	General and Administrative Salaries Expenses
26	921	Office Supplies and Expenses
26	922	Administrative Expenses Transferred-credit
26	923	Outside Services Employed
26	924	Property Insurance
26	925	Injuries and Damages
26	926	Employee Pensions and Benefits
26	928	Regulatory Commission Expenses
26	930	Miscellaneous General Expenses
87	930	Miscellaneous General Expenses-Business Trips in Excess
26	931	Rent Expenses

3. GENERAL MAINTENANCE EXPENSES

25	935	Maintenance of General Plant

B. DETAIL OF ACCOUNT CONTENTS

01101 Electric Plant in Service
03101 Electric Plant in Service - Leased
04101 Electric Plant in Service - Intangible Costs

These accounts should include the original cost of electric plant, included in detail sub-accounts 301 to 399, used by the utility in its electric utility operations, and which has an expected useful life of more than one year from the date of installation.

01103 Experimental Electric Plant

This account should include the cost of electric plant which is used for research, development and demonstration plant. Amounts in this account should be transferred to account 01101, Electric Plant in Service, or account 01121, Non-Utility Property, as appropriate when such plant is no longer considered experimental Depreciation should be charged to account xx403, Depreciation Expense, and credited to 02108, Accumulated Provision for Depreciation of Electric Utility Plant.

01104 Electric Plant Leased to Others

This account should include the original cost of electric plant owned by the utility, but leased to others as operating units or systems. The property should be classified according to the detailed sub-accounts 301 to 399 as though the property were used by the owner in its utility operations. Depreciation expense should be charged to account 80413-Expenses of Electric Plant Leased to Others.

01105 Electric Plant Held For Future Use

This account should include the original cost of electric plant owned and held for future use in electric service under a definite plan for such use Refer to account xx421, Non-utility Property.

01106 Completed Construction Not Yet Classified
08106 Completed Construction Not Yet Classified

At the end of the year or such other date as a balance sheet may be required, this account should include the total of the balance of all work orders for electric plant which have been completed and placed in service but which work orders have not been classified for transfer to the detailed plant accounts This is only an intermediary account which should be cleared as construction costs are finalized and can be transferred to appropriate fixed asset accounts

07107 Construction Work In Progress - Equipment to be Installed
08107 Construction Work In Progress
10107 Construction Work In Progress - Construction Materials

These accounts should include the total of the balances of work orders, including the cost of equipment not yet installed, for electric plant in process of construction. Work orders should be cleared from this account as soon as practicable after completion of the job.

02108 Accumulated Depreciation - Utility Plant

This account should be credited with the following:

- Amounts charged to account xx403, Depreciation Expense, or to clearing accounts for current depreciation expense for electric plant in service.
- Amounts of depreciation applicable to electric properties acquired as operating units or systems.

At the time of retirement of depreciable electric utility plant, this account should be charged with the book cost of property retired and the cost of removal, and should be credited with the salvage value and any other amounts recovered, such as insurance.

02111 Accumulated Amortization - Utility Plant
05111 Accumulated Amortization - Utility Plant - Intangible Costs

These accounts should credited with the following:

- Amounts charged for amortization expense on property included in account 01105, Electric Plant Held for Future Use
- Amounts charged to account 25404, Amortization Expense
- Amounts charged to account 80413, Expenses of Electric Plant Leased to Others

When any property to which this account applies is sold, relinquished or otherwise retired from service, this account should be charged with the amount previously credited in respect to such property. The book cost of the property so retired less the amount chargeable to this account and less the net proceeds realized at retirement should be included in account 47411, Gains/Losses from Disposition of Utility Plant.

01118 Other Utility Plant

This account should include the balances in accounts for utility plant, other than electric plant

02119 Accumulated Depreciation/Amortization - Other Utility Plant

This account should include the accumulated provision for depreciation and amortization applicable to other utility plant property.

13119 Accumulated Depreciation/Amortization - Other Materials and Other Current Assets

This account should include the accumulated provision for depreciation and amortization

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applicable to other materials and other current assets.

01121 Non-Utility Property
04121 Non-Utility Property - Intangible Assets
08121 Non-Utility Property - Capital Investments
11121 Non-Utility Property - Animals
30121 Non-Utility Property - Non-Capital Works

These accounts should include the book cost of land, structures, equipment, or other tangible or intangible property owned by the utility, but not used in utility service and not includible in account 01105, electric plant held for future use.

02122 Accumulated Depreciation / Amortization - Non-Utility Property
05122 Accumulated Depreciation / Amortization - Non-Utility Property - Intangible Property

These accounts should include the accumulated provision for depreciation and amortization applicable to non-utility property.

06123 Long-Term Financial Investments - Associated Companies

This account should include the book cost of investments in securities issued or assumed by associated companies and investment advances to such companies, including accrued interest that is not subject to current settlement. Also included in this account should be the equity in undistributed earnings of subsidiary companies.

06124 Long-Term Financial Investments - Other Investments

This account should include the book cost of long-term investments in securities and other instruments not covered by any other account

06128 Other Special Funds

This account should include the cost of investments which have been segregated in special funds for insurance, employee pensions, savings, relief and other purposes not provided for elsewhere. A separate account with appropriate title should be kept for each fund Amounts deposited with a trustee under the terms of an irrevocable trust agreement for pensions or other employee benefits should not be included in this account.

51131 Cash in Bank - Current Account
52131 Cash in Bank - Foreign Currency Account
57131 Cash in Bank - Transfers in Transit

These accounts should include the amount of funds deposited at the bank which are available for general corporate purposes.

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55134 Special Deposits

This account should include the deposits and the cost of investments which have been segregated into special funds for the purposes of making capital investments, debt service or dividend payments, or any other special purpose A separate account with appropriate title should be kept for each fund.

50135 Petty Cash

This account should include the amount of current cash funds held by the enterprise.

56136 Temporary Cash Investments - Monetary Documents
58136 Temporary Cash Investments - Financial Investments

These accounts should include the book cost of monetary documents kept in the company's cash offices (stamps, bills of exchange stamps, air tickets, etc. which have been paid for) and the book cost of investments in securities that are intended to provide income for less than one year.

62141 Customer Notes Receivable
45142 Customer Accounts Receivable
62142 Customer Accounts Receivable

These accounts should include amounts due from customers for utility service, merchandising and contract work. These accounts should not include amounts due from associated companies

61143 Other Accounts Receivable - Advances Issued
63143 Other Accounts Receivable - Claims
71143 Other Accounts Receivable - Employees - Business Advances
73143 Other Accounts Receivable - Employees - Nonbusiness
75143 Other Accounts Receivable - Stock Subscriptions
76143 Other Accounts Receivable - Other Debtors and Creditors

These accounts should include all collectible amounts due the enterprise upon open accounts other than amounts due from associated companies Separate accounts should be maintained for receivables from officers and employees, but the account should not include amounts advanced to officers or others as working funds

00144 Accumulated Bad Debt Expense - Credit - IAS
82144 Accumulated Bad Debt Expense - Credit

These accounts should be credited with amounts provided for losses on accounts receivable which may become uncollectible, and also with collections on accounts previously charged off Concurrent charges should be made to account 26904, Uncollectible Accounts.

78145 Notes Receivable From Associated Companies
78146 Accounts Receivable From Associated Companies
79146 Accounts Receivable From Internal Settlements

These accounts should include accounts and notes receivables upon which associated companies and semi-autonomous subdivisions of an enterprise which have their own balance sheet are liable, and which mature and are expected to be paid in full not later than one year from the date of issue, together with any interest thereon, and debit balances subject to current settlement in accounts with associated companies Items which do not bear a specified due date but which have been carried for more than twelve months and items which are not paid within twelve months from due date should be transferred to account 06123, Long-term Financial Investments-Associated Companies.

10151 Fuel Stock

This account should include the book cost of fuel on hand Cost items are as follows

- Invoice price of fuel less any cash or other discounts.
- Freight and other transportation charges, not including, however, any charges for unloading items from the shipping medium.
- Purchasing agents' commissions, insurance and other charges directly assignable to the cost of fuel.
- Operating, maintenance and depreciation expenses on utility-owned transportation equipment used to transport fuel from the point of acquisition to the unloading point.
- Lease or rental costs of transportation equipment used to transport fuel from the point of acquisition to the unloading point.

10154 Plant Materials and Operating Supplies - Materials
12154 Plant Materials and Operating Supplies - Low value, short life assets
15154 Plant Materials and Operating Supplies - Acquisition of Materials
16154 Plant Materials and Operating Supplies - Deviation in Cost of Materials

These accounts should include the cost of materials purchased primarily for use in the utility business for construction, operation and maintenance purposes It should also include the book cost of materials recovered in connection with construction, maintenance or the retirement of property.

21155 Merchandise - Semi-Finished Goods
40155 Merchandise - Finished Goods
41155 Merchandise - Goods
42155 Merchandise - Trade Mark-ups and Discounts on Purchases

These accounts should include the book cost of materials and supplies, labor and other expenses incurred primarily for merchandising and contract work. These should include production cost of goods manufactured and held for sale by the enterprise.

10156 Other Materials and Supplies
12156 Other Materials and Supplies - Low Value and Short-Term Assets

These accounts should include the book cost of materials and supplies held primarily for non-utility purposes. The principles prescribed in accounting for utility materials and supplies should be similarly followed with respect to items carried in this account.

44163 Stores Expenses Undistributed

This account should include the cost of supervision, labor and expenses incurred in the operation of general storerooms, including purchasing, storage, handling and distribution of materials and supplies. This account should be cleared by adding to the cost of materials and supplies issued a suitable loading charge which will distribute the expense equitable over stores issues.

31165 Prepayments - Expenditures of Future Periods
61165 Prepayments - Advances Issued

These accounts should include amounts representing prepayments of insurance, rents, taxes, interest and other miscellaneous items, and should be kept or supported in such manner as to disclose the amount of each class of prepayment

76171 Interest and Dividends Receivable

This account should include the amount of interest and dividends earned on notes and other investments.

09172 Rents Receivable - Long-term Lease Obligations
76172 Rents Receivable

These accounts should include rents receivable on property rented to others

00173 Accrued Utility Revenues - IAS only

This account should include the estimated amount accrued for electric service rendered, but not billed at the end of an accounting period.

00174 Miscellaneous Current and Accrued Assets - IAS only
12174 Miscellaneous Current and Accrued Assets
20174 Miscellaneous Current and Accrued Assets - Main Production

These accounts should include the book cost of all other current and accrued assets, appropriately designated and supported so as to show the nature of each asset included herein

31181 Unamortized Debt Expense

This account should include expenses related to the issuance or assumption of debt securities. Amounts recorded in this account should be amortized over the life of each respective issue under a plan which will distribute the amount equitably over the life of the security. The amortization should be on a monthly basis, and the amounts thereof should be charged to account 80428, Amortization of Debt Discount.

12185 Temporary Facilities
30185 Temporary Facilities

These accounts should include amounts shown by work orders for plant installed for temporary use in utility service for periods of less than one year. Such work orders should be charged with the cost of temporary facilities and credited with payments received from customers and net salvage realized on removal of the temporary facilities Any net credit or debit resulting should be cleared to account 80456-Other Electric Revenues

31186 Miscellaneous Deferred Debits

This account should include all debits not elsewhere provided for, such as miscellaneous work in progress, and unusual or extraordinary expenses not included in other accounts, which are in the process of amortization and items for which the proper final disposition is uncertain

00190 Accumulated Deferred Profit Taxes - IAS only

This account should be debited and account 00410, Provision for Deferred Profit Taxes, should be credited with an amount equal to that by which profit taxes payable for the year are higher because of the inclusion of certain items in income for tax purposes, which items for IAS reporting purposes will not be fully reflected in the utility's determination of annual net income until subsequent years.

This account should be credited and account 00410, Provision for Deferred Profit Taxes, should be debited with an amount equal to that by which profit taxes payable for the year are lower because of the prior payment of taxes as provided by paragraph A above, because of difference in timing for tax purposes of particular items of income or income deductions from that recognized by the utility for IAS reporting purposes

85201 Common Stock Issued
85204 Preferred Stock Issued

These accounts should include the stated value of stock of each class of capital stock actually issued. When actual cash value of the consideration received is more or less than the stated

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value of any stock, the difference should be credited or debited, as the case may be, to the premium or discount account for the particular class and series of stock. When capital stock is retired, this account should be charged with the amount at which such stock was carried herein.

75202 Common Stock Subscribed
75205 Preferred Stock Subscribed

These accounts should include the amount of legally enforceable subscriptions to capital stock of the utility. They should be credited with the stated value of the stock subscribed Concurrently, a debit should be made to account 75143, Other Accounts Receivable-Stock Subscriptions for the agreed upon price Any discount or premium should be debited or credit to the appropriate discount or premium account.

85207 Premium on Capital Stock
86207 Premium on Capital Stock
85213 Discount on Capital Stock

These accounts should include, in a separate subdivision of each class and series of stock, the excess of the actual cash value of the consideration received on original issues of capital stock over the stated value and accrued dividends of such stock (premium), or the excess of the stated value over the amount of consideration received on original issue (discount), together with the differences in assessments against stockholders representing payments required and the stated values When capital stock which has been actually issued is retired, the amount in this account applicable to the shares retired should be transferred to account 87216, Unappropriated Retained Earnings.

80210 Gain on Resale/Cancellation of Reacquired Capital Stock

This account should include the balance of credits arising from the resale or cancellation of reacquired capital stock. (see account 56217).

85211 Miscellaneous Paid-In Capital

This account should include the balance of all other credits for paid-in capital which are not properly includible in the foregoing accounts

88214 Revaluation Surplus

This account should include the off-setting cumulative balance of revaluations of specific assets. Such balance is treated as a component of owners' equity Adjustments to revalued assets should correspondingly be recorded, as appropriate, to the off-setting equity balances Detailed records of revaluations should be maintained so that future adjustments to the revaluation of assets and prior revaluations may be properly recorded

86215 Appropriated Retained Earnings - Reserve Fund
88215 Appropriated Retained Earnings - Special Purpose Funds
96215 Appropriated Retained Earnings - Targeted Financing and Allocations

These accounts should include the amount of retained earnings which has been appropriated or set aside for specific purposes. Separate sub-accounts should be maintained for under titles that will designate the purpose for which each appropriation was made.

00216 Unappropriated Retained Earnings - IAS Only
87216 Unappropriated Retained Earnings

These accounts should include the balances, either debit or credit, of unappropriated retained earnings arising from earnings of the utility.

56217 Reacquired Capital Stock

This account should include the cost of capital stock actually issued by the utility and reacquired by it and not retired or canceled When the stock is retired or canceled, the difference between its cost, including commissions and expenses in connection with the reacquisition, and its stated value plus any premium and less any discount, and expenses applicable to the shares retired, should be debited or credited, as appropriate, to account 80210, Gain on Resale/Cancellation of Reacquired Capital Stock.

95221 Bonds
96221 Bonds - Targeted Financing

These accounts should include the face value of the actually issued and unmatured bonds which have not been retired or canceled; also the face value of such bonds issued by others the payment of which has been assumed by the utility.

78223 Advances from Associated Companies

This account should include the face value of notes payable to associated companies and the amount of open book accounts representing advances from associated companies. It does not include notes and open accounts representing indebtedness subject to current settlement which are includible in account 78233, Notes Payable to Associated Companies, or account 78234, Accounts Payable Associated Companies.

92224 Other Long-term Debt - Bank Loans
95224 Other Long-term Debt
96224 Other Long-term Debt - Targeted Financing

These accounts should include, until maturity, all long-term debt not otherwise provided for herein.

83225 Unamortized Premium on Long-term Debt

This account should include the excess of the cash value of consideration received over the face value upon the issuance or assumption of long-term debt securities. Amounts recorded in this account should be amortized over the life of each respective issue under a plan which will distribute the amount equitably over the life of the security. The amortization should be on a monthly basis, with the amounts thereof to be credited to account 80429, Amortization of Premium on Debt - Credit.

80226 Unamortized Discount on Long-term Debt - Debit

This account should include the excess of the face value of long-term debt securities over the cash value of consideration received, related to the issue or assumption of all types and classes of debt. Amounts recorded in this account should be amortized over the life of the respective issues under a plan which will distribute the amount equitably over the life of the securities The amortization should be on a monthly basis, with the amounts thereof charged to account 80428, Amortization of Debt Discount and Expense.

97227 Obligations under Capital Leases

This account should include the obligations recorded for the amounts applicable to leased property recorded as assets in account 03101, Electric Plant in Service-Leased

89228 Accumulated Miscellaneous Operating Provisions

This account should include amounts reserved by the utility for losses not covered by insurance, employee pensions and benefits, and all operating provisions which are not provided for elsewhere This account includes only provisions as may be created for operating purposes and does not include any reservations of income which would be carried in accounts xx215-Appropriated Retained Earnings.

76229 Other Noncurrent Liabilities

This account should include all amounts for non-current liabilities that have not been accounted for elsewhere.

90231 Notes Payable - Short-term Bank Loans
94231 Notes Payable - Other Short-term Loans

These accounts should include the face value of all notes, drafts, or similar evidence of indebtedness, payable on demand or within a period not exceeding one year from date of issue, to other than associated companies.

60232 Accounts Payable - Suppliers and Contractors
69232 Accounts Payable - Social Insurance and Security and Private Insurers

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70232 Accounts Payable - Staff Salaries
76232 Accounts Payable - Other Creditors

These accounts should include all amounts payable by the utility within one year, which are not provided for in other accounts. Separate sub-accounts should be provided for current accounts due to creditors, vendors and others as appropriate.

78233 Notes Payable to Associated Companies

This account should include amounts owed to associated companies on advances or similar evidence of indebtedness payable on demand or not more than one year from date of creation or issuance.

78234 Accounts Payable to Associated Companies
79234 Accounts Payable to Internal Settlements

These accounts should include amounts owed to associated companies on receipt of goods or services, other acceptances or other similar evidence of indebtedness payable on demand or not more than one year from the date of creation or issuance.

64235 Customer Deposits

This account should include all amount deposited with the utility by customers and other contractors. Separate accounts should be maintained for customers and other contractors

68236 Accrued Taxes Payable to Budget

This account should be credited with the amount of taxes accrued during the accounting period, corresponding debits being made to the appropriate accounts for tax charges payable to the Budget. Such credits may be based upon estimates, but from time to time during the year, as the facts become known, the amounts of the periodic credits should be adjusted so as to include as nearly as can be determined in each year the taxes applicable thereto. If accruals for taxes are found to be insufficient or excessive, correction therefor should be made through current tax accruals.

Accruals for taxes should not include any amounts for interest on tax deficiencies or refunds. Interest received on refunds should be credited to account 80419, Interest and Dividend Income, and interest paid on deficiencies should be charged to account 80431, Other Interest Expenses.

76237 Interest Payable

This account should include the amount of interest accrued but not matured on all liabilities of the utility not including, however, interest which is added to the principal of the debt.

75238 Dividends Payable

This account should include the amount of dividends which have been declared but not yet paid Dividends should be credited to this account when they become a liability. Concurrently, a charge should be made to 87216, Unappropriated Retained Earnings.

92239 Matured Long-term Debt - Bank Loans
95239 Matured Long-term Debt
96239 Matured Long-term Debt - Targeted Financing

These accounts should include the amount of long-term debt matured and unpaid without specific agreement for extension of the time of payment Also included should be bonds called for redemption but not presented.

68241 Tax Collections Payable

This account should include the amount of taxes collected by the utility through payroll deductions or otherwise pending transmittal of such taxes to the proper taxing authority.

67242 Miscellaneous Current and Accrued Liabilities - Non-Budget Payments
76242 Miscellaneous Current and Accrued Liabilities - Settlements with Others
97242 Miscellaneous Current and Accrued Liabilities - Short-term Bank Loans - Employees

These accounts should also include the amount of all other current and accrued liabilities not provided for elsewhere.

64252 Customer Advances for Construction

This account should include advances received from customers for construction which are to be refunded either wholly or in part. When a customer is refunded the entire amount to which he is entitled, the balance remaining in this account, if any, should be credited to the respective plant account.

00253 Other Deferred Credits - IAS Only
83253 Other Deferred Credits - Future Period Income

This account should include advance billings and receipts and other deferred credit items, not provided for elsewhere, including amounts which cannot be entirely cleared or disposed of until additional information has been received.

00255 Accumulated Deferred Profit Taxes - IAS Only

This account should include tax deferrals resulting from the adoption o f the principles of comprehensive interperiod tax allocation described below in section D of "General Instructions."

This account should be credited and account 00410, Provision for Deferred Profit Taxes, should be debited with an amount equal to the tax effects where taxable income is lower than pre-tax accounting income for IAS reporting due to differences between the periods in which revenue and expense transactions affect taxable income and the periods in which they enter into the determination of pre-tax accounting income for IAS reporting purposes.

This account should be debited and account 00410, Provision for Deferred Profit Taxes, should be credited with an amount equal to the tax effects where taxable income is higher than pre-tax accounting income for IAS reporting due to differences between the periods in which revenue and expense transactions affect taxable income and the periods in which they enter into the determination of pre-tax accounting income for IAS reporting purposes.

04301 Organization Costs

This account should include fees paid to the government for the privilege of incorporation and expenditures as part of organizing the corporation and putting it into readiness to do business This account should not include any discounts upon securities issued or assumed, nor should it include any costs incident to negotiating loans, selling bonds or other evidences of debt or expenses in connection with the authorization, issuance or sale of capital stock.

04302 Franchises and Consents

This account should include amounts paid to the any government agency in consideration for franchises and other licenses and consents, running for a term of more than one year, together with necessary and reasonable expenses incident to procuring such franchises and consents Annual or other periodic payments under franchises should not be included herein but in the appropriate operating expense account

04303 Miscellaneous Intangible Plant

This account should include the cost of patent rights, licenses, privileges and other intangible property necessary or valuable in the conduct of the utility's operations and not specifically chargeable to any other account.

01310 Land and Land Rights - Thermal Electric Plant

This account should include the cost of land and land rights used in connection with thermal power generation Separate accounts should be maintained to show freehold and leasehold properties.

01311 Structures and Improvements - Thermal Electric Plant

This account should include the cost in place of structures and improvements used in connection with thermal power generation It should include the cost of all buildings and facilities to house, support or safeguard property or persons, including all fixtures permanently attached to and made a part of buildings and which cannot be removed therefrom without cutting into the walls, ceilings or floors, or without in some way impairing the buildings, and improvements of a permanent character on or to land. Also include costs incurred in connection with the first clearing and grading of land and rights-of-way and the damage costs associated with construction and installation of plant.

01312 Boiler Plant Equipment - Thermal Electric Plant

This account should include the cost of furnaces, boilers, steam and feed water piping, boiler apparatus and accessories used in the production of steam, and oil-burning equipment, including tanks, heaters, pumps with drive, burner equipment and piping control equipment, etc , to be used primarily for generating electricity.

01313 Engines and Engine-Driven Generators - Thermal Electric Plant

This account should include the cost of steam engines and their associated auxiliaries and engine-driven main generators, except turbogenerator units.

01314 Turbogenerator Units - Thermal Electric Plant

This account should include the cost of main turbine-driven units and accessory equipment used in generating electricity by steam.

01315 Accessory Electric Equipment - Thermal Electric Plant

This account should include the cost of auxiliary generating apparatus, conversion equipment, and equipment used primarily in connection with the control and switching of electric energy produced by steam power, and the protection of electric circuits and equipment, except electric motors used to drive equipment included in other accounts Such motors should be included in the account in which the equipment with which they are associated is included

01316 Miscellaneous Power Plant Equipment - Thermal Electric Plant

This account should include the cost of equipment, apparatus, etc., used in and about the steam generating plant devoted to general station use, and which is not includible in any other account. Examples of items includible in this account are hospital and infirmary equipment; kitchen and restaurant equipment; employees' recreation equipment; radios; and other miscellaneous equipment

01317 Fuel Storage and Handling Equipment - Thermal Electric Plant

This account should include the cost of fuel storage and handling equipment and fuel moving machinery used between the point of fuel delivery to the station and the intake mechanism to the generator; including fuel oil tanks, fuel pipelines and allied equipment and other related accessories and equipment.

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01330 Land and Land Rights - Hydraulic Electric Plant

This account should include the cost of land and land rights used in connection with hydraulic power generation. Separate accounts should be maintained to show freehold and leasehold properties.

01331 Structures and Improvements - Hydraulic Electric Plant

This account should include the cost in place of structures and improvements used in connection with hydraulic power generation It should include the cost of all buildings and facilities to house, support or safeguard property or persons, including all fixtures permanently attached to and made a part of buildings and which cannot be removed therefrom without cutting into the walls, ceilings or floors, or without in some way impairing the buildings, and improvements of a permanent character on or to land. Also include costs incurred in connection with the first clearing and grading of land and rights-of-way and the damage costs associated with construction and installation of plant.

01332 Reservoirs, Dams, and Waterways - Hydraulic Electric Plant

This account should include the cost of facilities used for impounding, collecting, storage, diversion, regulation, and delivery of water used primarily for generating electricity

01333 Water Wheels, Turbines and Generators - Hydraulic Electric Plant

This account should include the cost of water wheels and hydraulic turbines (from connection with penstock or flume to tailrace) and generators devoted to the production of electricity by water power or for the production of power for industrial or other purposes, if the equipment used for such purposes is a part of the hydraulic power plant works

01334 Accessory Electric Equipment - Hydraulic Electric Plant

This account should include the cost of auxiliary generating apparatus, conversion equipment, and equipment used primarily in connection with the control and switching of electric energy produced by hydraulic power, and the protection of electric circuits and equipment, except electric motors used to drive equipment included in other accounts. Such motors should be included in the account in which the equipment with which they are associated is included

01335 Miscellaneous Power Plant Equipment - Hydraulic Electric Plant

This account should include the cost of equipment, apparatus, etc., used in and about the hydroelectric generating plant devoted to general station use, and which is not includible in any other account Examples of items includible in this account are hospital and infirmary equipment, kitchen and restaurant equipment; employees' recreation equipment; radios; and other miscellaneous equipment

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01336 Roads, Railroads, and Bridges - Hydraulic Electric Plant

This account should include the cost of roads, railroads, trails, bridges, and trestles used primarily as production facilities It also includes those roads, etc , necessary to connect the plant with highway transportation systems, except when such roads are dedicated to public use and maintained by public authorities

01389 Land and Land Rights - General Plant

This account should include the cost of land and land rights used for utility purposes, the cost of which is not properly includible in other land and land rights accounts.

01390 Structures and Improvements - General Plant

This account should include the cost of structures or improvements used for utility purposes but not directly used in power generation (e.g., hospitals and dispensaries, schools, rest houses, storehouses, mosques, and other quarters).

01391 Office Furniture and Equipment

This account should include the cost of office furniture and equipment owned by the utility and devoted to utility service, and not permanently attached to buildings, except the cost of such furniture and equipment which the utility elects to assign into other plant accounts on a functional basis. Examples of items includible in this account are: bookcases and shelves, desk, chairs, and desk equipment; drafting room equipment; filing, storage, and other cabinets; floor covering, library and library equipment, mechanical office equipment such as accounting machines, computers, typewriters, etc ; safes, and tables.

01392 Transportation Equipment

This account should include the cost of transportation vehicles used for utility purposes. Examples of items includible in this account are: tractors, cranes, bulldozers and excavators, lorries and trailers, trucks and trollies, buses, cars, jeeps, motorcycles, vans, ambulances, forklift trucks, and mobile ladders.

01393 Stores Equipment

This account should include the cost of equipment used for the receiving, shipping, handling, and storage of materials and supplies. Examples of items includible in this account are· counters, portable cranes, portable elevating and stocking equipment, hoists, storage bins, wheelbarrows, scales, and lockers

01394 Tools and Shop Equipment

This account should include the cost of tools, implements, and equipment used in construction, repair work, general shops and garages and not specifically provided for in other accounts. Examples of items includible in this account are air compressor, anvils, automobile repair shop equipment, battery charging equipment, belts, shafts and countershafts, cable pulling equipment, concrete mixers, derricks, engines, ladders, welding apparatus, work benches, and vises.

01395 Laboratory Equipment

This account should include the cost of laboratory equipment used for general laboratory purposes and not specifically includible in other plant accounts.

01396 Power Operated Equipment

This account should include the cost of power operated equipment used in construction or repair work exclusive of equipment includible in other accounts Include also the tools and accessories acquired for use with such equipment and the vehicle on which such equipment may be mounted.

01397 Communication Equipment

This account should include the cost of installed telephone, fax, telegraph and wireless equipment for general use in connection with utility operations.

01398 Miscellaneous Equipment

This account should include the cost of equipment, apparatus, etc. used in the utility operations which is not includible in any other account. Examples of items includible in this account are· hospital and infirmary equipment, kitchen and restaurant equipment, employees' recreation equipment, radios, and other miscellaneous equipment.

01399 Other Tangible Property

This account should include the cost of tangible utility plant not provided for elsewhere

46400 Electric Operating Revenues
00400 Electric Operating Revenues - IAS

There should be shown under these captions the total amount included in the electric operating revenue accounts provided herein, see accounts 46440 through 46447.

00401 Electric Operating Expense - IAS
20401 Electric Operating Expense

Under this caption, there should be shown the total amount included in the electric operation

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expense accounts as described in accounts 20500 - 20589, operating expenses.

25402 Electric Maintenance Expense
00402 Electric Maintenance Expense - IAS

There should be shown under these captions the total amount included in the electric maintenance expense accounts provided herein, see accounts 25510 through 25598.

00403 Depreciation Expense - IAS only
20403 Depreciation Expense
25403 Depreciation Expense
26403 Depreciation Expense
44403 Depreciation Expense
80403 Depreciation Expenses - Leased Assets

These accounts should include the total amount of depreciation expense for all classes of depreciable electric plant in service. Depreciation expenses applicable to 01104, Electric Plant Leased to Others, should be charged to account 80413, Expenses of Electric Plant Leased to Others.

Depreciation expenses applicable to transportation equipment, shop equipment, tools, work equipment, and other general equipment may be charged to clearing accounts as necessary in order to obtain a proper distribution of expenses between construction and operation

00404 Amortization Expense - IAS only
25404 Amortization Expense

This account should include the total charges for amortization of other assets not accounted for elsewhere

26405 General and Administrative Expense
00405 General and Administrative Expense - IAS only

There should be shown under these captions the total amount included in the general and administrative expense accounts as described in accounts 26901 - 26931

00408 Taxes other than Profit Taxes - IAS only
80408 Taxes Other than Profit Tax

This account should include those taxes other than profit taxes

00409 Profit Taxes - IAS only
81409 Profit Taxes

This account should include the amount of profit taxes.

00410 Provision for Deferred Profit Taxes - IAS Only

This account should include the amounts of those deferrals of taxes and allocations of deferred taxes which relate to utility operations. See additional comments under account 00190, Accumulated Deferred Profit Taxes - IAS Only, and account 00255, Accumulated Deferred Profit Taxes - IAS Only, and below under section D of the "General Instructions"

00411 Gains/Losses from Disposition of Utility Plant-IAS only
47411 Gains/Losses from Disposition of Utility Plant

This account should include the gains and losses on the sale, conveyance, exchange, transfer or disposal of utility property and plant.

80412 Revenues from Electric Plant Leased to Others
00413 Expenses of Electric Plant Leased to Others-IAS only
80413 Expenses of Electric Plant Leased to Others

These accounts should include respectively, revenues from electric property leased to others and the expenses attributable to such property. The property should be listed in account 01104, Electric Property Leased to Others The detail of expenses should be kept so as to show operation, maintenance, and depreciation and amortization.

46414 Other Utility Operating Income

This account should include the revenues received and expenses incurred in connection with the operations of utility plant, the book cost of which is included in account 01118, Other Utility Plant.

46415 Revenues From Non-utility Operations

This account should include the revenues applicable to operations which are non-utility in character but constitute a distinct operating activity of the enterprise as a whole. This would include activities such as the sale of merchandise and jobbing or contract work

23416 Expenses of Non-utility Operations - Auxiliary Enterprises
28416 Expenses of Non-utility Operations - Production Waste
29416 Expenses of Non-utility Operations - Support Services
37416 Expenses of Non-utility Operations - Issue of Output, Goods and Services
43416 Expenses of Non-utility Operations - Sales Expense

These accounts should include the expenses applicable to operations which are non-utility in character but nevertheless constitute a distinct operating activity of the enterprise as a whole This should include the activities of the auxiliary enterprises of the utility

80419 Interest and Dividend Income

This account should include interest revenues on loans, notes, advances, deposits and other interest-bearing assets and dividends on stocks of other companies.

48421 Miscellaneous Nonoperating Income - Sale of Other Assets

This account should include the gains and losses on the sale, conveyance, exchange, transfer or disposal of all other assets, excluding those property and plant and all other fixed assets items accounted for under account 47411, Gains/Losses from Disposition of Utility Plant

80421 Miscellaneous Nonoperating Income - Other
84421 Miscellaneous Nonoperating Income - Shortages and Losses

These accounts should include all revenue/expense items properly includible in the income account from non-utility operations and not provided for elsewhere.

81426 Other Deductions

This account should include other miscellaneous expenses which are nonoperating in nature, but which are properly deductible before determining total income

87427 Interest on Long-term Debt

This account should include the amount of interest on outstanding long-term debt issued or assumed by the utility, the liability for which is included in account xx221, Bonds, xx224, Long-term Debt, and xx227, Obligations under Capital Lease.

80428 Amortization of Debt Discount and Expense

This account should include the amortization of unamortized debt discount on outstanding long-term debt Amounts charged to this account should be credited concurrently to account 80226, Unamortized Discount on Long-term Debt

80429 Amortization of Premium on Debt - Credit

This account should include the amortization of unamortized net premium on outstanding long-term debt. Amounts credited to this account should be charged concurrently to account 83225, Unamortized Premium on Long-term Debt

20431 Other Interest Expense

This account should include all interest charges not provided for elsewhere

08432 Allowance for Borrowed Funds Used During Construction - Credit

This account should include concurrent credits for allowance for borrowed funds used during construction that are charged to account 08107, Construction Work in Progress.

80434 Extraordinary Income

This account should be credited with gains of unusual nature and infrequent occurrence, which would significantly distort the current year's income computed before extraordinary items, if reported other than as extraordinary items.

80435 Extraordinary Deductions

This account should be debited with losses of unusual nature and infrequent occurrence, which would significantly distort the current year's income computed before extraordinary items, if reported other than as extraordinary items.

46440 Residential Sales
83440 Residential Sales - Future Period Income
This account should include the net billing for electricity or heat supplied for residential purposes. Records should be maintained so that the quantity of electricity sold or heat sold and the revenue received under each rate schedule should be readily available

46442 Commercial and Industrial Sales
83442 Commercial and Industrial Sales - Future Period Income

This account should include the net billing for electricity or heat supplied to customers for commercial and industrial purposes. Records should be maintained so that the quantity of electricity sold and the revenues received under each rate schedule should be readily available

46445 Sales to Public Authorities
83445 Sales to Public Authorities - Future Period Income

This account should include revenues associated with electricity or heat supplied to public authorities except such revenues properly included in account 46447, Sales for Resale.

46447 Sales for Resale
83447 Sales for Resale - Future Period Income

This account should include the net billing for electricity or heat supplied to other electric utilities or to public authorities for resale purposes Sales to public authorities or other utilities for use by them and not for distribution, should be included in account 46445, Sales to Public Authorities, or account 46442, Commercial and Industrial Sales.

80456 Other Electric Revenues
83456 Other Electric Revenues - Future Period Income

This account should include revenues derived from electric operations, or electric property, not includible in any other accounts

20500 Operation Supervision and Engineering - Thermal Power

This account should include the cost of labor and expenses incurred in the general supervision and direction of the operation of the power generating station. Direct supervision of specific activities, such as fuel handling, generator operations, etc should be charged to the appropriate account.

20501 Fuel Expense - Thermal Power

This account should include the cost of fuel used in the production of steam for the generation of electricity, including expense in unloading fuel from the shipping medium and handling thereof, up to the point where the fuel enters the first bunker, tank or bucket. Costs should also include the supervision of the purchasing and handling of fuel, fuel quality analysis, as well as the invoiced cost of fuel Records should be maintained to show the quantity, fuel quality content and cost of each type of fuel used

The cost of fuel should be charged initially to account 10151, Fuel Stock, and cleared to this account on the basis of the fuel used. Fuel handling expenses may be charged to this account as incurred or to a separate fuel clearing account. In the latter event, they should be cleared to this account on the basis of fuel used Respective amounts of fuel stock and fuel stock expenses should be readily available.

20502 Steam Expenses - Thermal Power

This account should include the cost of labor, materials used and expenses incurred in production of steam for electric generation. This includes all expenses of handling and preparing fuel beginning at the point where the fuel enters the first bunker, tank, or bucket Costs should include the supervision of steam production, operating boiler equipment, operating ash collection and disposal equipment and materials used in the above noted operations.

20503 Steam from Other Sources - Thermal Power

This account should include the cost of steam purchased, or transferred from another department of the utility, or from others under a joint facility operating arrangement.

20504 Steam Transferred - Credit - Thermal Power

This account should include credits for expenses of producing steam which are charged to other utility departments under a joint operating arrangement Include also credits for steam expenses chargeable to other electric accounts outside of the steam generation group.

20505 Electric Expenses - Thermal Power

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This account should include the cost of labor, materials used and expenses incurred in operating prime movers, generators, and their auxiliary apparatus, switch gear and other electric equipment to the points where electricity leaves for conversion for transmission or distribution. Costs should include the supervision of electric production, operating turbines, engines and generators, operating condensers and auxiliary apparatus, operating generator cooling system and cost of materials used in the above noted operations.

20506 Miscellaneous Steam Power Expenses - Thermal Power

This account should include the cost of labor, materials used and expenses incurred which are not specifically provided for or are not readily assignable to other steam generation operation expense accounts.

20507 Rents - Thermal Power

This account should include all rents of property of others used, occupied or operated in connection with steam power generation.

25510 Maintenance - Supervision and Engineering - Thermal Power

This account should include the cost of labor and expenses incurred in the general supervision and direction of maintenance of power generation facilities Direct field supervision of specific jobs should be charged to the appropriate maintenance account.

25511 Maintenance of Structures - Thermal Power

This account should include the cost of labor, materials used and expenses incurred in the maintenance of the power generation structures, the book costs of which are includible in detail sub-account 01311, Structures and Improvements - Electric Plant.

25512 Maintenance of Boiler Plant - Thermal Power

This account should include the cost of labor, materials used and expenses incurred in the maintenance of steam plant, the book cost of which is includible in detail sub-account 01312, Boiler Plant Equipment.

25513 Maintenance of Electric Plant - Thermal Power

This account should include the cost of labor, materials used and expenses incurred in the maintenance of electric plant, the book cost of which is includible in detail sub-accounts 01313, Engines and Engine-driven Generators, 01314, Turbogenerator Units, and 01315, Accessory Electric Equipment

25514 Maintenance of Miscellaneous Steam Plant - Thermal Power

This account should include the cost of labor, materials used and expenses incurred in maintenance of miscellaneous steam generation plant

20535 Operation Supervision and Engineering - Hydro Power

This account should include the cost of labor and expenses incurred in the general supervision and direction of the operation of hydraulic power generating stations. Direct supervision of specific activities, such as hydraulic operation, generator operation, etc., should be charged to the appropriate account.

20536 Water for Power - Hydro Power

This account should include the cost of water used for hydraulic power generation Items that could be included in the account are periodic payments for licenses or permits for water rights, riparian rights, headwater benefits, or cloud seeding.

20537 Hydraulic Expenses - Hydro Power

This account should include the cost of labor, materials used and expenses incurred in operating hydraulic works including reservoirs, dams, and waterways, and in activities directly relating to the hydroelectric development outside the generating station It should also include the cost of labor, materials used and other expenses incurred in connection with the operation of (a) fish and wildlife, and (b) recreation facilities Separate sub-account should be maintained for each of the above.

20538 Electric Expenses - Hydro Power

This account should include the cost of labor, materials used and expenses incurred in operating prime movers, generators, and their auxiliary apparatus, switchgear, and other electric equipment, to the point where electricity leaves for conversion for transmission or distribution.

20539 Miscellaneous Hydraulic Power Generation Expenses

This account should include the cost of labor, materials used and expenses incurred which are not specifically provided for or are not readily assignable to other hydraulic generation operation expense accounts.

20540 Rents - Hydro Power

This account should include all rents of property of others used, occupied or operated in connection with hydraulic power generation, including amounts payable to the government for the occupancy of public lands and reservations for reservoirs, dams, flumes, forebays, penstocks, power houses, etc., but not including transmission right of way.

25541 Maintenance Supervision and Engineering - Hydro Power

This account should include the cost of labor and expenses incurred in the general supervision and direction of the maintenance of hydraulic power generating stations. Direct field supervision of specific jobs should be charged to the appropriate maintenance account

25542 Maintenance of Structures - Hydro Power

This account should include the cost of labor, materials used, and expenses incurred in maintenance of hydraulic structures, the book cost of which is includible in Account 01331, Structures and Improvements However, the cost of labor, materials used and expenses incurred in the maintenance of fish and wildlife, and recreation facilities, the book cost of which is includible in Account 01331, Structures and Improvements, should be charged to Account 25545, Maintenance of Miscellaneous Hydraulic Plant.

25543 Maintenance of Reservoirs, Dams, and Waterways - Hydro Power

This account should include the cost of labor, materials used, and expenses incurred in maintenance of plant includible in Account 01332, Reservoirs, Dams, and Waterways. However, the cost of labor materials used and expenses incurred in the maintenance of fish and wildlife, and recreation facilities, the book cost of which is includible in Account 01332, Reservoirs, Dams and Waterways, should be charged to Account 25545, Maintenance of Miscellaneous Hydraulic Plant.

25544 Maintenance of Electric Plant - Hydro Power

This account should include the cost of labor, materials used and expenses incurred in maintenance of plant includible in Account 01333, Water Wheels, Turbines and Generators, and account 01334, Accessory Electric Equipment.

25545 Maintenance of Miscellaneous Hydraulic Plant - Hydro Power

This account should include the cost of labor, materials used, and expenses incurred in maintenance of plant, the book cost of which is includible in Account 01335, Miscellaneous Power Plant Equipment, and Account 01336, Roads, Railroads and Bridges. It should also include the cost of labor, materials used and other expenses incurred in the maintenance of (a) fish and wildlife, and (b) recreation facilities. Separate sub-account should be maintained for each of the above.

20555 Purchased Power

This account should include the cost at point of receipt by the utility of electricity purchased for resale. It should also include net settlements for exchange of electricity or power.

20556 System Control and Load Dispatching Expenses

This account should include the cost of labor and expenses incurred in load dispatching activities for system control. Activities would include allocating loads to plants and interconnections with others, directing switching, controlling system voltages, communication services provided for system control and system report preparations.

20557 Other Expenses

This account should be charged with any production expenses, including expenses incurred directly in connection with the purchase of electricity, which are not specifically provided for in other production expense accounts.

26901 Supervision - Customer Accounts and Services

This account should include the cost of labor and expenses incurred in the general direction and supervision of customer accounting and collecting activities. Direct supervision of a specific activity should be charged to account 26902, Meter Reading Expenses, or account 26903, Customer Records and Collection Expenses, as appropriate

26902 Meter Reading Expenses

This account should include all cost of labor, materials used and expenses incurred in reading meters for determining consumption as performed by employees engaged in reading meters Costs should include changing and collecting meter charts used for billing purposes, inspecting meters, reading meters, obtaining load information for billing purposes and computing consumption from meter reader's records

26903 Customer Records and Collection Expenses

This account should include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, billing and accounting and collections

26904 Uncollectible Accounts

This account should be charged with amounts sufficient to provide for losses from uncollectible utility revenues. Concurrent credits should be made to the account 82144, Accumulated Bad Debt Expense. Losses from uncollectible accounts should be charged to account 82144

26905 Miscellaneous Customer Accounts Expenses

This account should include the cost of labor, materials used and expenses incurred not provided for in other accounts.

43912 Demonstration and Selling Expenses

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This account should include the cost of labor, materials used and expenses incurred in selling activities, the objective of which is to promote or retain the use of utility services by present or prospective customers.

26920 General and Administrative Salaries Expenses

This account should include the compensation (salaries, bonuses and other consideration for services, but not including directors' fees) of officers, executives, and other employees of the utility properly chargeable to utility operations and not chargeable directly to particular operating function.

26921 Office Supplies and Expenses

This account should include office supplies and expenses incurred in connection with the general administration of the utility's operations which are assignable to specific administrative or general departments and are not specifically provided for in other accounts. Office expenses which are clearly applicable to any group of operating expenses other than the administrative and general group should be included in the appropriate account in such group. Further, general expenses which apply to the utility as a whole rather than to a particular administrative function should be included in account 26930, Miscellaneous General Expenses

26922 Administrative Expenses Transferred - Credit

This account should be credited with administrative expenses recorded in accounts 26920 and 26921 which are transferred to construction costs or to non-utility accounts A concurrent debit should be made to 08107, Construction Work in Progress.

26923 Outside Services Employed

This account should include the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts. It should include also the pay and expenses of persons engaged for a special or temporary administrative or general purpose in circumstances where the person so engaged is not considered as an employee of the utility. This account should be maintained as to permit ready summarization according to the nature of service and the person furnishing the same.

26924 Property Insurance

This account should include the cost of insurance or reserve accruals to protect the utility against losses and damages to owned or leased property used in its utility operations. It should include also the cost of labor and related supplies and expenses incurred in property insurance activities Recoveries from insurance companies or others for property damages should be credited to the account charged with the cost of the damage. If the damaged property has been retired, the credit should be to the appropriate accounts to which the insurance premiums were charged.

26925 Injuries and Damages

This account should include the cost of insurance or reserve accruals to protect the utility against injuries or damages claims of employees or others, losses of such character not covered by insurance, and expenses incurred in settlement of and damage claims Reimbursements from insurance companies or others for expenses charged hereto on account of injuries and damages and insurance dividends or refunds should be credited to this account.

26926 Employee Pensions and Benefits

This account should include pensions paid to or on behalf of retired employees, or accruals to provide for pensions, or payments for the purchase of annuities for this purpose, when the utility has definitely, by contract, committed itself to a pension plan under which the pension funds are irrevocably devoted to pension purposes, and payments for employee accident, sickness, hospital, and death benefits, or insurance therefor. Include, also, expenses incurred in medical, educational or recreational activities for the benefit of employees, and administrative expenses in connection with employee pensions and benefits.

26928 Regulatory Commission Expenses

This account should include all expenses properly includible in utility operating expenses, incurred by the utility in connection with all activities carried out in the utility's dealings with regulatory commissions, including payments made to a regulatory commission for fees assessed against the utility for pay and expenses of such commission

Costs should include:
Salaries of staff working directly on Commission matters, fees of outside consultants working on Commission matters, materials and supplies used in connection with Commission matters, fees paid to Commissions, traveling expenses in connection with Commission matters and any other expenses incurred directly in association with Commission matters.

26930 Miscellaneous General Expenses
87930 Miscellaneous General Expenses - Business Trips in Excess

These accounts should include the cost of labor and expenses incurred in connection with the general management of the utility not provided for elsewhere.

26931 Rent Expenses

This account should include rents properly includible in utility operating expenses for the property of others used, occupied, or operated in connection with the power generating activities and general and administrative functions of the utility.

25935 Maintenance of General Plant

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This account should include the cost assignable to sales, general and administrative functions of labor, materials used and expenses incurred in the maintenance or property, the book cost of which is includible in detailed general plant sub-accounts 01389 through 01399

1. DEFINITIONS

The following definitions are used with these terms used in the chart of accounts:

A "Associated (affiliated) companies" means companies or persons that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the accounting company

B. "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement, and whether such power is established through a majority or minority ownership or voting of securities, common directors, officers, or stockholders, associated companies, contract or any other direct or indirect means

C. "Book cost" means the amount at which property is recorded in these accounts without deduction of related provisions for accrued depreciation, amortization, or for other purposes.

D. "Cost" means the amount of money actually paid for property or services When the consideration given is other than cash in a purchase and sale transaction, as distinguished from a transaction involving the issuance of common stock in a merger or a pooling of interest, the value of such consideration should be determined on a cash basis.

E. "Discount," as applied to the securities issued or assumed by the utility, means the excess of the par (stated value of no-par stocks) or face value of the securities plus interest or dividends accrued at the date of the sale over the cash value of the consideration received from their sale.

F. "Premium," as applied to securities issued or assumed by the utility, means the excess of the cash value of the consideration received from their sale over the sum of their par (stated value of no-par stocks) or face value and interest or dividends accrued at the date of sale.

G. "Retained Earnings" means the accumulated net income of the utility less distribution to stockholders and transfers to other capital accounts.

H. "IAS" means International Accounting Standards.

2. GENERAL INSTRUCTIONS

A. Materials and Supplies

(1). Materials and supplies issued should be credited hereto and charged to the appropriate construction, operating expense, or other account on the basis of a unit price determined by the use of cumulative average, first-in first-out, or such other method of inventory accounting as conforms with accepted accounting standards consistently applied.

(2). When materials and supplies are purchased for immediate use, they need not be carried through this account but may be charged directly to the appropriate utility plant or expense account

(3). Items of cost includible in the account are as follows·

- Invoice price less cash or other discounts
- Freight and other transportation charges
- Taxes
- Costs of inspection and special tests prior to acceptance
- Insurance and other directly assignable charges

(4) When materials are recovered during construction, maintenance and retirement activities, such materials being credited to construction, maintenance or accumulated depreciation provision, respectively, and included in the materials accounts as follows:

- Reusable materials consisting of large individual items should be included in the account at original cost, estimated if not known.

- Reusable materials consisting of relatively small items, the identity of which (from the date of original installation to the final abandonment or sale thereof) cannot be ascertained, should be included in this account at current prices new for such items

- Scrap materials included in this account should be carried at the estimated net realizable amount

B. Instructions for Current and Accrued Liabilities

Current and accrued liabilities are those obligations which have either matured or which become due within one year from the date thereof except, however, bonds and similar obligations which should be classified as long-term debt until date of maturity; accrued taxes, such as profit taxes, which should be classified as accrued liabilities even though payable more than one year from date, compensation awards, which should be classified as current liabilities

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regardless of date due; and minor amounts payable in installments which may be classified as current liabilities. If a liability is due more than one year from date of issuance or assumption by the utility, it should be credited to a long-term debt account appropriate for the transaction, except, however, the current liabilities previously mentioned

C. Long-Term Debt. Premium and Discount

(1). Premium and discount. A separate premium and discount account should be maintained for each class and series of long-term debt issued by the utility. The premium will be recorded in account 83225, Unamortized Premium on Long-term Debt, the discount will be recorded in account 80226, Unamortized Discount on Long-term Debt - debit.

The premium and discount should be amortized over the life of the respective issues The amortization should be on a monthly basis, and amounts thereof relating to discount and expense should be charged to account 80428, Amortization of Debt Discount and Expense. The amounts relating to premium should be credited to account 80429, Amortization of Premium on Debt - Credit.

(2). Premium or discount on debt should not be included as an element in the cost of construction or acquisition of property (tangible or intangible).

D. Comprehensive Interperiod Profit Tax Allocation

(1). Where there are timing differences between the periods in which transactions affect taxable income and the periods in which they enter into the determination of pre-tax accounting income, the profit tax effects of such transactions are to be recognized in the periods in which the differences between book accounting income and taxable income arise and in the periods in which the differences reverse using the deferred tax method.

(2). Tax effects deferred currently will be recorded as deferred debits or deferred credits in accounts 00190, Accumulated Deferred Profit Taxes, 00255, Accumulated Deferred Profit Taxes.

(3). Vintage year records with respect to entries to this account, as described above, and the account balance, should be so maintained as to show the factor of calculation with respect to each annual amount of the item or class of items for which deferred tax accounting by the utility is utilized.

E. Extraordinary Items

It is the intent that net income should reflect all items of profit and loss during the period with the exception of prior period adjustments and long-term debt Those items related to the

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effects of events and transactions which have occurred during the current period and which are of unusual nature and infrequent occurrence should be considered extraordinary items. Accordingly, they will be events and transactions of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company. See accounts 80434 and 80435 descriptions.

3. ELECTRIC PLANT INSTRUCTIONS

A. Electric plant should be recorded at cost When the consideration given for property is other than cash, the value of such consideration should be determined on a cash basis

B. The cost of equipment chargeable to the electric plant accounts, unless otherwise indicated in the description of an equipment account, includes the net purchase price thereof, sales taxes, investigation and inspection expenses necessary to such purchase, expenses of transportation when borne by the utility, labor employed, materials and supplies consumed, and expenses incurred by the utility in unloading and placing the equipment in readiness to operate. Also include those costs incurred in connection with the first clearing and grading of land and rights-of-way and the damage costs associated with the construction and installation of plant.

(1). The cost of construction properly includible in the electric plant accounts should include, where applicable, the direct and overhead cost as listed and defined hereunder:

a. "Contract work" includes amounts paid for work performed under contract by other companies, firms, or individuals, costs incident to the award of such contracts, and the inspection of such work

b. "Labor" includes the pay and expenses of employees of the utility engaged on construction work, and related payroll taxes and similar items of expense

c. "Materials and supplies" includes the purchase price at the point of free delivery plus customs duties, excise taxes, the cost of inspection, loading and transportation and the cost of fabricated materials from the utility's shop.

d "Transportation" includes the cost of transporting employees, materials and supplies, tools, purchased equipment, and other work equipment It includes amounts paid to others as well as the cost of operating the utility's own transportation equipment.

e. "Special machine service" includes the cost of labor, materials and supplies, depreciation, and other expenses incurred in the maintenance, operation and use of special machines, such as steam shovels, pile drivers, derricks, material unloaders, and other labor saving machines; also expenditures for rental, maintenance and operation of machines of other.

f. "Engineering and supervision" includes the portion of the pay and expenses of engineers, surveyors, draftsmen, inspectors, superintendents and their assistants applicable to construction work.

g "Engineering services" includes amounts paid to other companies, firms, or individuals engaged by the utility to plan, design, prepare estimates, supervise, inspect, or give general advice and assistance in connection with construction work

h. "Taxes" includes taxes properly includible in construction costs before the facilities become available for service

(2). Exclude from equipment accounts hand and other portable tools, which are likely to be lost or stolen or which have relatively small value or short life, unless the correctness of the accounting therefor as electric plant is verified by current inventories. Special tools acquired and included in the purchase price of equipment should be included in the appropriate plant account. Portable drills and similar tool equipment when used in connection with the operation and maintenance of a particular plant or department, such as power generation - operations, or in stores, should be charged to the plant account appropriate for their use.

C. Structures and Improvements:

(1) The accounts for structures and improvements should include the cost of all buildings and facilities to house, support, and safeguard property, and improvements of a permanent character. Also include those costs incurred in connection with the first clearing and grading of land and rights-of-way

(2). The items of cost to be included in the accounts for structures and improvements should include the following items

Architects' plans and specifications
Coal bins and bunkers
Commissions and fees to brokers, agents, architects, and others
Conduits with their contents
Docks, piers and wharfs
Drainage and sewerage systems
Plant communication system, poles, pole fixtures, wires, and cables
Lighting fixtures and outside lighting system
Permanent paving, concrete, brick, flagstone, asphalt, etc., within the property

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lines
Platforms, railings, and gratings when constructed as a part of a structure
Roadways, railroads, bridges, and trestles at the plant except railroads provided for in equipment accounts
Scales, connected to and forming a part of a structure
Sewer systems, for general use
Sidewalks, culverts, curbs and streets constructed by the utility on its property
Sprinkling systems
Subways, areaways, and tunnels, directly connected to and forming part of a structure
Tanks, constructed as part of a building or as a distinct structural unit
Tunnels, intake and discharge, when constructed as part of a structure
Water basins or reservoirs
Water supply piping, hydrants and wells
Yard lighting system

C. SAMPLE TRANSACTIONS

Many differences in accounting practices primarily result from the timing of revenue and expense recognition. These differences will be reflected in receivables and inventories The offsetting amount will be in retained earnings.

Armenian accounting procedures do not recognize revenues until cash has been received, or arrangement for payment has been made. International accounting requires that revenues be recorded when earned--at the time of delivery of the product or service. This system uses account 00173, Accrued Utility Revenues, and 00400, Electric Operating Revenues-Accrued and Unbilled, to record the unbilled revenues. Because of the leading 00s, only the international books are affected

Product costs delay the recognition of expenses until the associated revenues are recorded. Product costs are accumulated in Armenian accounts 20 through 39. They remain there until transferred to finished production or a profit and loss account. Nearly all expenses are a product cost for Armenian purposes. Period costs are recorded in account 80, Profits and Losses, or account 81, Use of Profit, if the amount is nondeductible for tax purposes General and Administrative expenses (account 26) are an Armenian product cost These expenses are period costs for international accounting and are not included in inventories or cost of goods sold. Therefore, when General and Administrative expenses are transferred to total production costs, the account used should be 26000 This will leave the expenses on the international set of books.

Timing differences in the recognition of revenues and expenses give rise to another problem -- profit taxes. Because accounting principles require that all expenses associated with the recognized revenues be used to calculate net profit, profit taxes will need to be calculated twice. One calculation will be needed for the profit as recognized by the Armenia government-recorded in account 81409, Profit Tax Expense. Another calculation will be needed for western income. The difference between the two calculations should be recorded in account 00410, Provision for Deferred Profit Taxes

Not all differences between the Armenian procedures and IAS are timing related. Armenia allows the current expensing of reserves established for future expenses. IAS do not allow the establishment of reserves when the amount cannot be reasonably predicted. Also, the reserve violates the matching principle Future expenses are recorded against current revenues. Because the establishment of reserves is not allowed by IAS, the accounting entries should be made only the Armenian books

Figure IV- 1,"Using the Accounting System", lists a sampling of transactions that can be expected during the transition phase of the accounting system. First, the account balances must be initialized and adjusted for accrual of revenue and expense that would be recognized under IAS. The revenue and expense accruals can be calculated on the balance of the Armenian account 45, Dispatched Goods The second set of transactions record normal business activities such as the purchase of supplies, labor and interest accruals, the realization of income, the calculation of depreciation, and the closing of subledgers. This set of transactions post entries to both sets of accounting records. Finally, Profit and Profit Taxes are calculated and the net results are transferred to Retained Earnings.

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ARMENIAN ENTRIES				INTERNATIONAL ENTRIES				COMBINED ENTRIES			
I. INITIALIZE OPENING BALANCES											
01	Fixed Assets	1000		101	Plant in Service	1000		01101	Electric Plant in Service	1000	
02	Depreciation of Fixed Assets		700	108	Accumulated Depreciation		700	02108	Acc Depr-Utility Plant		700
10	Materials	150		151	Fuel Inventory	150		10151	Fuel Stock	150	
20	Main Production	175		174	Other Current Assets	175		20174	Other Current Asset-Main Production	175	
45	Goods Dispatched	225		142	Accounts Receivable	225		45142	Goods Dispatched-Accounts Receivable	225	
51	Current Account	25		131	Cash	25		51131	Cash in Bank-Current Account	25	
68	Settlements of Budget		80	236	Taxes Payable		80	68236	Accrued Taxes Payable		80
70	Settlements on Wages		35	232	Accounts Payable		35	70232	Accounts Payable-Salaries		35
83	Income of Future Periods		60	253	Other Deferred Credits		60	83253	Deferred Credits-Future Period Income		60
87	Undistributed profits		200	216	Unappropriated Retained Earnings		200	87216	Unappropriated Retained Earnings		200
95	Long-term Loans		500	224	Long-term Debt		500	95224	Other Long-term Debt		500
									to enter initial balances into the system		
				173	Accrued & Unbilled Utility Revenues	190		00173	Unbilled Revenues	190	
				174	Other Current Assets		175	00174	Other Current Assets		175
				255	Accumulated Deferred Taxes		5	00255	Accumulated Deferred Taxes		5
				216	Unappropriated Retained Earnings		10	00216	Unappropriated Retained Earnings		10
					to accrue revenues associated with the balance remaining in Main Production (account 20)				*to adjust the opening balances for the accrual of revenues and associated expenses for the goods delivered in prior periods*		
					An electric company has no production work in progress inventory Therefore, any balance remaining in account 20 (Main Production) is the cost of the unbilled revenues						
				253	Other Deferred Credits	60		00253	Other Deferred Credits	60	
				255	Accumulated Deferred Taxes		18	00255	Accumulated Deferred Taxes		18
				216	Unappropriated Retained Earnings		42	00216	Unappropriated Retained Earnings		42
					to recognize the "profits" recorded in account 83 that are associated with the receivable balance called Dispatched Goods (account 45) as prior period income				*to adjust the opening balances for income earned in prior periods but not realized*		

ARMENIAN ENTRIES				INTERNATIONAL ENTRIES				COMBINED ENTRIES			
II NORMAL BUSINESS ACTIVITIES											
	A Purchase of Direct Materials										
10	Materials	225		151	Fuel Inventory	225		10151	Fuel Stock	225	
51	Current Account		225	131	Cash		225	51131	Cash in Bank-Current Account		225
	to record the purchase of fuel including freight and other handling costs				*to record the purchase of fuel including freight and other handling costs*				*to record the purchase of fuel including freight and other handling costs*		
10	Materials	75		154	Plant Materials and Supplies	75		10154	Plt Materials and Operating Supplies	75	
60	Settlements with suppliers		75	232	Accounts Payable		75	60232	AP-Suppliers and Contractors		75
	to record other materials and supplies purchased on credit				*to record other materials and supplies purchased on credit*				*to record other materials and supplies purchased on credit*		
	B Transfer/Use of Materials										
20	Main Production	175		501	Fuel Expense	200		20501	Fuel Expense-Thermal Power	175	
87	Undistributed Profits	25		151	Fuel Inventory		200	87501	Fuel Expense-over plan amount	25	
10	Materials		200					10151	Fuel Stock		200
	to record the use of fuel and the cost of the quantity that was over plan				*to record the use of fuel*				*to record the use of fuel*		
					International accounting standards require that the full cost of the fuel used in production be expensed						
25	General Production Expense	100		511	Maintenance of Structures	100		25511	Maint of Structures-Thermal Power	100	
10	Materials		100	154	Plant Materials and Supplies		100	10154	Plt Materials and Operating Supplies		100
	to record the use of materials for maintenance of electric plant				*to record the use of materials for maintenance of electric plant*				*to record the use of materials for maintenance of electric plant*		
26	General Business Expense	50		921	Office Supplies	50		26921	Office Supplies and Expenses	50	
60	Settlements with suppliers		50	232	Accounts Payable		50	60232	AP-Suppliers and Contractors		50
	to record the purchase and use of office supplies				*to record the purchase and use of office supplies*				*to record the purchase and use of office supplies*		

ARMENIAN ENTRIES				INTERNATIONAL ENTRIES				COMBINED ENTRIES			
	C. Labor Costs										
20	Main Production	45		500	Operating Expense	45		20500	Operation Supervision-Thermal Plant	45	
25	General Production Expense	60		510	Maintenance Expense	60		25510	Maintenance Supervision-Thermal Plant	60	
26	General Business Expense	55		920	General & Administrative Expense	55		26920	General & Administrative Salaries Expense	55	
70	Settlements on Wages		160	241	Tax Collections Payable		56	68241	Tax Collections Payable		56
				232	Accounts Payable		104	70232	Accounts Payable-Salaries		104
	to record accrued salaries				*to record accrued salaries*				*to record accrued salaries*		
70	Settlements on Wages	56									
68	Settlements of Budget		56								
	to record taxes withheld										
20	Main Production	80		500	Operating Expense	22		20500	Operation Supervision-Thermal Plant	22	
69	Settlements of Social Security		80	510	Maintenance Expense	30		20510	Maintenance Supervision-Thermal Plant	30	
				920	General & Administrative Expense	28		20920	General & Administrative Salaries Expense	28	
	to record employer's share of payroll taxes			232	Accounts Payable		80	69232	Social Security Payable		80
					to record and allocate employer's share of payroll taxes				*to record and allocate employer's share of payroll taxes*		
20	Main production	35		926	Employee Pensions and Benefits	35		20926	Employee Pensions and Benefits	35	
89	Reserve for Forthcoming Exp		35	228	Accum Provision for Miscellaneous Operating Expense		35	89228	Accum Miscellaneous Operating Provisions		35
	to record employee benefits payable in the future				*to record an employee benefits liability that is certain and can be reasonably estimated*				*to record an employee benefits liability that is certain and can be reasonably estimated*		

ARMENIAN ENTRIES

D. Interest Expense

87	Undistributed Profit	55	
76	Settlements with Others		55
	to record interest accrued on long-term debt obligations		
20	Main Production	10	
76	Settlements with Others		10
	to record interest accrued on short-term debt obligations		

E. Depreciation Expense

20	Main Production	40	
25	General Production Expenses	20	
26	General Business Expenses	15	
44	Handling Costs	5	
80	Profit and Loss	30	
02	Depreciation of Fixed Assets		110
	to record the monthly depreciation of fixed assets used in production		

INTERNATIONAL ENTRIES

427	Long-term Interest Expense	55	
237	Accrued Interest Payable		55
	to record interest accrued on long-term debt obligations		
431	Other Interest Expense	10	
237	Accrued Interest Payable		10
	to record interest accrued on short-term debt obligations		
107	Construction Work in Progress	5	
432	Allowance for Funds Used During Construction		5
	to allocate a portion of the interest expense that was incurred due to funds used to finance current construction projects		
403	Depreciation Expense	100	
413	Exp of Plant Leased to Others	5	
163	Stores Expense	5	
108	Accumulated Depreciation		110
	to record the monthly depreciation of fixed assets		

COMBINED ENTRIES

87427	Interest on Long-term Debt	55	
76237	Interest Payable		55
	to record interest accrued on long-term debt obligations		
20431	Other Interest Expense	10	
76237	Interest payable		10
	to record interest accrued on short-term debt obligations		
08107	Construction Work in Progress	5	
08432	Allowance for Borrowed Funds Used during Construction		5
	to allocate a portion of the interest expense that was incurred due to funds used to finance current construction projects		
20403	Depreciation Expense	40	
25403	Depreciation Expense	20	
26403	Depreciation Expense	15	
44163	Stores Expense Undistributed	5	
80403	Depreciation Expense-Leased Assets	25	
80413	Expenses of Elec Plt Leased to Others	5	
02108	Accumulated Depreciation		110
	to record the monthly depreciation of fixed assets (owned and leased) used in production		

ARMENIAN ENTRIES				INTERNATIONAL ENTRIES				COMBINED ENTRIES			
	F. Realization of Revenues										
45	Goods Dispatched	515		142	Accounts Receivable	573		45142	Goods Dispatched-Accounts Receivable	573	
20	Main Production		515	442	Industrial Sales		477	83442	Industrial Sales-Future Income		48
				236	Taxes Payable		96	20442	Industrial Sales-Main Production		429
								83236	Taxes Payable		10
								20236	Taxes Payable		86
	to transfer production costs associated with the amounts of electricity invoiced				*to record revenues based on invoices presented to customers*				*to record revenues and VAT based on invoices presented to customers*		
45	Goods Dispatched	58									
83	Income of Future Periods		58								
	to record "the profits" associated with the invoices presented to customers										
51	Current Account	100		131	Cash	100		51131	Cash-Current Account	100	
46	Realization of Goods		100	142	Accounts Receivable		100	46142	Customer Accounts Receivable		100
	to record collection of amounts invoiced				*to record collection of accounts receivable*				*to record collection of accounts receivable*		
46	Realization of Goods	100						46000	Realization of Goods	100	
45	Goods Dispatched		100					45000	Goods Dispatched		100
	to transfer the costs associated with the realization of income								*to transfer the costs associated with the realization of income*		
83	Income of Future Periods	17						83236	Income of Future Periods	17	
68	Settlement with Budget		17					68236	Settlement with Budget		17
	to record the VAT due on realized sales								*to record the VAT due on realized sales*		
83	Income of Future Periods	3						83000	Income of Future Periods	3	
80	Profit and Loss		3					80000	Profit and Loss		3
	to record the profit of the realized sales								*to record the profit of the realized sales*		

ARMENIAN ENTRIES

G. Other Income--Sale of Fixed Asset

47	Realization/ Disposal of Asset	300	
01	Fixed Assets		300

to record decrease in fixed assets due to sale

02	Depreciation of Fixed Assets	250	
47	Realization/ Disposal of Asset		250

to record write-off of depreciation related to asset sold

51	Current Account	225	
47	Realization/Disposal of Asset		225

to record the cash received on disposal

47	Realization/Disposal of Asset	175	
80	Profit and Loss		175

to close account 47 to profit and loss

H Non-deductible Expense

87	Undistributed Profits	45	
51	Current Account		45

to record the expense of business trip that was excess of allowable expenditures

INTERNATIONAL ENTRIES

131	Cash	225	
108	Accumulated Depreciation	250	
101	Plant in Service		300
411	Gain/Loss on Disposal of Asset		175

to record sale of fixed asset for cash

930	Miscellaneous General and Adm	45	
131	Cash		45

to record the expense of business trip that was excess of allowable expenditures

Under IAS, the full cost of all expenses are recorded Items that are not deductible for tax purposes are adjusted on the tax return

COMBINED ENTRIES

51131	Cash-current account	225	
02108	Accumulated Depreciation-Utility Plant	250	
01101	Plant in Service		300
47411	Gain/Loss on Disposal of Asset		175

to record sale of fixed asset for cash

IAS concepts require that a gains or losses on disposal of fixed assets be recorded in a separate account This account would not be closed until the end of the accounting period

47000	Realization/Disposal of Assets	175	
80000	Profit and Loss		175

to close account 47 to profit and loss

87930	Miscellaneous General Expense	45	
51131	Cash in Bank-Current Account		45

to record the expense of business trip that was excess of allowable expenditures

ARMENIAN ENTRIES				INTERNATIONAL ENTRIES				COMBINED ENTRIES			
III CLOSING ENTRIES											
	A. Closing Subledgers										
20	Main production	300						20000	Main production	300	
25	General Production Expense		180					25000	General Production Expense		180
26	General Business Expense		120					26000	General Business Expense		120
	to transfer general expenses to production accounts								*to transfer general expenses to production accounts*		
				442	Industrial Sales	107		46442	Industrial Sales	477	
				400	Sales of Electricity		107	46400	Sales of Electricity		477
					to close sales subledger				*to close sales subledger*		
				500	Operating Expense		67	20500	Operating Expense		67
				501	Fuel Expense		200	20501	Fuel Expense		200
				401	Operations Expense	267		20401	Operations Expense	267	
					to close operations subledger				*to close operations subledger*		
				510	Maintenance supervision		90	25510	Maintenance supervision		90
				511	Maintenance of structures		100	25511	Maintenance of structures		100
				402	Maintenance Expense	190		25402	Maintenance Expense	190	
					to close maintenance subledger				*to close maintenance subledger*		
				920	General and Administrative Exp		83	26920	General and Administrative Exp		83
				921	Office supplies and expense		50	26921	Office supplies and expense		50
				926	Pensions and Benefits		35	26926	Pensions and Benefits		35
				930	Miscellaneous General and Administrative		45	26930	Miscellaneous General and Administrative Exp		45
				405	General and Administrative Exp	213		26405	General and Administrative Exp	213	
					to close general and administrative subledger				*to close general and administrative subledger*		

ARMENIAN ENTRIES				INTERNATIONAL ENTRIES				COMBINED ENTRIES			
	B. Accrue Income and Associated Entries										
				173	Accrued & Unbilled Utility Revenues	186		00173	Accrued & Unbilled Utility Revenues	186	
				400	Sales of Electricity		186	00400	Sales of Electricity		186
					to revise the balance of accrued and unbilled revenues to correspond with the balance remaining in account 20 (Main Production)				*to revise the balance of accrued and unbilled revenues to correspond with the balance remaining in account 20 (Main Production)*		
88	Special Purpose Funds	30		904	Bad Debt Expense	70		00904	Bad Debt Expense	70	
82	Provisions for Doubtful Debts		30	144	Accumulated Bad Debt Expense		70	00144	Accumulated Bad Debt Expense		70
								88000	Special Purpose Funds	30	
								82000	Provisions for Doubtful Debts		30
	to establish provision for doubtful debts done by specific identification				*to establish allowance for bad debts amount determined by estimate*				*to establish an allowance for current sales that will not be collected (IAS) and record identified doubtful debts*		
62	Settlements with Buyers		25	142	Accounts Receivable		25	62142	Customer Accounts Receivable		25
82	Provisions for Doubtful Debts	25		144	Accumulated Bad Debt Expense	25		82144	Accumulated Bad Debt Expense	25	
	to write off receivable determined to be uncollectible				*to write off receivable determined to be uncollectible*				*to write off receivable determined to be uncollectible*		
	C. Calculate Tax Expense										
81	Use of Profit	44		409	Profit Tax Expense		20	81409	Profit Taxes	44	
68	Settlements of Budget		44	236	Taxes Payable	20		68236	Accrued Taxes Payable to Budget		44
								00410	Provision for Deferred Taxes		64
	to record the profit tax expense				*to record the profit tax expense*			00255	Accumulated Provision for Deferred Taxes	64	
									to record the amount of profit taxes payable and the associated expense Deferred taxes is the difference between taxes owing using IAS and the actual tax using Armenian accounting rules		

ARMENIAN ENTRIES

D. Transfer of Net Income to Retained Earnings

81	Use of Profit		44
80	Profit and Loss	44	
	to close use of profit (taxes) to profit		
80	Profit and Loss	104	
87	Undistributed Profits		104
	transfer net result of period's business activity to undistributed profits		

INTERNATIONAL ENTRIES

400	Sales of Electricity	663	
401	Operations Expense		267
402	Maintenance Expense		190
403	Depreciation Expense		100
405	General and Administrative Expense		283
409	Profit Tax Expense		44
410	Provision for Deferred Taxes	64	
411	Gain/Loss on Sale of Asset	175	
413	Expense of Plt Leased to Others		5
427	Long-term Interest Expense		55
431	Other Interest Expense		10
432	Allowance for Borrowed Funds Used	5	
216	Unappropriated Retained Earnings	47	
	transfer the balance of all income and expense accounts to retained earnings		

COMBINED ENTRIES

81000	Use of Profit		44
80000	Profit and Loss	44	
	to close use of profit (taxes) to profit		
80000	Profit and Loss	104	
87000	Undistributed Profits		104
	transfer net result of period's business activity to undistributed profits		
00400	Sales of Electricity	663	
00401	Operations Expense		267
00402	Maintenance Expense		190
00403	Depreciation Expense		100
00405	General and Administrative Expense		283
00409	Profit Tax Expense		44
00410	Deferred Profit Tax Expense	64	
00411	Gain/Loss on Sale of Asset	175	
00413	Expense of Plt Leased to Others		5
00427	Long-term Interest Expense		55
00431	Other Interest Expense		10
00432	Allowance for Borrowed Funds Used	5	
00216	Unappropriated Retained Earnings	47	
	transfer the balance of all income and expense accounts to retained earnings		

V. FINANCIAL STATEMENTS

The final objective of financial reporting is the preparation of financial statements As explained in section III financial accounting is employed primarily for users of financial statements who are external to the company. The common characteristic of external users is their lack of authority to prescribe the information they want from an enterprise They depend on general-purpose external financial reports provided by management The Financial Accounting Standards Board (FASB) defines the objectives of financial reporting as follows[1]

> "Financial reporting should provide information that is useful to present to potential investors and creditors and other users in making rational investments, credit, and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence."

External users of financial information encompass a wide range of interests but can be classified into three groups.

- creditors and equity investors;
- government, which includes the regulatory bodies and tax authorities, and
- the general public and special interest groups, labor unions, consumer groups

Although these three groups have different objectives in the analysis of financial information, equity investors and creditors are the primary users of financial information The underlying objective of financial analysis is the comparative measurement of risk and return to make investments or credit decisions.

A complete set of financial statements includes· a balance sheet, an income statement, a statement of cash flow, a statement of retained earnings, and footnotes supplementing the information provided by these statements

A. PRO-FORMA FINANCIAL STATEMENT FORMAT

1. BALANCE SHEET

The balance sheet shows the property and cash owned by a firm and the amounts owed to it (assets) The money that a firm owes, and the source of the money used to purchase those

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[1]Financial Accounting Standard Board (FASB), Statement of Financial Accounting Concepts (SFAC) 1; para 34

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assets (liabilities and capital) are also shown Data is given as of the end of business on a stated day, usually the end of the year or the end of an accounting period Thus, a balance sheet is referred to a snapshot of a point in time.

Figure V-1 shows a pro-forma balance sheet that complies with International Accounting Standards (IAS) to be used by Armenergo. This is not an audited statement and the final version of Armenergo's balance sheet could have some modifications from this initial pro-forma.

Assets owned by the utility are shown on the left side of the balance sheet. The asset side of the balance sheet shows the cost of what the company owns plus what is owed to it by others plus what the company has already paid for future expenses Utility Plant is the section that records the costs of plant that has been completed, and the equipment that is part of an incomplete project (Construction Work in progress) Many utilities have invested in other businesses. Those investments are shown under Other Property and Investments.

The Capitalization and Liabilities portion of the balance sheet shows amounts that owners invested in the business and the amounts the business owes its creditors. The utility accounts usually begin with a statement of Capitalization which shows the amount that has been invested in the business for the long term The company has obligations that must be paid within 12 months of the date of the balance sheet Those obligations are Current Liabilities Other Credits and Long Term Liabilities commonly are deferred income taxes (temporary or permanent differences derived from the use of accelerated depreciation or investment tax credits).

The balance sheet of an electrical utility is similar to that of an industrial company except that an industrial company generally puts current assets and liabilities at the top of the balance sheet.

2. INCOME STATEMENT

The income statement covers a specific period It shows the amount of money that the enterprise earned from products and services within that period (revenues) and the costs that were incurred by the firm to provide those products and services (expenses) The difference between revenue and expense is the profit or net income that is left for the owners of the business. Some of the income may be paid to owners in the form of dividends The rest is kept by the firm for use in the business (retained earnings)

Figure V-2 shows a pro-forma income statement that complies with International Accounting Standards (IAS) to be used by Armenergo This is not an audited statement and the final version of Armenergo's income statement could have some modifications from this initial pro-forma

The utility sells a certain amount of electricity in the year at particular prices. Receipts from customers produce Operating Revenues The costs of producing the electricity are called Operating Expenses. The difference between operating revenues and operating expenses is called Utility Operating Income. Non-Utility Operating income includes the income from various affiliated companies, interest earned on investments, and a variety of other items. Total Operating Income is the sum of utility and non-utility operating income. Subtracting Interest Expense and Taxes from Total Operating Income gives Net Income, which is the money left for the owners of the business

3. CASH FLOW STATEMENT

The balance sheet tells what the company owns and owes at the end of a given day. The income statement helps to determine how profitable the operations of the firm were for a given period The statement of cash flows analyzes the cash received and disbursed in a given period. The statement of cash flows is conceptually simple· it is intended to show all the cash inflows and outflows of the firm during the period. However, as the cash flow statement must combine items from both the balance sheet and the income statement, it is procedurally more difficult.

Figure V-3 shows a pro-forma cash flow statement that complies to International Accounting Standards (IAS) to be used by Armenergo. This is not an audited statement and the final version of Armenergo's cash flow statement could have some modifications from this initial pro-forma.

The statement begins with "Cash Flow from Operating Activities," basically what is left over from the year's revenues after the expenses that require cash outlay are paid. There are two methods, both in accordance to IAS, to calculate cash flow from operating activities the direct method, which uses major categories of gross cash receipts and payments, and the indirect method, which provides a reconciliation of net income to net cash flow from operating activities. This manual assumes the use of the indirect method for Armenergo's cash flow statement. The first item is the Net Income which is reported before adjusting for any items that do not result in cash. Expenses that do not require cash outlays must be added to that, and reported income that does not bring any cash must be subtracted This process requires that increases (decreases) in current assets from the previous accounting period are subtracted from (added to) to net income In addition, increases (decreases) in current liabilities are added to (subtracted from) income. Depreciation and losses (gains) are added to (subtracted from) to Net Income to arrive at Net Cash Provided from Operating Activities

Cash Flow from Investing Activities is that resulting from

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- Acquisition or sale of property, plant, and equipment;
- Acquisition or sale of a subsidiary or segment; and
- Purchase or sale of investments in other firms

Similarly, Cash Flow from Financing Activities is that resulting from·

- Issuance or retirement of debt and equity securities;
- Dividends paid to stockholders.

IAS requires gross rather than net reporting of significant investing and financing activities, thereby providing improved disclosure. For example, the acquisition of property must be shown separately from the sale of property.

4. THE STATEMENT OF RETAINED EARNINGS

The owners' equity increases through earnings and decreases when earnings are paid out in the form of dividends The difference between the total earnings to date and the total amount of dividends paid to the shareholders to date is retained earnings That is, the difference represents the amount of accumulated earnings retained for use in the business If this difference is negative, the item is labelled as a deficit.

The amount of retained earnings on a given date is the cumulative amount that has been retained in the business from the beginning of the corporation's existence up to that date Note also that the amount of retained earnings does not indicate the form in which the earnings were retained They may be invested in any of the resources that appear on the assets side of the balance sheet This last issue is emphasized because there is a common misconception that there is some connection between the amount of retained earnings and the amount of cash

Figure V-4 shows a pro-forma statement of retained earnings to be used by Armenergo. This is not an audited statement and the final version of Armenergo's statement of retained earnings could have some modifications from this initial pro-forma

Armenergo's retained earnings statement is divided into Unappropriated and Appropriated retained earnings. Appropriated retained earnings, in contrast to retained earnings restrictions, which are binding by law or by contract, are voluntarily made by the enterprise. Armenergo's special purpose funds (e g payment of social and welfare type benefits) should be recorded in this section of the retained earnings statement

5. FOOTNOTES TO THE FINANCIAL STATEMENTS

Four financial statements have been discussed the balance sheet, the income statement, the cash flow statement, and the statement of retained earnings A fifth type of required information is also important. This is the footnotes that accompany these financial statements, and is deemed to be an integral part of them. Footnotes are designed to allow users to improve assessments of the amounts, timing, and reliability of the information reported in the financial statements. Some supplementary information is provided voluntarily by management.

One of these notes, usually the first, summarizes the accounting policies the company has followed in preparing the statements Among other topics, this note usually describes the basis of consolidation (if the statements are consolidated), depreciation methods, policies with respect to the amortization of intangible assets, inventory methods, and policies regarding the recognition of revenues

Footnotes also provide a detailed discussion of, and additional disclosure related to fixed assets, inventories, taxes, pensions, other post-employment benefits, debt, compensation plans, and other elements of the financial statements

The following paragraphs show, for illustration purposes only, an example of the major sections that a set of footnotes for Armenergo's financial statements could have This example is not comprehensive and the actual footnotes for Armenergo's financial statements would depend on the assumptions used to prepared the statements.

EXAMPLE OF FOOTNOTES TO FINANCIAL STATEMENTS

Description of the Company

A brief description of Armenergo's history, its generation capacity, transmission, and distribution assets, customer base and other important characteristic should be included in this section.

Principles of Accounting

If statements are prepared according to International Accounting Standards (IAS), this section would have wording similar to·

> "The financial statements have been prepared in a manner which is consistent with IAS as issued by the International Accounting Standards Committee Certain adjustments have been reflected in these financial statements to conform to the Armenian regulation and chart of accounts issued by the Ministry of Finance The specifics of these adjustments are described within these footnotes."

Principles of Consolidation

If financial statements were consolidated, a statement similar to the following would be appropriate:

> "The financial statements include the accounts of the parent company and all major owned subsidiary companies [The names of the subsidiaries would be listed or their general type of operation would be described] All significant intercompany balances and transactions have been eliminated."

Ratemaking and Regulation

The Armenian regulation environment for electric tariffs should be described In addition, a copy of the approved rates for each consumer class could be presented

Equity Investment in Non-consolidated Affiliates

The accounting method used to record equity investment should be disclosed

Revenue Recognition

If statements are prepared according to IAS, a sentence similar to the following could be included.

> "Under Armenian accounting standards, revenues are normally recorded only as receivables are collected, so as to minimize the payment of VAT. However, the presented statements have been adjusted in accordance with IAS 18, to record revenues and costs as the service is performed."

Operating Expenses

A description of the major operating expenses and the accounting methods should be included

Fixed Asset Accounting

The accounting basis for recording utility plan should be included in this section For example, if utility plant is accounted at cost of construction, but some revaluation has performed, a list of the revaluations with decree number and date should be mentioned

Depreciation

This section would include the depreciation method used and any additional information. For example whether and what rates are applied to revaluations made to plant in service A list of useful lives assumed for major electrical equipment could also be included.

Inventories

The inventory method should be discussed in this section

Income Taxes

The Armenian income tax rate should be disclosed along with the a discussion of items that are tax deductible or any specific regulation that allows for deferred credits This section usually shows the tax calculations and the actual amount of cash paid for taxes. In addition, amounts required to be accrued as expenses in excess of taxes currently due arising from tax-book timing differences would be described. Often included in this is a reconciliation of tax and book income.

VAT Accounting

The valued added tax rate and its base of application are explained in this section.

Special Purpose Funds

If financial statements are prepared in accordance with IAS, then a discussion similar to the following would be appropriate.

> "Special purpose funds are used in Armenia to account for certain non-deductible expenses as well as internal allocations from the net income which are allocated for the financing of capital construction projects and the development of social facilities. Profits are "utilized" or allocated for various working capital purposes through these special purpose funds so there is no residual profit To conform to IAS presentation for these financial statements, such profit utilization has been shown as an allocation of retained earnings within the balance sheet equity section. Such allocations are not expenses which enter into the determination of net income Nondeductible expenses have nevertheless been included as operating expenses in these financial statements "

Regulatory Matters

This section would include significant regulatory matters, such as changes in tariffs, and environmental issues.

Plant in Service

A list with major assets with additions and substraction for the year and an ending balance would be shown in this section.

Capital Stock

This section would show the capital structure of the enterprise This would include a listing of all the capital account identifying different kinds of shares, paid in capital, and preferred stock Any issue of new securities and treasury stock operations must be disclosed in this section. Dividends declared and dividends paid are also part of this section

Long-term Debt

This footnote should provide details about applicable interest rates, maturity schedules, and contractual terms for outstanding debt.

Short-Term Loans and Lines of Credit

This section should include a description on short-term loans and available lines of credit

Retirement and Post-employment Benefits

Annual contributions and cumulative balances to the state for retirement and post-employment benefits would be disclosed under this footnote.

Legal Matters

This footnote would include a brief discussion of pending legal matters, including management's assessment of the likely outcome. If there are no unusual matters pending, a general statement such as the following is often made

> "The company is party to various legal matters, the ultimate outcome of which is not expected to materially affect the results of operations or the financial condition of the company "

Segment Reporting

IAS 14 requires that publicly quoted enterprises and other economically significant entities should describe the activities of each significant industry segment.

For each segment, disclosure should be made of:

- sales of other operating revenues (analyzed between external customers and other segments),
- results;
- net assets employed; and
- basis of inter-segment pricing

Reconciliations between the sum of the information on individual segments and the aggregated information in the financial statements should be given

Disclosure should also be made of the nature of any change in the identification of segments or in the way in which segmental information is reported, the reasons for the change and, if determinable, the effect of the change.

Figure V-1
ARMENERGO STATE ENTERPRISE
BALANCE SHEET
(in Thousands of Drams)

ASSETS	Current Period	Prior Period
Utility Plant		
Utility Plant in Service		
Less Accumulated Provision for Depreciation		
Net Plant in Service		
Construction Work in Progress		
Net Utility Plant		
Other Property and Investments		
Nonutility Property		
Less Accumulated Provision for Depreciation		
Investment in Affiliate Companies		
Other Investments & Special Funds		
Total Other Property and Investments		
Current Assets		
Cash		
Customer Receivable for Electricity		
Miscellaneous Receivables		
Less Bad Debt Allowance		
Fossil Fuel, at Average Cost		
Other Inventories		
Prepayments and Other		
Taxes Reclaimable and Receivable		
Total Current Assets		
Deferred Charges		
Other		
TOTAL ASSETS		

CAPITALIZATION AND LIABILITIES	Current Period	Prior Period
Capitalization		
Equity		
Charter Capital		
Revaluation Surplus		
Retained Earnings- Unappropriated		
Retained Earnings- Appropriated ("Special Funds')		
Treasury Stock		
Total Equity		
Long-Term Debt		
Total Capitalization		
Current Liabilities		
Notes Payable and Commercial Paper		
Current Portion of Long-Term Debt		
Accounts Payable for Electricity Purchases		
Trade Vendors and Affiliated Payables		
Accrued Budget Taxes		
Accrued Interest		
Non-Budget Taxes and Other		
Dividends Declared Payable		
Total Current Liabilities		
Other Credits and Long Term Liabilities		
Accumulated Deferred Income Taxes		
Deferred Credits		
Total Other Credits and Long-Term Liabilities		
TOTAL CAPITALIZATION AND LIABILITIES		

Figure V-2
ARMENERGO STATE ENTERPRISE
INCOME STATEMENT
(in Thousands of Drams)

	Current Period	Prior Period
Utility Operating Income		
Operating Revenues		
Operating Expenses		
Operation Expenses		
Purchased Power		
Fuel		
Administrative & General		
Other		
Total Operation Expenses		
Maintenance		
Depreciation		
Total Operating Expenses		
Utility Operating Income		
Non-Utility Operating Income		
Non-Utility Income		
Industrial Sales		
Interest and Dividend Income (nonconsolidated affiliated companies)		
Other Non-Utility Income		
Total Other Income		
Non-Utility Expenses		
Cost of Sales		
Other Non-Utility Expenses		
Total Other Expenses		
Non-Utility Operating Income		
Total Operating Income		
Interest Expense and Taxes		
Interest Expenses		
Interest on Long-Term Debt		
Other Interest Expense		
Total Interest Expenses		
VAT and Taxes other than Income		
Income Taxes		
Total Interest Expense and Taxes		
Net Income Before Extraordinary Items		
Extraordinary Income		
Extraordinary Deductions		
NET INCOME		

Figure V-3
ARMENERGO STATE ENTERPRISE
STATEMENT OF CASH FLOWS
(in Thousands of Drams)

	Current Period	Prior Period
Cash Flow from Operating Activities:		
Net Income		
Loss/(Gain) on Sale of Asssets		
Depreciation		
Decrease/(Increase) in Receivables		
Decrease/(increase)in Inventory Fuel		
Decrease/(Increase) in Other Inventory		
Decreae/(Increase) in Prepayments and Other		
Decrease/(Increase) in Taxes Reclaimable and Receivable		
Increase/(Decrease) in Payables		
Increase/(Decrease) in Accrued Liabilities		
Increase/(Decrease) in Income Taxes Payable		
Net Cash Provided from Operating Activities		
Cash Flow from Investing Activities		
Disbursement for the Purchase of Property, Plant, and Equipment		
Proceeds from the Sale of Property, Plant, and Equipment		
Construction Expenditures		
Investments in Affiliated Companies		
Sale of Investments in Other Firms		
Net Cash from Investing Activities		
Cash Flow From Financing Activities		
Redemption of Long-Term Debt		
Issuance of Long-Term Debt		
Redemption of Notes Payable and Commercial Paper		
Issuance of Notes Payable and Commercial Paper		
Treasury Stock Acquired		
Issuance of Equity		
Dividends Paid		
Net Cash from Financing Activities		
Net Increase in Cash		
Beginning Balance of Cash		
Ending Balance of Cash		

Figure V-4
ARMENERGO STATE ENTERPRISE
STATEMENT OF RETAINED EARNINGS
(in Thousands of Drams)

	Current Period	Prior Period
Retained Earnings- Unappropiated		
Begining Balance		
Net Income		
Less Dividends Declared		
Less Amounts Allocated		
Ending Balance Retained Earnings-Unappropiated		
Retained Earnings- Appropiated		
Begining Balance		
Amounts Allocated from Current Earnings for		
List all the Balances and Purposes		
Ending Balance Retained Earnings- Appropiated		
TOTAL RETAINED EARNINGS		

FIGURE V-5
ARMENERGO STATE ENTERPRISE - GENERATION
THE BALANCE SHEET AND THE CHART OF ACCOUNTS
(in Thousands of Drams)

ASSETS

Utility Plant	
Utility Plant in Service	101-106,300-399,118
Less Accumulated Provision for Depreciation	108,111,119
Net Plant in Service	
Construction Work in Progress	107
Net Utility Plant	
Other Property and Investments	
Nonutility Property	121
Less Accumulated Provision for Depreciation	122
Investment in Affiliate Companies	123
Other Investments & Special Funds	124-128
Total Other Property and Investments	
Current Assets	
Cash and Cash Equivalents	131,135,134,136
Customer Receivable for Electricity	141,142
Miscellaneous Receivables	143,145,146,171,172
Less Bad Debt Allowance	144
Fossil Fuel, at Average Cost	151
Other Inventories	154-164
Prepayments and Other	165,173,174
Taxes Reclaimable and Receivable	
Total Current Assets	
Deferred Charges	181-190
Other	

TOTAL ASSETS

CAPITALIZATION AND LIABILITIES

Capitalization	
Equity	
Charter Capital	201-211
Revaluation Surplus	214
Retained Earnings- Unnapropriated	216
Retained Earnings- Appropriated ("Special Funds")	215
Treasury Stock	217
Total Equity	
Long-Term Debt	221-227 (less current portion)
Total Capitalization	
Current Liabilities	
Notes Payable and Commercial Paper	231,233
Current Portion of Long-Term Debt	calculated from above
Accounts Payable for Electricity Purchases	232
Trade Vendors and Affiliated Payables	232,234,235
Accrued Budget Taxes	236
Accrued Interest	237
Non-Budget Taxes and Other	241,242
Dividends Declared Payable	238
Total Current Liabilities	
Other Credits and Long Term Liabilities	
Accumulated Deferred Income Taxes	255
Deferred Credits	228,229,252,253
Total Other Credits and Long-Term Liabilities	

TOTAL CAPITALIZATION AND LIABILITIES

Figure V-6
ARMENERGO STATE ENTERPRISE - GENERATION
THE INCOME STATEMENT AND THE CHART OF ACCOUNTS
(in Thousands of Drams)

Utility Operating Income	
Operating Revenues	400,412, 414, 440-447,456
Operating Expenses	
Operation Expenses	401,500-507,535-540
Purchased Power	555
Fuel	501
Administrative & General	405,920-931,935
Other	411,413,556,557,901-912
Total Operation Expenses	
Maintenance	402,510-514, 541-545
Depreciation	403,404
Total Operating Expenses	
Utility Operating Income	
Non-Utility Operating Income	
Non-Utility Income	
Industrial Sales	415
Interest and Dividend Income (nonconsolidated affiliated companies)	419
Other Non-Utility Income	421
Total Other Income	
Non-Utility Expenses	
Cost of Sales	416
Other Non-Utility Expenses	426
Total Other Expenses	
Non-Utility Operating Income	
Total Operating Income	
Interest Expense and Taxes	
Interest Expenses	
Interest on Long-Term Debt	427
Other Interest Expense	428-431,432
Total Interest Expenses	
VAT and Taxes other than Income	408
Income Taxes	409
Total Interest Expense and Taxes	
Net Income Before Extraordinary Items	
Extraordinary Income	434
Extraordinary Deductions	435
NET INCOME	

VI. MANAGEMENT ACCOUNTING CONCEPTS

Management accounting is the process of accumulating, sorting and presenting information designed to assist internal users in their responsibilities. When fully implemented, a management accounting system enables comprehensive analysis of financial and operating data by generating a variety of computer reports.

The nature and volume of the reports generated will vary based on information available and the user needs. The initial focus should be on budget information, primarily periodic (monthly and quarterly) year-to-date comparisons of budget versus actual revenues and expenditures. Additional valuable information can include:

- Total expenses by Responsibility Center (or summaries for higher level Responsibility Centers);
- Totals by Resource Code (e.g. labor or materials) for one or more Responsibility Centers;
- Total costs by Project Code; and
- Totals by Resource Code for specific Project Codes.

The ideal approach for Armenergo would be to implement an Integrated Financial Management System (IFMS). This is a recent innovation in information systems design that manages a core data base with numerous subsystems accessing and processing the data. This technique would enable maximum coordination and governance of enterprise activities Primary core systems (Treasury, Accounting, and Budgeting) are both fed by, and feed into, the peripheral financial and non-financial systems An IFMS would fill all requirements for financial and management accounting, in addition to the necessary administrative and support systems Given the current status of Armenergo, with an overall lack of computer expertise, the potential for organizational changes, and the immediate needs for information, Price Waterhouse believes that the IFMS approach is not appropriate for Armenergo at this time.

The following concepts should be used when it is determined that Armenergo is ready to initiate management accounting.

A. RESPONSIBILITY CENTERS

Responsibility Centers are identified as operating groups within the enterprise that are responsible for specific functions. Generally, there would be a one for one relationship between Responsibility Centers and individual organizations Each Responsibility Center would be assigned a five digit identification number to enable coding of charges to the responsible Responsibility Center The coding would be hierarchical, in order to readily permit recapitulation of costs for subordinate Responsibility Centers into the higher level Centers.

A hypothetical ordering of Responsibility Centers, showing identification codes and organizations

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would appear as follows.

20000 First Deputy General Director

- 21000 Economical Department
  - 21100 Economical Division
  - 21200 Labor and Wages Division
  - 21300 Accounting Division

- 22000 System Operating Department
  - 22100 Dispatching Division
  - 22200 Load Analysis Division
  - 22300 Power Distribution and Control Division
  - 22400 Registration Division
  - 22500 Consumer Services Division

- 23000 External Relations Department
  - 23100 Projects Implementation Division
  - 23200 Organizational and Protocol Division
  - 23300 Information Unit

B. RESOURCE CODES

Resources are defined as those inputs that are consumed or otherwise used in operations Labor, materials and equipment are the most common of these When expenditures for these various categories are specifically identified, management is more capable of controlling the associated costs by identifying methods for minimizing resource consumption.

The attached listing of Resource Codes has been developed to present a comprehensive coding system for various resources. It is constructed to permit Responsibility Center managers to select levels of categorization relevant to the operation. While the listing is broken down extensively, it may be desired to use only the primary resources designated on multiples of ten from 00 through 90 (e g 00 for Labor, 10 for Services, 20 for Materials, etc) Ideally, specific Resource Code utilization will be uniform throughout the enterprise.

C. ACCOUNT CODE FORMAT

The proposed Account Code Format (see example) includes a total of seventeen digits broken down into five distinct fields. When fully implemented, utilization of the full account code will provide management detailed information on costs incurred Input fields include:

- A two digit account number used for tax purposes under the current Armenian standards;

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- A three digit account number charged for financial reporting purposes;
- A five digit identification number for the charging Responsibility Center,
- A two digit Resource Code, and
- A five digit Project Code

Each transaction must be identified with the complete code (excepting the optional Project Code) to utilize the full capabilities of the proposed system

Code Number		Description	
00		**Labor**	
	01		Hourly Pay - Straight Time
	02		Hourly Pay - Overtime
	03		
	04		Salaries - Non-management
	05		Salaries - Management/Executive
	06		
	07		
	08		
	09		Bonuses
10		**Services**	
	11		Contract Labor
	12		Professional Services
	13		Communications
	14		Government Services
	15		
	16		
	17		
	18		
	19		
20		**Materials**	
	21		Materials - Operating
	22		Office Supplies
	23		Computer Software
	24		
	25		
	26		
	27		
	28		
	29		
30		**Equipment**	
	31		Operating
	32		Office
	33		Computers
	34		Tools
	35		Rental and Leased
	36		

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Code Number		Description	
	37		
	38		
	39		
40		**Facilities**	
	41		Rent/Lease Payments
	42		Maintenance
	43		Utilities
	44		
	45		
	46		
	47		
	48		
	49		
50		**Transportation**	
	51		Fuel
	52		Maintenance
	53		Freight
	54		Public Transportation
	55		
	56		
	57		
	58		
	59		
60		**Employee Expenses**	
	61		Meals
	62		Lodging
	63		Other
	64		Personal Transportation
	65		
	66		
	67		
	68		
	69		
70		**Employee Benefits and Related**	
	71		Payroll Taxes
	72		Paid Time Off
	73		Union Dues

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Code Number		Description	
	74		
	75		
	76		
	77		
	78		
	79		
80		**Energy Expenses**	
	81		Energy Purchases
	82		Natural Gas
	83		Mazout
	84		Coal
	85		
	86		
	87		
	88		
	89		
90		**Financial and Other**	
	91		Interest
	92		Taxes - Value Added
	93		Taxes - Profit
	94		Taxes - Other
	95		
	96		Advertising
	97		Donations
	98		Adjustments
	99		Other

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ARMENERGO STATE ENTERPRISE
ACCOUNTING CODING FORMAT

Armenian Account Number	Financial Account Number	Responsibility Center Code	Resource Code	Project Code