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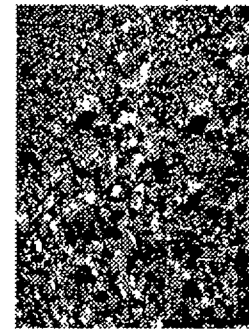

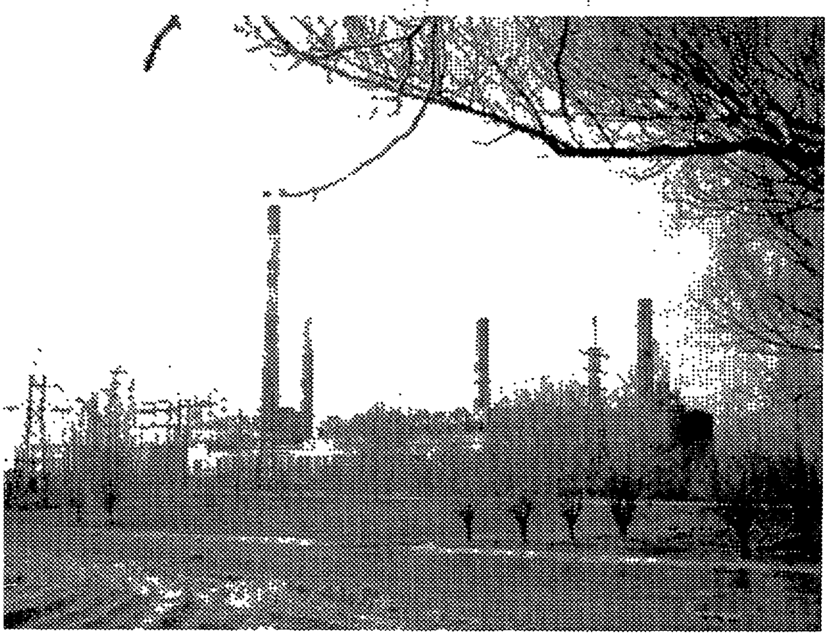

FINANCIAL MANAGEMENT SYSTEM

VOLUME II

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GENCO FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEMS

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VOLUME II: ACCOUNTING MANUAL

INTRODUCTION

ORGANIZATION AND ADMINISTRATION OF THE ACCOUNTING MANUAL

This accounting manual has been prepared for the guidance of the accounting group of each GENCO operating in Ukraine. The manual is divided into nine (9) section, as follows:

TAB	SECTION
I	Accounting System Organization
II	Chart of Accounts
III	Financial Reporting
IV	Pro Forma Financial Reports in Accordance with International Accounting Standards (IAS)
V	Pro Forma Operating Reports
VI	Principles of Profit Centers and Transfer Pricing
VII	Summary of Differences Between IAS and Administrative Accounting System of Ukrainian (AASU)
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Pagination is made separately by section. These subdivisions will allow for easy reference to the manual and will facilitate additions, deletions and other revisions to any part of the manual.

The following guidelines shall be observed in the proper administration of the manual:

1. The Chief Financial Officer should have primary responsibility over the custody, reproduction and distribution of the manual.

2. Necessary revisions or updates to any portion of the manual should bear final approval of the Chief Financial Officer before they are incorporated in the manual. Each revision should be properly noted as to date revision was made and the effective date of the new account, policy or procedure.

3. A control copy of the manual should be maintained, together with all superseded sections.

STRUCTURE OF THE ACCOUNTING SYSTEM

A. Accounting Standards

The purpose of this accounting manual is to present and describe an accounting system which will accumulate financial information and report such data in accordance with two different basis' of accounting; the statutory basis of accounting with which compliance is currently required, and international accounting standards (IAS).

One of the objectives of an accounting system is to accumulate information about the financial position, results of operations, changes in financial position and cash flows of an enterprise that is useful to the enterprise's management, creditors, investors and others in making economic decisions. The financial information produced by the accounting system relevant to an enterprise's financial status is communicated most effectively and to the widest group of users through the preparation of financial statements. Decisions made by users of the financial statements are based on factors such as an enterprise's ability to generate cash and cash equivalents, the ability to meet its obligations and liabilities, sources of resources to the enterprise and the uses of its resources, the liquidity of the enterprise and known risks and uncertainties the enterprise faces.

Because of the wide range of backgrounds and expectations of the users of the financial statements, maintaining accounting records and preparing financial statements under common accounting and reporting standards is an important objective. The use of common accounting standards is desirable since it gives the financial statement users a universally understood basis with which they are familiar and allows for meaningful comparisons to other enterprises. The use of financial statements as a medium of communication by companies is increasing and it is now recognized that they are a prime source of information for investors, creditors, employees, government agencies and other interested parties. For purposes of analysis and evaluation, international investors and other parties need financial information developed on a basis of accounting and reporting standards that are consistent with generally accepted as international standards which provides a common language for the communication of financial information.

IAS are based on several key principals including the accrual basis of accounting, prudence and going concern status of the enterprise. It is important to understand the underlying principles of IAS to better comprehend the provisions of the standards and the how they are applied in this accounting system. The following section explains some of the underlying premises supporting the development of the IAS.

Accrual basis of accounting

Under the accrual basis of accounting, 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 when the physical receipt or payment of cash takes place, and allows decision makers to evaluate current financial position based on past transactions to date as well as future obligations to pay cash and future sources of cash to be received. The accrual basis of accounting should be used in conjunction with the concept of matching of revenues and associated expenses. This concept requires the recognition of revenues with the costs incurred in generating such revenues in the same period. This method allows the users of financial statements to evaluate the revenues generated in a period and the resources consumed in generating such revenues.

The GENCO's operating in Ukraine should adopt the accrual basis of accounting for all transactions, including all revenue and expense transactions. This applies to all transactions, non-cash as well as cash basis transactions. Accordingly, all transactions should be recording, even those settled through barter transactions.

Prudence

The preparation of financial statements unavoidably involves some degree of reliance on estimates. Estimates are necessary due to the fact that financial statements present information at a point in time and the future outcome of certain information included in such financial statements is uncertain. Examples of estimates used in the preparation of financial statements would include the assigned useful life of a power plant, the collectibility of a customer receivable, the current value of certain inventory items or equipment. The concept of prudence is recognized as exercising of a degree of caution in judgments in forming accounting estimates. This would assist in the goal of neither overstating assets or income nor understating liabilities or expenses. However, the exercise of prudence does not allow, for example, the creation of unnecessary reserves or excessive provisions or the intentional understatement of assets or income, or overstatement of liabilities or expense since this would decrease the reliability of the financial statements.

Going concern enterprise

The financial information should be recorded in the accounting system and reported in the financial statements based on the assumption that the enterprise will continue to operate as a going concern for the foreseeable future. Operating under such an assumption, no transactions are undertaken or contemplated with the intention of liquidating or materially curtailing operations, the results of which could be significantly different if liquidation was a consideration.

B. Responsibility Accounting

The concept of responsibility accounting is incorporated into the structure of the accounting system as documented in this accounting manual for the GENCO's operating in Ukraine. In accordance with this concept, control over sources and uses of the GENCO's resources represents part of the responsibility of the overall management of the GENCO's.

The accounting system should be designed so that managers at various levels of the enterprise who have the ability to oversee and influence operations are able to measure the sources and uses of resources at their oversight level. Hence, the accounting system should be able to provide financial and operating reports on the various groupings of the enterprise's resources and activities that comprise the total resources and activities taken as a whole. Each grouping should be developed based on functional areas of the enterprise and should be assigned to some level of management which will be responsible for monitoring operations of that functional area.

From an organizational perspective, the operations of the enterprise can be broken down into functional areas so as to provide a detailed level of management. An accounting system has to provide information at this same level so as to provide feedback on the effectiveness of management's use of assigned resources. Functional areas can be classified under various categories. As discussed below under Account Coding, we have suggested categories such as divisions and profit (or cost) centers as functional areas to organize assigned areas of responsibility.

The accumulation of revenues, costs and expenses by functional area is performed through the proper use of the account codings, which includes the chart of accounts. Transactions should be coded so that the area responsible for the revenues, costs and expenses is properly identified and accumulated so as to allow for the preparation of operational and financial reports to analyze the results of operations at the functional area level.

C. Account Coding

The account coding methodology is an important component of the accounting system. The account coding provides the structure for the accumulation of financial information which can subsequently be organized for analysis in numerous ways.

The account coding requires the input of financial information into the accounting system through general ledger entries. Each general ledger entry prepared to record a transaction is only entered one time. Each entry is assigned numeric codings for pre-established categories which are designed to capture specific attributes of the transaction. Common categories which management is interested in defining would include divisions or business units, profit centers and cost centers, accounting nature of the transaction, type of company resource involved and project number if the transaction is part of planned construction. Each entry is assigned a numeric coding for each of the pre-established categories.

Once the data has been entered, it is identified by these attributes and it can be aggregated and retrieved by classifications within the categories. This system allows the same financial data to be retrieved under the various categories and analyzing desired by management. This is to say that the financial data captured through one general ledger entry would be retrieved when analyzing divisions; would be retrieved when analyzing profit centers; would be retrieved when analyzing general ledger accounts; would be retrieved when analyzing types of company resources used; and would be retrieved when analyzing project costs.

The analysis of the financial data is performed through the preparation of financial and operating reports. The reports are prepared by automated report writing programs. The report writers retrieve selected information from the accounting records based on the assigned account codings. Some examples of reports could include:

- identify all of the expenses incurred in one division
- identify all of the expenses within one department within the same division identified above
- identify all legal expenses within the company
- identify the total costs incurred in a specific project, such as construction of an asset
- identify the types of costs incurred in the specific project identified above

The development of the account coding is dependent on management's assessment of what information is important in running its business. The following suggested system of account coding has been developed to provide a sufficient level of detail to identify costs by the responsible source and is described as follows:

DIVISION/ COST CENTER/ ACCOUNT NUMBER/ RESOURCE CODE/ PROJECT CODE

The coding would be represented by an account coding sequence: **XX-XXXX-XXXXX-XX-YXXXX**

Each element of the assigned account coding sequence to be recorded with each entry into the accounting system is discussed below.

<u>**Division**</u>

A division should represent a clearly identifiable segment of an enterprise. This distinction could be based on geographic considerations, different lines of business or markets being served.

In the suggested account coding, a two digit code would be assigned to identify each business unit of the GENCO. A business unit would be identified as each generating plant of the GENCO. Additionally, distinctions should be made between the utility operations of each plant and each plant's auxiliary operations.

Example codings would be:

Plant	Division Number	Division Name
Centerenergo		
	01	Centerenergo Headquarters
Uglegorsk		
	10	Uglegorsk - Thermal generating plant
	11	Uglegorsk - Greenhouse
	12	Uglegorsk - Employee housing
Tripolye		
	20	Tripolye - Thermal generating plant
	21	Tripolye - Greenhouse
	22	Tripolye - Employee housing
Zmiev		
	30	Zmiev - Thermal generating plant
	31	Zmiev - Greenhouse
	32	Zmiev - Employee housing

Cost Center

A cost center (or profit center) is identified as an operating group within the company which is responsible for a specific focus of activities. Cost centers are formed to focus management's attention on a grouping of similar operating activities which allows for better control over the assets used, sources and uses of company resources and revenues generated, if any, from these operating activities. All revenues and expenses are captured for each cost center to provide management with a means to evaluate the cost center's performance.

This part of the account coding would allow for the identification of the appropriate cost center which originates a transaction. Example coding would consist of the following:

CODE	COST CENTER
1000	Office of Executive Management
2000	Finance Group
3000	Administrative and General Services Group
4000	Inventories and Procurement Group
5000	Generating Plant Operations Group

Sub-codes to provide further detailed cost centers within the general cost centers identified above would be:

1000	Office of Executive Management
1100	Office of the Executive Director
1200	Legal Counsel
1500	Internal Audit Department
2000	Finance Group
2100	Treasury Department
2110	Budget and Financial Analysis Department
2120	Cash Management Department
2200	Controllership Department
2210	General Ledger Accounting Department
2220	Disbursements Accounting Department
2230	Payroll Accounting Department
2240	Tax Accounting Department
2250	Electronic Data Processing Department
2300	Shareholder Records Section
3000	Administrative and General Services Group
3100	Human Resources Department
3200	Employee Training Department
3300	Office Maintenance Department
3400	Automobile Fleet Operations
4000	Inventories and Procurement Group
4100	Purchasing Department
4200	Fuel Inventory Management
4300	Supplies Warehouse

5000	Generating Plant Operations Group
5100	Plant Operations
5110	Unit 1 Operations
5120	Unit 2 Operations
5200	Engineering Department
5210	Inside Plant Engineering
5220	Outside Plant Engineering
5300	Plant Maintenance
5310	Unit 1 Maintenance
5320	Unit 2 Maintenance
5330	General Plant Maintenance
5400	Plant Administration
5500	Fuel By-products Handling

Account Number

This element of the account coding represents the accounting classification of the components of the transaction as assets, liabilities, equities, revenues or expenses. The account classifications used to describe the nature of the transaction components is based on the prescribed chart of accounts. As discussed below under section "D. Chart of Accounts", the suggested chart of accounts is based on Ukrainian regulations, but also allow for the application of International Accounting Standards.

A summary listing of the chart of accounts with account descriptions is found below. See the account descriptions found in Section II.

The organization of the chart of accounts is summarized as follows:

ACCOUNT NUMBER	CLASSIFICATION
XX1XX	Assets and other debits
XX2XX	Liabilities and other credits
XX3XX	Plant accounts (sub-accounts summarized in account XX101)
XX4XX	Income, other revenue and expense accounts
XX5XX	Operations and maintenance expense accounts (sub-accounts of accounts summarized in account XX400)
XX9XX	Sales, general and administrative expenses (sub-accounts of accounts summarized in account XX400)

The accounts within the account groups listed above for balance sheet accounts are summarized as:

XX100	Utility plant accounts
XX120	Property and investments
XX130	Cash
XX140	Trade accounts receivable and other receivables
XX150	Inventories
XX160	Prepayments
XX200	Proprietary capital
XX220	Long-term debt
XX230	Current liabilities
XX240	Other liabilities
XX300	Intangible plant (subaccounts to account XX100)
XX310	Production plant (subaccounts to account XX100)
XX340	General plant (subaccounts to account XX100)

The accounts within the account groups listed above for income and expenses accounts are summarized as:

XX400	Utility operating income
XX410	Other income
XX420	Other expenses and deductions
XX430	Extraordinary items
XX440	Power sales (subaccounts to account XX400)
XX500	Power generation - operation expenses
XX510	Power generation - maintenance expenses
XX920	Sales, administrative and general expenses

The chart of accounts developed for the use of the GENCO's to account for all of the entity's transactions was designed to meet the objectives of the above listed attributes of accrual basis accounting, responsibility accounting and detailed accounting records. The chart of accounts was designed to allow for conformance with the current accounting standards and reporting requirements mandated by the AASU and to allow for alternative conformance with accounting and reporting standards of the IAS.

The chart of accounts should provide the flexibility to allow for all transactions to be recorded through a single general ledger entry which would then provide the capability to report simultaneously under the AASU or alternatively under the IAS. Financial statements and other reports could then be prepared for either AASU reporting purposes or for IAS reporting purposes.

Resource Code

This element of the account coding allows for designations of expenses by the type of resource consumed in operations. There are a variety of resources used by a electric generating company in the course of its operations. Example codes would include:

MATERIAL CODE	DESCRIPTION
01	Materials
02	Labor - salaries
03	Labor - benefits
04	Outside vendor

The resource code will only be used when recording expense items.

Project Code

The project code has been established in the account coding to provide identification of cost as they are incurred to specific jobs or projects incurring the costs. This is used in conjunction with construction and repair activities. This will allow for costs to be accumulated for each project and provide for comparisons to budgeted activities as well as to accumulate all costs by job for plant accounting purposes. Recording costs by project should also aid in the process of transferring costs of completed projects to property and plant records. The following coding may be used to identify costs for types of projects:

CODE	DESCRIPTION
GXXXX	Generation Plant
DXXXX	Transmission Plant
MXXXX	General Plant

D. Chart of Accounts

The chart of accounts has been established to accumulate detailed information on all transactions and balances and properly classify assets, liabilities, equity, income and expenses. Each account described in the chart of accounts is represented by a five digit number which is based on Ukrainian accounting regulations.

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The first two digits of the account number will represent the appropriate account number that would be assigned to a transaction or balance in accordance with the Administrative Accounting System of Ukraine. The account descriptions prescribed under the Administrative Accounting System of Ukraine will continue to be complied with as is required by law and will remain valid account classifications under this chart of accounts.

The last three digits of the account number will provide further classifications of transactions to better summarize financial position and results of operations. This chart of accounts will provide expanded detail on various balance sheet accounts and for most income and expense accounts. The additional detail will be useful in preparing operational reports and preparing financial statements in accordance with International Accounting Standards.

As an example, Account 01312 - Boiler Plant Equipment would be used to record the balance of equipment comprising the boiler plant, as well as changes for additions and retirements of such equipment. This account code would still be in conformity with the Administrative Accounting System of Ukraine since this equipment would be properly classified in Account 01 - Fixed Assets, and the additional digits in the account code (as described above) provide a more detailed description of transactions for management's operational and reporting purposes.

As another example, Account 20501 - Fuel Expense would be used to record the cost of fuel burned for the generation of electricity. This account code would still be in conformity with the Administrative Accounting System of Ukraine since the consumption of fuel in the production of electricity would be properly classified in Account 20 - Basic Production, and the additional digits in the account code (as described above) provide a more detailed description of transactions for management's operational and reporting purposes.

Each summary and detail account in the chart of accounts is described later in this section.

Each account in the chart of accounts has additionally been classified in the accounting system as a monetary or nonmonetary account for the purpose of revaluations. Section IX of this manual discusses the accounting policies to be applied to the accounts in accordance with International Accounting Standard Number 29 - Accounting in a Hyperinflationary Economy. In Accordance with IAS 29, monetary accounts would not require revaluation since they are already reported in the currency's current value. However, nonmonetary assets would be revalued based on a general price index, and net monetary gains and/or losses would be reflected in the income statements.

E. General ledger and subsidiary records

An accounting system should rely on a system of recordkeeping such that all transactions are recorded through the use of books of original entry (subsidiary journals) and books of final entry (general ledgers). The general ledger should be used as the book of final entry for the accounting records. Subsidiary ledgers and records should be created to maintain detailed information on transactions which should include journals for specific types of transactions. Transactions that are posted to the general ledger should be approved and should originate from an authorized source. Authorized sources would generally include the subsidiary journals which capture the detail on related transactions and which are posted in total to the general ledger for an accounting period.

Journal vouchers should be used when posting transactions to the general ledger and should use standard numbers to provide more control over general ledger record entries. A proposed standard numbering system could follow the following:

JOURNAL VOUCHER NUMBER	TRANSACTION TYPE	SOURCE JOURNAL
01	Cash received during the month	Cash receipts register
02	Cash disbursed during the month	Cash disbursements register
03	Settlement of barter transactions	Barter transaction schedules
04	Accounts payable	Purchase register
05	Depreciation/amortization	Dep./amort. schedules
06	Property and plant additions and retirements	Property records
07	Payroll	Payroll register
08	Loans and interest payable	Loan schedules
09	Other accruals	Accruals schedules
10	Fuel inventories, receipts and usage in electric production	Fuel inventory registers and plant operating reports

Journal vouchers should be approved and signed by the originating party prior to entering into the general ledger. All journal vouchers should be entered and reviewed for accuracy. After all postings of entries to the general ledger have been performed, ending account balances are determined and a trial balance should be prepared. A trial balance is a key document and component of the accounting system which is used to determine that the general ledger is in balance and to prepare financial statements.

All posting of transactions in the general ledger should be properly documented by supporting documentation. In response to the requirements for audits of the financial statements in the future, audit trails should be established which allow reviewers to trace entries in the general ledger to the supporting documentation. This is accomplished by assigning each posting to the general ledger a number. The standard number for the journal voucher, as discussed above, would be used along with some other sequence of numbers. For instance, the month may be used as the first two digits, , along with a running list of sequentially numbered entries, in the numbering scheme assigned to general ledger postings. As an example, when the monthly total from the cash receipts register is recorded in the general ledger, and it is the 212th entry in the general ledger for the month of May the number assigned to the entries would be "050100212".

F. Reports to be Prepared from the Accounting System

The reports produced by an accounting system are based upon management's judgment on what information it considers to be important and what information it needs to make knowledgeable decisions to best run its business, as well as required information to be reported including financial reports required to be filed with the government. The reports produced from the accounting system can be prepared to serve many purposes including planning, monitoring performance, evaluating operating statistics, comparing to prior periods and to established standards, reporting to the government and other outside parties, evaluating financial ratios, monitoring inventory levels and other purposes.

The development of reports can be subjective and tailored to meet the needs of the users. The primary users should if possible be included in the development of the reports to obtain their input on what information is desired to be accumulated and in what format. But the designers must recognize that there are limitations on resources and staff time in developing and preparing the reports on a recurring basis, so only the truly valuable reports should be developed.

Depending on the nature of each report, the preparation of these reports will rely on methodologies such as automated report writers which obtain data from the computerized accounting system and input such data into reporting formats and manually prepared reports which require information to be manually obtained from sources and input into the reporting format. The following section discusses some of the typical reports prepared by western utilities for use in operations.

Budget reports

One of the primary tools used in planning and in evaluating operational performance is through the preparation of budget reports. Budget reports establish management's best estimates of future results and performance for a period. These reports are used to plan for future resource needs and expected receipts of resources and for monitoring of actual results of operations. Budgets are useful since they highlight when actual results of operations differ from the expected results which allows management to focus on areas of potential difficulties and where corrective actions should be taken.

The actual format of budget reports can be formatted to meet the specified purposes. Budgets are used for many purposes such that they can be prepared at a high level and include the enterprise as a whole; they can be prepared at a detailed level so as to provide guidance to profit center managers; they can cover expected income and expense for the year; they can cover expected expenditures for plant construction; they can cover expected sources, uses and levels of cash at points during the year; and they can be used to estimate fuel usages at certain times during the year in order to help plan for fuel purchases and cash needs.

Operating reports

Operating reports are prepared to communicate the results of operations for a period to management responsible for overseeing the operations. Such information is valuable in that it summarizes the sources and uses of resources and management's effective use of such resources.

Operating reports are used for many purposes such that they can be prepared at a high level and include the operations of the enterprise as a whole; they can be prepared at a detailed level so as to provide data on the performance of a single profit center; they can provide statistics on various aspects of operations useful in highlighting performance and use of operating assets; and provide financial ratios relevant to evaluating the enterprise's financial status.

See examples of electric generating company operating reports at Section V.

Financial statements

A key component of the accounting system will be output generated in the form of financial statements. There in recognition of the various reporting responsibilities, there will be several different sets of financial statements each of which will be created for a specific purpose. The GENCO's will have several different reporting requirements which would include financial statements prepared for tax authorities and statistical agencies; financial statements prepared in accordance with International Accounting Standards; financial statements prepared for regulators; and financial statements prepared for internal purposes. Each set of financial statements will have different functions and the basis of their preparation and their content will depend on the standards which are required to be complied with in the preparation of the financial statements. The following list consists of different sets of financial statements that should be prepared for the different users based on their requirements:

* Also see Section III for further comments regarding the preparation of financial statements an the frequency of their preparation.

- Administrative Accounting System of Ukraine (AASU)

The financial statements prepared in accordance with the requirements of the AASU are the financial statements that are currently required to be prepared and filed with the government. The management of the generating plants and the GENCO's are very familiar with the accounting and reporting requirements of the AASU, which are used primarily for tax reporting and statistical reporting purposes. These financial statements are still required and the GENCO's should continue preparing and filing these mandatory reports.

- International Accounting Standards (IAS)

IAS Standard No. 5 and No. 7 provide the basic requirements for the information and components to be included in financial statements prepared in accordance with IAS. The IAS financial statements require a balance sheet, an income statement a statement of cash flows, changes in shareholders' equity and explanatory notes to accompany the statements.

Due to the differences in accounting standards of IAS and the AASU, preparation of IAS financial statements will require the use of certain specified separate accounts that are only used for IAS purposes. See further comments on IAS accounting and reporting in Sections VII, VIII and IX.

See example set of financial statements that would generally meet the reporting requirements of IAS at Section VI.

- National Electricity Regulatory Commission (NERC)

Regulatory bodies often require information from companies under its jurisdiction which is prepared on a basis that will meet specified needs for that industry. This may result in situations where financial statements are prepared on a basis of accounting or reporting that differs from the basis used to prepare its financial statements in accordance with generally accepted accounting principles, which in this case would by AASU. As of the date of the preparation of this accounting manual, the NERC had not yet issued any standards of reporting. When, or if, such standards are promulgated, the generating plants and the GENCO's will have to determine whether its financial statements as currently prepared are in compliance with the NERC requirements and made revisions as is necessary in order to achieve such compliance.

- Internal financial statements

Companies often have their own needs for financial statements and related information to be used within the company in managing their business. This information is often needed on a more timely basis than that of the financial statements filed with the government or other parties which may be only required on a quarterly or annual basis. Due to the fact that these financial statements are only used for management purposes, they can be developed on whatever basis management decides best serves their purposes. Formats could duplicate the IAS or AASU formats exactly or they could be condensed versions of these external financial statements which summarize the same basic information.

Due to the general requirement that the internal financial statements be produced on a timely basis, the preparation of the statements may include a greater use of estimates than would be included in financial statements prepared for external parties. Certain items in the external financial statements may be subject to a the accumulation of detail information from which accounting estimates are made. For purposes of the internal financial statements prepared on a more timely basis, such as monthly, the accounting estimates may be based more on judgment and less on detailed information which may be too time consuming.

As discussed above, under Operating Reports, reports may be prepared on the basis of a profit center. This could include financial statements which would include revenues generated by the profit center and expenses incurred or assigned to the same unit and this would provide a measurement of profitability of operations during a period for that profit center.

The chart of accounts has been developed to accumulate and report financial information most relevant to an electric generating company. The assigned account numbering sequence has been organized in a structure that is based on the format for financial statement presentation. The account numbering sequence begins with asset accounts, which are followed by liability accounts, which are followed by detailed electric plant sub-accounts, which are followed by income statement accounts, which are followed by retained earnings activity accounts, and which are finally followed by detailed operating revenue and expense sub-accounts. This ordering of accounts follows the line items as they appear in the financial statements.

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, and this account number sequencing is intended to mirror the format of the financial statement presentation. The first two digits of the account number represent the account number assigned under the Administrative Accounting System of Ukraine (AASU). As discussed in section 1 - Structure of the Accounting System, the account descriptions under the AASU have been kept consistent with the account descriptions under this new chart of accounts. While the first two digits have been included to allow for reporting purposes in accordance with AASU regulations, their number sequencing has not determined the organization of this new chart of accounts.

Asset Accounts

The assets accounts begin with the XX100 series and start with the electric plant accounts, related construction accounts and other plant related accounts. These assets are included first since they are included first in chart of accounts for western utility companies. They appear first to correspond to financial statements of western utility companies which generally include these items on the balance sheet first due to this being the focus of utility companies' investments. These 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 is due to the generalized practice by western utilities which places these items first on the liabilities and owners' equity portion of the balance sheet. This placement is made 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 and so these accounts are placed first to match the position of the corresponding electric plant accounts in the balance sheet.

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.

Income Statement Accounts

The chart of accounts now moves to the XX400 series of accounts to report income statement related accounts. The beginning of the XX400 series of accounts starts with utility operating income accounts. This group includes the utility operating revenues account, which is followed in sequence by operating expense accounts, which are followed by maintenance expense accounts, which are followed by depreciation expense accounts, and which are followed by utility related income taxes and other taxes. 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 utility business, and is also referenced to mean the utility's cost of service for electric generation and sales. These accounts appear at the top of the income statement since they summarize the utility company's primary line of business and so it is 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 generation. These items would appear on the lower part of the income statement and cover such activities as other nonutility related revenues and expenses, interest expenses and extraordinary items, if applicable.

These accounts are then followed the account that records changes in retained earnings from earnings. The net profit or loss for the period, which results from the net operating activities recorded in the income statement accounts described above, would be recorded in this account before being closed to the retained earnings balance sheet account.

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 electric generation sales 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.

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

Account Number	Account Title
	ASSETS AND OTHER DEBITS
	Utility Plant and Equipment
01101	Electric Plant in Service
01103	Experimental Electric Plant
01105	Electric Plant Held For Future Use
01118	Other Utility Plant
02108	Accumulated Provision for Depreciation of Electric Utility Plant
02111	Accumulated Provision for Amortization of Electric Utility Plant
02119	Accumulated Provision for Depreciation and Amortization of Other Utility Plant
07107	Construction Work In Progress - Equipment Not Installed
08101	Spare Parts
11102	Property Under Capital Lease
33106	Completed Construction Not Classified
33107	Construction Work In Progress - Capital Expenditures
	Other Property and Investments
01121	Non-Utility Property
02122	Accumulated Provision for Depreciation/Amortization of Non-Utility Property
58123	Long-Term Financial Investments - Investment in Associated Companies
58124	Long-Term Financial Investments - Other Investments
78145	Notes Receivable From Associated Companies
78146	Receivables From Associated Companies
	Current and Accrued Assets
05154	Plant Materials and Operating Supplies
05156	Other Materials and Supplies
06151	Fuel Stock
09155	Livestock - Reared and Fattened
10156	Seeds and Fodder
12156	Other Materials and Supplies - Low Value and Short-Term Assets
12174	Miscellaneous Current and Accrued Assets
13119	Accumulated Provision for Depreciation and Amortization of Other Materials and Other Current Assets
14151	Fuel Stock - Revaluations
14154	Plant Materials and Operating Supplies - Revaluations

Account Number	Account Title
	Current and Accrued Assets (Continued)
14156	Other Materials and Supplies - Revaluations
21155	Merchandise - Semi-Finished Goods
30107	Non-Major Construction Work-In Progress
31165	Deferred Charges - Prepayments
35151	Livestock - Main Herd
36155	Merchandise - Completed Stages of Unfinished Projects
40155	Merchandise - Finished Products
41155	Merchandise - Purchased Goods
42174	Trade Mark-Ups and Discounts on Purchases
44174	Distribution Costs - Clearing
45155	Merchandise - Goods and Services Delivered
50131	Petty Cash
51131	Cash in Bank Account - Local Currency
52131	Cash in Bank Account - Foreign Currency
54134	Special Deposits - Capital Investments
55128	Other Special Funds
55132	Special Deposits - Interest
55133	Special Deposits - Dividends
56136	Temporary Monetary Investments
58136	Short-Term Investments
59131	Bank Drafts Accepted
61165	Prepayments
62142	Customer Accounts Receivable
63143	Other Receivables - Claims
71165	Expense Advances
73143	Other Accounts Receivable - Employees
76143	Other Accounts Receivable - Debtors and Creditors
76171	Interest and Dividends Receivable
76172	Rents Receivable
89144	Accumulated Provision for Uncollectible Accounts - Credit
45000	Goods and Services Delivered - UAS Only
62000	Trade Customer Accounts Receivable - UAS Only
89000	Accumulated Provision for Uncollectible Accounts - Credit - UAS Only
00144	Accumulated Provision for Uncollectible Accounts - Credit - IAS Only
00173	Accrued Utility Revenues - IAS Only

Deferred Debits

31186	Deferred Charges
72186	Undistributed Shortages and Losses
00186	Deferred Charges - IAS Only
00190	Accumulated Deferred Profit Taxes - IAS Only

Account Number	Account Title
	LIABILITIES AND OTHER CREDITS
	Proprietary Capital
85201	Common Stock Issued
85207	Premium on Capital Stock
85208	Donations Received From Stockholders
85211	Miscellaneous Paid-In Capital
85213	Discount on Capital Stock
85214	Capital Stock Expense
86215	Appropriated Retained Earnings - Depreciation Fund
87215	Appropriated Earnings - Economic Incentive Funds
88209	Revaluation Surplus
88215	Appropriated Retained Earnings - Special Funds
98216	Unappropriated Retained Earnings
98000	Unappropriated Retained Earnings - UAS Only
00216	Unappropriated Retained Earnings - IAS Only
	Long-Term Loans
92224	Long-Term Bank Loans
95221	Bonds
95224	Other Long-Term Debt
95225	Unamortized Premium on Long-Term Debt
95226	Unamortized Discount on Long-Term Debt - Debit
99253	Obligations under Capital Leases
	Other Non-Current Liabilities
62235	Customer Deposits
83253	Other Deferred Credits
89228	Accumulated Miscellaneous Operating Provisions
00255	Accumulated Deferred Profit Taxes - Noncurrent - IAS Only
	Current and Accrued Liabilities
60232	Accounts Payable
65236	Accrued Taxes Other than Payable to Budget
66131	Bank Drafts Issued

Account Number	Account Title
	Current and Accrued Liabilities (Continued)
68236	Accrued Taxes Payable to Budget
68241	Tax Collections Payable
69232	Accounts Payable - Social Insurance and Security and Private Insurers
70232	Accounts Payable - Staff Salaries
75238	Dividends Declared
76237	Interest Accrued
76242	Miscellaneous Current and Accrued Liabilities - Settlements
78233	Notes Payable to Associated Companies
78234	Payables to Associated Companies
79234	Settlements between Associated Companies - UAS Only
90231	Notes Payable
94231	Short-Term Loans - Financing of Main Herd
97242	Short-Term Bank Loans on Behalf of Employees
00255	Accumulated Deferred Profit Taxes - Current - IAS Only

Account Number	Account Title
	ELECTRIC PLANT ACCOUNTS
	(Sub-accounts of Account 01101 - Electric Plant In Service and Account 11102 - Property Under Capital Lease, as appropriate)
	Intangible Plant Assets
04301	Organization Costs
04302	Franchises and Consents
04303	Miscellaneous Intangible Plant
	Generation Plant Assets
01310	Land and Land Rights - Electric Plant
01311	Structures and Improvements - Electric Plant
01312	Boiler Plant Equipment
01313	Engines and Engine-Driven Generators
01314	Turbogenerator Units
01315	Accessory Electric Equipment
01316	Miscellaneous Power Plant Equipment
	Other Generation Plant Assets
01340	Fuel Storage and Handling Equipment
01341	System Control and Load Dispatching Equipment
	General Plant Assets
01389	Land and Land Rights - General Plant
01390	Structures and Improvements - General Plant
01391	Office Furniture and Equipment
01392	Transportation Equipment
01393	Stores Equipment
01394	Tools and Shop Equipment
01395	Laboratory Equipment
01396	Power Operated Equipment
01397	Communications Equipment
01398	Miscellaneous Equipment

Account Number	Account Title
	REVENUE AND EXPENSE ACCOUNTS
	Utility Operating Income
20401	Operation Expense - UAS Only
25402	Maintenance Expense - UAS Only
25403	Depreciation Expense - UAS Only
25405	Amortization of Other Utility Plant - UAS Only
46400	Operating Revenue - UAS Only
46401	Cost of Electric Service Provided - UAS Only
46414	Other Utility Operating Income
81408	Taxes Other than Profit Tax, Utility Operations
81409	Profit Taxes, Utility Operations
00400	Accrued Operating Revenues - IAS Only
00401	Accrued Operation Expense - IAS Only
00402	Accrued Maintenance Expense - IAS Only
00403	Accrued Depreciation Expense - IAS Only
00405	Accrued Amortization of Other Utility Plant - IAS Only
00410	Provision for Deferred Profit Taxes, Utility Operations - IAS Only
	Other Income and Deductions
23418	Expenses of Non-Utility Operations - Auxiliary Operations
28418	Expenses of Non-Utility Operations - Rejected Production
29418	Expenses of Non-Utility Operations - Associated Services
43416	Sales Expenses - Non-Utility
46415	Revenues from Contract Work - Utility
46417	Revenues from Non-Utility Operations
46419	Interest and Dividend Income
46450	Cost of Goods and Services Delivered - UAS Only
47410	Sale of Fixed Assets
48410	Sale of Other Assets
80421	Other Income
80422	Other Deductions - Taxable
81422	Other Deductions - Non-Taxable
81423	Taxes Other than Profit Tax, Non-Utility Operations
81424	Profit Taxes, Non-Utility Operations
81426	Donations

Account Number	Account Title
	Other Income and Deductions (Continued)
00415	Revenue from Contract Work - Utility - IAS Only
00417	Revenues from Non-Utility Operations - IAS Only
00418	Expenses of Non-Utility Operations - IAS Only
00425	Provision for Deferred Profit Taxes, Non-Utility Operations - IAS Only
	Interest Charges
80427	Interest on Long-Term Debt
80428	Amortization of Debt Discount
80429	Amortization of Premium on Debt - Credit
80431	Other Interest Expense
	Extraordinary Items
80434	Extraordinary Income
80435	Extraordinary Deductions
	RETAINED EARNINGS
80433	Balance Transferred from Income
80000	Balance Transferred from Income - UAS Only
00433	Balance Transferred from Income - IAS Only

Account Number	Account Title
	OPERATING REVENUE ACCOUNTS
	(Sub-accounts of Account 46400 - Operating Revenue)
	Sales of Power
46440	Residential Sales - UAS Only
46441	Energy Sales to Power Pool - UAS Only
46442	Commercial and Industrial Sales - UAS Only
46445	Other Sales to Public Authorities - UAS Only
46446	Sales to Railroads and Railways - UAS Only
00440	Accrued Residential Sales - IAS Only
00441	Accrued Energy Sales to Power Pool - IAS Only
00442	Accrued Commercial and Industrial Sales - IAS Only
00445	Accrued Other Sales to Public Authorities - IAS Only
00446	Accrued Sales to Railroads and Railways - IAS Only
	OPERATION AND MAINTENANCE EXPENSES
	Power Generation - Operation
	(Sub-accounts of Account 20401 - Operation Expense)
20500	Operation - Supervision and Engineering - UAS Only
20501	Fuel Expense - UAS Only
20502	Steam Expenses - UAS Only
20505	Electric Expenses - UAS Only
20506	Miscellaneous Steam Power Expenses - UAS Only
20556	System Control and Load Dispatching Expenses - UAS Only
00500	Operation - Supervision and Engineering - IAS Only
00501	Fuel Expense - IAS Only
00502	Steam Expenses - IAS Only
00505	Electric Expenses - IAS Only
00506	Miscellaneous Steam Power Expenses - IAS Only
00556	System Control and Load Dispatching Expenses - IAS Only

Account Number	Account Title
	Power Generation - Maintenance
	(Sub-accounts of Account 25402 - Maintenance Expense)
25510	Maintenance - Supervision and Engineering - UAS Only
25511	Maintenance of Structures - UAS Only
25512	Maintenance of Boiler Plant - UAS Only
25513	Maintenance of Electric Plant - UAS Only
25514	Maintenance of Miscellaneous Steam Plant - UAS Only
00510	Maintenance - Supervision and Engineering - IAS Only
00511	Maintenance of Structures - IAS Only
00512	Maintenance of Boiler Plant - IAS Only
00513	Maintenance of Electric Plant - IAS Only
00514	Maintenance of Miscellaneous Steam Plant - IAS Only
	GENERAL AND ADMINISTRATIVE EXPENSES
	General and Administrative Expenses - Operation
	(Sub-accounts of Account 20401 - Operation Expense)
26902	Meter Reading Expenses - UAS Only
26903	Customer Records and Collection Expenses - UAS Only
26904	Uncollectible Accounts - UAS Only
26908	Customer Assistance Expenses - UAS Only
26920	General and Administrative Salaries Expense - UAS Only
26921	Office Supplies and Expenses - UAS Only
26923	Outside Services Employed - UAS Only
26924	Property Insurance - UAS Only
26925	Injuries and Damages - UAS Only
26928	Regulatory Commission Expenses - UAS Only
26930	Miscellaneous General Expenses - UAS Only
26931	Rent Expenses - UAS Only
26933	Transportation Expenses - UAS Only
43912	Sales Expense - Utility - UAS Only
00902	Meter Reading Expenses - IAS Only
00903	Customer Records and Collection Expenses - IAS Only
00904	Uncollectible Accounts - IAS Only
00908	Customer Assistance Expenses - IAS Only

Account Number	Account Title
	General and Administrative Expenses - Operation (Continued) (Sub-accounts of Account 20401 - Operation Expense)
00912	Selling Expenses - Utility - IAS Only
00920	General and Administrative Salaries Expense - IAS Only
00921	Office Supplies and Expenses - IAS Only
00923	Outside Services Employed - IAS Only
00924	Property Insurance - IAS Only
00925	Injuries and Damages - IAS Only
00928	Regulatory Commission Expenses - IAS Only
00930	Miscellaneous General Expenses - IAS Only
00931	Rent Expenses - IAS Only
00933	Transportation Expenses - IAS Only
	General and Administrative Expenses - Maintenance (Sub-accounts of Account 25402 - Maintenance Expense)
26935	Maintenance of General Plant - UAS Only
00935	Maintenance of General Plant - IAS Only

01101 Electric Plant in Service

This account should include the original cost of electric plant, included in detail sub-accounts 301 to 349, owned and 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.

01105 Electric Plant Held For Future Use

This account should include the original cost of electric plant (except land and land rights) owned and held for future use in electric service under a definite plan for such use.

01118 Other Utility Plant

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

01121 Non-Utility Property

This account 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.

01310 Land and Land Rights - Electric Plant

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

01311 Structures and Improvements - Electric Plant

This account should include the cost in place of structures and improvements used in connection with 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

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

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

01314 Turbogenerator Units

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

01315 Accessory Electric Equipment

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

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.

01340 Fuel Storage and Handling Equipment

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.

01341 System Control and Load Dispatching Equipment

This account should include the cost of switching equipment, equipment for controlling system voltages and other equipment used for system control and load dispatching.

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, resthouses, 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.

02108 Accumulated Provision for Depreciation of Electric Utility Plant

A. This account should be credited with the following:

- Amounts charged to account 25403, 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 property, amount of salvage value and any other amounts recovered, such as insurance.

B. At the time 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.

C. For general ledger and balance sheet purposes, this account should be regarded and treated as a single composite provision for depreciation. For purposes of analysis, however, the utility should maintain subsidiary records to show: (a) the amount of accrual for depreciation; (b) book cost of property retired; (c) cost of removal; (d) salvage; and (e) other items, including recoveries from insurance.

02111 Accumulated Provision for Amortization of Electric Utility Plant

A. This account should credited with the following:

1.) Amounts charged for amortizations expense on property included in account 01105, electric plant held for future use.

2.) Amounts charged to account 25405, amortization of other utility plant.

B. 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 47421, sale of fixed assets.

02119 Accumulated Provision for Depreciation and Amortization of Other Utility Plant

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

02122 Accumulated Provision for Depreciation and Amortization of Non-Utility Property

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

04301 Organization Costs

A. 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.

B. 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.

C Costs should include:

- Cost of obtaining certificates authorizing an enterprise to engage in the public-utility business.
- Fees and expenses incurred during the process of incorporation.
- Office expenses incident to organizing the utility.

04302 Franchises and Consents

A. This account should include amounts paid to the any government agency in consideration for franchises and other licenses and consents, running in perpetuity or for a specified term or more than one year, together with necessary and reasonable expenses incident to procuring such franchises and consents, including organizing and merging separate corporations, where statutes require, solely for the purpose of acquiring franchises.

B. Annual or other periodic payments under franchises should not be included herein but in the appropriate operating expense account.

04303 Miscellaneous Intangible Plant

A. 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.

B. When any item included in this account is retired or expires, the book cost thereof should be credited hereto and charged to account 80422, other deductions - taxable, account 81422, other deductions - non-taxable, or account 02111, accumulated provision for amortization of electric utility plant, as appropriate.

05154 Plant Materials and Operating Supplies

A. This account 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.

05156 Other Materials and Supplies

This account should include the book cost of materials and supplies held primarily for nonutility purposes. The principles prescribed in accounting for utility materials and supplies (see description of principles in account 05154) should be similarly followed with respect to items carried in this account.

06151 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.

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07107 Construction Work In Progress - Equipment Not Installed

A. This account should include the total cost of materials and equipment acquired for construction of electric plant and utility plant assets.

B. This account should include the total cost of equipment included as part of the balances of work orders for electric plant in process of construction, which includes the cost of materials and equipment. Work orders should be cleared from this account as soon as practicable after completion of the job.

08101 Spare Parts

This account should include the total cost of spare parts acquired for future use in the repair, betterment or maintenance of electric plant assets. Spare parts removed from inventories should be credited to this account for the unit book value and such costs should be charged to maintenance expense or capitalized as electric plant, as appropriate based on the nature of the use of the spare parts.

09155 Livestock - Reared and Fattened

This account should include the cost of young animals acquired and belonging to the enterprise.

Young animals transferred to the main herd should be accounted for as a credit to this account and a debit to account 35151, livestock - main herd.

Expenses of the breeding and feeding of such animals should be accounted for under account 23418, expenses of non-utility operations.

10156 Seeds and Fodder

This account should include the cost of seeds and fodder acquired for use in non-utility enterprises for the growing of crops for use of the enterprise or for sale to other parties.

11102 Property under Capital Lease

This account should include the amount recorded under capital leases for plant leased from others and used by the utility in its utility operations. The electric property included in this should be classified separately according to the detailed sub-accounts (301 to 398) prescribed for electric plant in service.

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

This account should include the book cost of materials and supplies of little value and quick-wearing. The principles prescribed in accounting for utility materials and supplies should be similarly followed with respect to items carried in this account.

12174 Miscellaneous Current and Accrued Assets

This account 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.

13119 Accumulated Provision for Depreciation and Amortization Of Other Materials and Other Current Assets

This account should include the accumulated provision for depreciation and amortization applicable to other materials and other current assets.

14151 Fuel Stock - Revaluations

This account should accumulate revaluations of certain fuel stock assets of the utility. Such revaluations should be made periodically and should reflect when the current value of fuel stocks is considered to be of an amount which differs from its recorded book value based on an assessed increase or decrease in the asset's value. Detailed records of revaluations should be maintained so that future adjustments to the assets' book value and prior revaluations may be properly recorded.

14154 Plant Materials and Operating Supplies - Revaluations

This account should accumulate revaluations of plant materials and operating supplies assets of the utility. Such revaluations are made when the current value of such assets is considered to be of an amount which differs from its recorded book value based on an assessed increase or decrease in the asset's value. Detailed records of revaluations should be maintained so that future adjustments to the assets' book value and prior revaluations may be properly recorded.

14156 Other Materials and Supplies - Revaluations

This account should accumulate revaluations of certain other materials and supplies assets of the enterprise. Such revaluations are made when the current value of such assets is considered to be of an amount which differs from its recorded book value based on an assessed increase or decrease in the asset's value. Detailed records of revaluations should be maintained so that future adjustments to the assets' book value and prior revaluations may be properly recorded.

20401 Operation Expense - UAS Only

Under this caption, there should be shown the total amount included in the electric operation expense accounts as described in accounts 20500 - 20556.

20500 Operation - Supervision and Engineering - UAS Only

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 - UAS Only

A. 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. Records should be maintained to show the quantity, fuel quality content and cost of each type of fuel used.

B. The cost of fuel should be charged initially to account 06151, Fuel Stock, and clears 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.

C. Costs should include:
Supervision of the purchasing and handling of fuel, fuel quality analysis, unloading of fuel delivered to the plant, movement of fuel within the plant and invoiced cost of fuel (see A. and B. above).

20502 Steam Expenses - UAS Only

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.

Costs should include:
Supervision of steam production, operating boiler equipment, operating ash collection and disposal equipment and materials used in the above noted operations.

20505 Electric Expenses - UAS Only

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:
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 - UAS Only

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.

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20556 System Control and Load Dispatching Expenses - UAS Only

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.

21155 Merchandise - Semi-Finished Goods

This account should include the book cost of semi-finished goods being produced by the enterprise primarily for merchandising and contract work. The principles prescribed in accounting for plant materials and supplies (see descriptions in account 05154) should be observed in respect to items carried in this account.

23418 Expenses of Non-Utility Operations - Auxiliary Enterprises

This account 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.

25402 Maintenance Expense - UAS Only

There should be shown under this caption the total amount included in the electric maintenance expense accounts provided herein, see accounts 25510 through 25514.

25403 Depreciation Expense - UAS Only

A. This account should include the total amount of depreciation expense for all classes of depreciable electric plant in service.

B. 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.

25405 Amortization of Other Utility Plant - UAS Only

This account should include the total charges for amortization of other electric utility plant assets.

25510 Maintenance - Supervision and Engineering - UAS Only

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 - UAS Only

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 - UAS Only

A. 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 312, boilers plant equipment.

B. For the purpose of making charges hereto and to account 25513, maintenance of electric plant, the point at which steam plant is distinguished from electric plant is defined as follows:

(1) Inlet pipe of throttle valve and steam extraction lines on prime mover.
(2) Pump outlet on condensate lines.
(3) Inlet pipe of all turbine-room auxiliaries.
(4) Connection to line side of motor starter for all boiler plant equipment.

25513 Maintenance of Electric Plant - UAS Only

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, 01 314, turbogenerator units, and 01315, accessory electric equipment.

25514 Maintenance of Miscellaneous Steam Plant - UAS Only

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

26902 Meter Reading Expenses - UAS Only

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 - UAS Only

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 - UAS Only

This account should be charged with amounts sufficient to provide for losses from uncollectible utility revenues. Concurrent credits should be made to the accounts 89144, 89000 and 00144, the three accounts used for accumulated provisions for uncollectible accounts, as appropriate.

26908 Customer Assistance Expenses - UAS Only

This account should include the cost of labor, materials used and expenses incurred in providing assistance to customers to encourage the safe, efficient and economical use of the utility's service.

26920 General and Administrative Salaries Expenses - UAS Only

A. 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 orations and not chargeable directly to particular operating function.

B. This account may be subdivided in accordance with a classification appropriate to the department or other functional organization of the utility.

26921 Office Supplies and Expenses - UAS Only

A. 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.

B. This account may be subdivided in accordance with a classification appropriate to the department or other functional organization of the utility.

C. 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.

26923 Outside Services Employed - UAS Only

A. 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.

B. 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 - UAS Only

A. 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.

B. 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.

C. Records should be kept so as to show the amount of coverage for each class of insurance carried, the property covered, and the applicable premiums. Any dividends distributed by mutual insurance companies should be credited to the accounts to which the insurance premiums were charged.

26925 Injuries and Damages - UAS Only

A. 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.

B. 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.

26928 Regulatory Commission Expenses - UAS Only

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 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 - UAS Only

This account 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 - UAS Only

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.

26933 Transportation Expenses - UAS Only

This account should include the cost of labor, materials used and expenses incurred in the operation and maintenance of genera transportation equipment of the utility.

26935 Maintenance of General Plant - UAS Only

This account should include the cost assignable to sales, general and administrative functions of labor, materials used ad expenses incurred in the maintenance or property, the book cost of which is includible in detailed general plant sub-accounts 310 through 316.

28418 Expenses of Non-Utility Operations - Rejected Production

This account 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 which result in rejected units of production.

29418 Expenses of Non-Utility Operations - Associated Services

This account 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. Specifically, this would include production units and facilities whose activities are not connected with the production efforts of the enterprise's main line of business, electricity production. This account may reflect the expenses of the following units of the enterprise:

- housing facilities
- dining facilities
- pre-school institutions
- sanitoriums
- other institutions of cultural and social purposes.

30107 Non-Major Construction - Work in Progress

This account should include the costs of construction of non-major projects. Such costs should include labor, materials and supplies used in construction.

31165 Deferred Charges - Prepayments

This account 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.

31186 Deferred Charges

This account should include all debits not elsewhere provided for, such as miscellaneous work in progress, undistributed balances in clearing accounts at the date of the balance sheet and other debit balances, the proper final disposition of which is uncertain.

33106 Completed Construction Not 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 clears as construction costs are finalized and can be transferred to appropriate fixed asset accounts.

33107 Construction Work In Progress - Capital Expenditures

A. This account should include the total of the balances of work orders for electric plant in process of construction.

B. Work orders should be cleared from this account as soon as practicable after completion of the job.

35151 Livestock - Main Herd

This account should include the cost of livestock acquired in forming the main herd of the enterprise. This account should include the cost associated with the transfer of young animals transferred to the main herd which had been accounted for in account 09155, livestock - reared and fattened, and animals acquired from other enterprises for addition to the main herd.

36155 Merchandise - Completed Stages of Unfinished Projects

This account should include the book cost of materials and supplies, labor and other expenses incurred in the production of merchandise for sale which are in the completion but unfinished stage of production.

40155 Merchandise - Finished Products

This account should include the book cost of materials and supplies, labor and other expenses incurred primarily for merchandising and contract work. This should include production cost of finished products manufactured by the enterprise.

41155 Merchandise - Purchased Goods

This account should include the book cost of materials acquired and held as goods for sale. The principles prescribed in accounting for utility materials and supplies should be similarly followed with respect to items carried in this account.

42174 Trade Mark-Ups and Discounts on Purchases

This account should include the additional costs or discounts of trade margins on commodities acquired. The sums of additional costs or discounts should be reversed from the account in cases of goods sold or written off as a consequence of spoilage, damage, shortage, etc., in proportion to the goods realized.

43416 Sales Expenses - Non-Utility

This account should include expenses connected with the sales of products and services as part of the enterprise's auxiliary operations. Such expenses should include delivery of goods to dispatch stations, commission charges paid, advertising expenses and other similarly related costs.

43912 Sales Expenses - Utility

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.

44174 Distribution Costs - Clearing

This account should include the cost of intermediary expenses for goods sold. Such costs should include storage and preparation of goods or services, warehousing of goods sold or to be sold.

45155 Merchandise - Goods and Services Delivered

This account should include the book cost of materials and supplies, labor and other expenses incurred in the delivery of goods and services to customers. Such goods and services are considered to have been sold upon delivered of goods or services by the enterprise to the customer and no significant continuing involvement is required of the enterprise.

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46400 Operating Revenue - UAS Only

There should be shown under this caption the total amount included in the electric operating revenue accounts provided herein, see accounts 46440 through 46446.

46401 Cost of Electric Service Provided - UAS Only

There should be shown under this caption the total amount included in electric operation expense accounts provided herein, see account 20401.

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 Contract Work - Utility

This account should include the cost incurred in connection with the sale of merchandise and jobbing or contract work, including any profit or commission accruing to the utility on work performed by it as agent under contracts whereby it does work for another for a stipulated profit or commission.

46417 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.

46419 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.

46440 Residential Sales - UAS Only

A. This account should include the net billing for electricity or heat supplied for residential purposes.

B. 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.

46441 Energy Sales to Power Pool - UAS Only

A. This account should include the net billing for electricity delivered to the power pool by the utility.

B. Records should be maintained so that the quantity of electricity sold and the revenues received under bid prices accepted by the power pool should be readily available.

46442 Commercial and Industrial Sales - UAS Only

A. This account should include the net billing for electricity supplied to customers for commercial and industrial purposes.

B. Records should be maintained so that the quantity of electricity sold and the revenues received under each rate schedule should be readily available.

46445 Other Sales to Public Authorities - UAS Only

This account should include revenues associated with electricity supplied to public authorities.

46446 Sales to Railroads and Railways - UAS Only

This account should include revenues associated with electricity supplied to railroads and railways.

46450 Cost of Goods and Services Rendered - UAS Only

This account should include the expenses associated with the sale of goods and services from non-utility operations. Such expenses are accumulated in accounts 23418, expenses of non-utility operations - auxiliary operations, and should be cleared to this account at the time that revenues from delivery of goods and services are recorded.

47410 Sale of Fixed Assets

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

48410 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 47410, sale of fixed assets.

50131 Petty Cash

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

51131 Cash in Bank Account - Local Currency

This account should include the amount of current cash funds in local currency held in a settlement account at a bank.

52131 Cash in Bank Account - Foreign Currency

This account should include the amount of current cash funds in foreign currencies held in a settlement account at a bank.

54134 Special Deposits - Capital Investments

This account should include the cost of investments which have been segregated in special funds for capital investments. A separate account with appropriate title should be kept for each fund.

55128 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.

55132 Special Deposits - Interest

This account should include the amount of current cash funds deposited for the purpose of paying interest on debts.

55133 Special Deposits - Dividends

This account should include the amount of current cash funds deposited for the purpose of payment of dividends to the utility's shareholders.

56136 Temporary Monetary Investments

This account should include the book cost of investments, such as demand and time loans, certificates of deposit, privatization instruments and other similar investments acquired for the purpose of temporarily investing cash. This account should also include cash balances recorded as deposits in transit.

58123 Long-Term Financial Investments - Investment in 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 interest accrued thereon.

58124 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.

58136 Short- Term Investments

This account should include the book cost of investments, other than monetary assets, acquired for the purpose of temporarily investing cash.

59131 Bank Drafts Accepted

This account should include the amount of bank drafts accepted by the company from customers, debtors and others. Such drafts have been deposited (or will be deposited) and have not cleared the bank and, accordingly, funds have not been credited to their bank account. Once funds are credited to the bank account, such amount should be credited to this account and correspondingly debited to account 51131, Cash in Bank Account - Local Currency, or 52131, Cash in Bank Account - Foreign Currency, as appropriate.

60232 Accounts Payable

This account 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.

61165 Prepayments

This account 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.

62142 Customer Accounts Receivable

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

62235 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.

63143 Other Receivables - Claims

This account should include amounts due the utility upon open accounts other than amounts due from associated companies. Separate accounts should be maintained for amounts due on subscriptions to capital stock and from officers and employees, but the account should not include amounts advanced to officers or others as working funds.

65236 Accrued Taxes Other Than 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 for items other than 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 be based upon the net amounts payable after credit for any discounts, and should not include any amounts for interest on tax deficiencies or refunds. Interest received on refunds should be credited to account 46419, interest and dividend income, and interest paid on deficiencies should be charged to account 80431, other interest expenses.

66131 Bank Drafts Issued

This account should include the amount of bank drafts issued by the company to suppliers, creditors, and others. Such drafts have been issued but have not cleared the company's bank account and, accordingly, funds have not been debited to their bank account. Once funds are debited to the bank account, such amount should be debited to this account and correspondingly credited to account 51131, Cash in Bank Account - Local Currency, or 52131, Cash in Bank Account - Foreign Currency, as appropriate.

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 46419, interest and dividend income, and interest paid on deficiencies should be charged to account 80431, other interest expenses.

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.

69232 Accounts Payable - Social Insurance and Security and Private Insurers

This account 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.

70232 Accounts Payable - Staff Salaries

This account 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.

71165 Expense Advances

This account 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.

72186 Undistributed Shortages and Losses

This account should include the amounts representing shortages and losses resulting from missing or damaged assets.

73143 Other Accounts Receivable - Employees

This account should include amounts due the utility upon open accounts other than amounts due from associated companies. Separate accounts should be maintained for amounts due on subscriptions to capital stock and from officers and employees, but the account should not include amounts advanced to officers or others as working funds.

75238 Dividends Declared

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.

76143 Other Accounts Receivable- Debtors and Creditors

This account 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.

76171 Interest and Dividends Receivable

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

76172 Rents Receivable

This account should include rents receivable on property rented to others.

76237 Interest Accrued

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.

76242 Miscellaneous Current and Accrued Liabilities - Settlements

This account should include all types of settlements with creditors for liabilities incurred and accrued. This account should also include the amount of all other current and accrued liabilities not provided for elsewhere.

78145 Notes Receivable From Associated Companies

This account should include notes upon which associated companies 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, investments in associated companies.

78146 Receivables From Associated Companies

This account should include accounts and other receivables upon which associated companies 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, investments in associated companies.

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 Payables to Associated Companies

This account 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.

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79234 Settlements between Associated Companies - UAS Only

This account 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.

80421 Other Income

This account should include all revenues items properly includible in the income account from nonutility operations and not provided for elsewhere.

80422 Other Deductions - Taxable

This account should include all expense items, except taxes, properly includible in the income account from nonutility operations and not provided for elsewhere and which are considered taxable for profit tax determinations.

80427 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 92224, long-term bank loans, account 95221, bonds, account 95224, other long-term debt and account 99253, obligations under capital leases.

80428 Amortization of Debt Discount

A. 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 95226, unamortized discount on long-term debt.

B. This account should be kept or supported so as to show the debt discount on each class and series of long-term debt outstanding.

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 95225, unamortized premium on long-term debt.

This account should be so kept or supported as to show the premium on each class and series of long-term debt.

80431 Other Interest Expense

This account should include all interest charges not provided for elsewhere.

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80433 Balance Transferred from Income

This account should include the net credit or debit transferred from income for the year.

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. Profit tax relating to the amounts recorded in this account should be shown in a separate account.

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. Profit tax relating to the amounts recorded in this account should be shown in a separate account.

81408 Taxes Other than Profit Tax, Utility Operations

This account should include those taxes other than profit taxes which related to utility operating income.

81409 Profit Taxes, Utility Operations

This account should include the amount of profit taxes which related to utility operating income.

81422 Other Deductions - Non-Taxable

This account should include all expense items, except taxes, properly includible in the income account from nonutility operations and not provided for elsewhere and which are considered taxable for profit tax determinations.

81423 Taxes Other than Profit Taxes, Non-Utility Operations

This account should include those taxes other than profit taxes which related to non-utility operating income.

81424 Profit Taxes, Non-Utility Operations

This account should include the amount of profit taxes which related to non-utility operating income.

81426 Donations

This account should include all payments or donations for charitable, social or community welfare programs, which are not part of govenment social and welfare programs.

83253 Other Deferred Credits

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.

85201 Common Stock Issued

This account 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 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.

85207 Premium on Capital Stock

A. This account 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, together with assessments against stockholders representing payments required in excess of stated values.

B. Premium on capital stock should not be set off against expenses.

C. 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 98216, unappropriated earnings.

85208 Donations Received from Stockholders

This account should include the balance of credits for donations received from stockholders consisting of capital stock of the utility, cancellations or reduction of debt of the utility and the cash value of other assets received as donations.

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.

85213 Discount on Capital Stock

A. This account should include, in a separate subdivision of each class and series of stock, all discounts on the original issuance and sale of capital stock, including additional capital stock of a particular class or series as well as first issues.

B. When capital stock which has been actually issued is retired, the amount in this account applicable to the shares retired should be written off to account 98216, unappropriated earnings.

85214 Capital Stock Expense

A. This account should include in a separate subdivision of each class and series of stock, all commissions and expenses incurred in connection with the original issuance and sale of capital stock, including additional capital stock of a particular class or series as well as first issues. Expenses applicable to capital stock should not be deducted from premium on capital stock.

B. When capital stock which has been actually issued is retired, the amount in this account applicable to the shares retired should be written off to account 98216, unappropriated earnings.

C. Expenses in connection with the reacquisition or resale of the utility's capital stock should not be included herein.

86215 Appropriated Retained Earnings - Depreciation Funds

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

87215 Appropriated Retained Earnings - Economic Incentive Funds

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

88209 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.

88215 Appropriated Retained Earnings - Special Funds

This account 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.

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89144 Accumulated Provision for Uncollectible Accounts - Credit

This account should be credited with amounts provided for losses on accounts receivable which may become uncollectible, and also with collections on accounts previously charged hereto. Concurrent charges should be made to account 26904, uncollectible accounts, for amounts applicable to utility operations, and to corresponding accounts for other operations.

89228 Accumulated Miscellaneous Operating Provisions

This account should include all operating provisions provided by the utility.

90231 Notes Payable

This account 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.

92224 Long-Term Bank Loans

This account should include, until maturity, all long-term debt obtained from banks.

94231 Short-Term Loans - Financing of Main Herd

This account 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, incurred for purposes related to financing the main herd.

95221 Bonds

This account 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.

95224 Other Long-Term Debt

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

95225 Unamortized Premium on Long-Term Debt

A. 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.

B. 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.

95226 Unamortized Discount on Long-Term Debt - Debit

A. This account should include the excess of the face value of long-term debt securities over the cash value of consideration received therefor, related to the issue or assumption of all types and classes of debt.

B. 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.

97242 Short-Term Bank Loans on Behalf of Employees

This account should include the amount of all other current and accrued liabilities not provided for elsewhere.

98216 Unappropriated Retained Earnings

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

99253 Obligations under Capital Leases

This account should include the obligations recorded for the amounts applicable to leased property recorded as assets in account 03102, property under capital lease.

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ACCOUNTS USED FOR UAS PURPOSES ONLY

45000 Goods and Services Delivered - UAS Only
See description of account 45155.

62000 Trade Customer Accounts Receivable - UAS Only
See description of account 62142.

89000 Accumulated Provision for Uncollectible Accounts - Credit- UAS Only
See description of account 89144.

98000 Unappropriated Retained Earnings - UAS Only
See description of account 98216.

80000 Balance Transferred from Income - UAS Only
See description of account 80433.

* * * * * * *

ACCOUNTS USED FOR IAS PURPOSES ONLY

00144 Accumulated Provision for Uncollectible Accounts - Credit- IAS Only
See description of account 89144.

00173 Accrued utility revenues

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

00186 Deferred Charges - IAS Only
See description of account 31186.

00190 Accumulated Deferred Profit Taxes - IAS Only

A. This account should be debited and account 00410, provision for deferred profit taxes utility operations, or 00425, provision for deferred profit taxes non-utility operations, as appropriate, 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.

B. This account should be credited and account 00410, provision for deferred profit taxes utility operations, or 00425, provision for deferred profit taxes non-utility operations, as appropriate, 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. Such credit to this account and debit to accounts 00410 or 00425 should, in general, represent the effect on taxes payable in the current year of the smaller amount of book income recognized for tax purposes as compared to the amount recognized in the utility's current accounts with respect to the item or class of items.

00216 Unappropriated Retained Earnings - IAS Only
See description of account 98216.

00255 Accumulated Deferred Profit Taxes - IAS Only

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

B. This account should be credited and account 00410, provision for deferred profit taxes utility operations, or 00425, provision for deferred profit taxes non-utility operations, as appropriate, 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.

C. This account should be debited and account 00410, provision for deferred profit taxes utility operations, or 00425, provision for deferred profit taxes non-utility operations, as appropriate, 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.

00400 Accrued Operating Revenues - IAS Only
See description of account 46400.

00401 Accrued Operation Expense - IAS Only
See description of account 46401.

00402 Accrued Maintenance Expense - IAS Only
See description of account 25402.

00403 Accrued Depreciation Expense - IAS Only
See description of account 25403.

00405 Accrued Amortization of Other Utility Plant - IAS Only
See description of account 25405.

00410 Provision for Deferred Profit Taxes, Utility Operations - 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".

00415 Revenues from Contract Work - Utility - IAS Only
See description of account 46415.

00417 Revenues from Non-Utility Operations - IAS Only
See description of account 46417.

00418 Expenses of Non-Utility Operations - IAS Only
See description of account 23418.

00425 Provision for Deferred Profit Taxes, Non-Utility Operations - IAS Only

This account should include the amounts of those deferrals of taxes and allocations of deferred taxes which relate to non-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".

00433 Balance Transferred from Income - IAS Only
See description of account 80433.

00440 Accrued Residential Sales - IAS Only
See description of account 46440.

00441 Accrued Energy Sales to Power Pool - IAS Only
See description of account 46441.

00442 Accrued Commercial and Industrial Sales - IAS Only
See description of account 46442.

00445 Accrued Other Sales to Public Authorities - IAS Only
See description of account 46445.

00446 Accrued Sales to Railroads and Railways - IAS Only
See description of account 46446.

00500 Operation - Supervision and Engineering - IAS Only
See description of account 20500.

00501 Fuel Expense - IAS Only
See description of account 20501.

00502 Steam Expenses - IAS Only
See description of account 20502.

00505 Electric Expenses - IAS Only
See description of account 20505.

00506 Miscellaneous Steam Power Expenses - IAS Only
See description of account 20506.

00556 System Control and Load Dispatching Expenses - IAS Only
See description of account 20556.

00510 Maintenance - Supervision and Engineering - IAS Only
See description of account 25510.

00511 Maintenance of Structures - IAS Only
See description of account 25511.

00512 Maintenance of Boiler Plant - IAS Only
See description of account 25512.

00513 Maintenance of Electric Plant - IAS Only
See description of account 25513.

00514 Maintenance of Miscellaneous Steam Plant - IAS Only
See description of account 25514.

00902 Meter Reading Expenses - IAS Only
See description of account 26902.

00903 Customer Records and Collection Expenses - IAS Only
See description of account 26903.

00904 Uncollectible Accounts - IAS Only
See description of account 26904.

00908 Customer Assistance Expenses - IAS Only
See description of account 26908.

00920 General and Administrative Salaries Expenses - IAS Only
See description of account 26920.

00921 Office Supplies and Expenses - IAS Only
See description of account 26921.

00923 Outside Services Employed - IAS Only
See description of account 26923.

00924 Property Insurance - IAS Only
See description of account 26924.

00925 Injuries and Damages - IAS Only
See description of account 26925.

<u>00928 Regulatory Commission Expenses - IAS Only</u>
See description of account 26928.

<u>00930 Miscellaneous General Expenses - IAS Only</u>
See description of account 26930.

<u>00931 Rent Expenses - IAS Only</u>
See description of account 26931.

<u>00933 Transportation Expenses - IAS Only</u>
See description of account 26933.

<u>00935 Maintenance of General Plant - IAS Only</u>
See description of account 26933.

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

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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 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 95225, unamortized premium on long-term debt, the discount will be recorded in account 95226, 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. 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 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 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

Introduction

Financial reporting involves the summarization and presentation of information about operating results and condition of the GENCO's. It relies on internal accounting controls in the transaction processing systems to produce reliable data in the general ledger.

The accounting system is structured to provide internal management, regulatory agencies, tax authorities and other authorized users with reliable and timely financial and other management reports that may be required. The chart of accounts is flexible enough to conveniently handle new or changed aspects of the corporation. The account classification and coding patterns provide for the accumulation and reporting of transactions in detail and in summary. With the adoption of responsibility accounting, each manager who is in control of a particular operation or unit is provided with financial and related information in a level of detail consistent with the scope of his control responsibilities. Due to the differing needs of users, reporting formats for financial information tend to be more detailed and narrow in focus at lower levels of management and less detailed and broader in scope for higher levels of management.

A summary listing of financial reports showing title, purpose and frequency is shown in Table A.

Format of Financial Reports

To enhance their usefulness, financial reports shall be prepared in comparative form as may be required by the user of the information. For example, internal management would need comparative reports in any of the following form:

- Actual (This Month/Quarter/Year-to-Date)
- Actual vs. Budget (This Month/Quarter/Year-to-Date)
- Actual This Month/Quarter/Year-to-Date vs. Actual for the Same Period Last Year

Income Statement Content and Presentational Format

Consistent with western utility industry practices, the income statement of each GENCO should include the following major classifications:

Operating revenue
Operating expenses
Other income and deductions
Interest charges

Operating expenses include fuel costs, maintenance expenses, other operating expenses, depreciation and amortization, income taxes and other taxes applicable to the GENCO's operations.

Operating revenue and operating expenses are normally referred to as the "above the line" section of the income statement which is used in the determination of the cost of service. The intent is to reflect the principle of matching costs and revenue under the utility company's primary operations.

Nonutility and nonoperating income and expenses are referred to as the "below the line" items and are generally considered as income and expense falling outside the utility's principle line of business. Interest expense is treated as "below the line" because it is considered in determining the required rate of return on utility plant investments rather than included in cost of service determinations. Taxes applicable to nonutility operations are included in other income deductions "below the line."

Balance Sheet Content and Presentational Format

Following western utility accounting practice, long-term assets and liabilities are presented before the current assets and liabilities. Because of the economic significance of utility plant with respect to production and rates, it is an industry practice to place this caption first on the balance sheet. On the other side of the balance sheet, capitalization (capital stock, retained earnings and long-term debt) is presented first since funds invested in property, plant and equipment were obtained from these sources.

Areas of Assigned Responsibilities

The Accounting Department is primarily responsible for preparing the trial balance. The Budget and Financial Analysis Section is responsible for preparing the comparative financial statements and other related reports that may be required.

SUGGESTED LIST OF FINANCIAL REPORTS

		FREQUENCY				
Title	**Purpose**	**Weekly**	**Bi-monthly**	**Monthly**	**Quarterly**	**Annually**
Balance Sheet	To determine financial condition as of given date			X	X	X
Income Statement	To determine operating results as at the end of a given period			X	X	X
Cash Flow Statement	To determine sources and efficiency of cash resource generation and utilization			X	X	X
Expenses by Profit/Cost Center	To measure performance of a profit/cost center given actual costs and expenses vs approved budget			X	X	X
Bank Reconciliation Statement	To reconcile cash in bank balance per books with bank statement			X		
Aging of Accounts Receivable	To determine value of accounts receivable according to number of days overdue and reasonableness of allowance for uncollectible accounts			X	X	X
Advances to Officers and Employees	To determine age and value of accounts due from officers and employees				X	X
Materials and Supplies	To determine quantity and value of each class of materials and supplies			X	X	X
Electric Plant in Service	To determine amount of investment in various classes of utility plant and equipment			X	X	X
Construction Work in Progress	To determine status (value and completion) of construction projects			X	X	X
Non-Utility Property	To determine amount of investment in various classes of non-utility plant and equipment				X	X
Accounts Payable	To determine amounts owed to various creditors and suppliers			X	X	X

Unaudited

Russian Company for Electrification
Balance Sheets

Line code		RR'000 31 Dec 1993	RR'000 31 Dec 1994
	ASSETS		
101	Utility plant in service		
110	Less: Accumulated provision for depreciation		
120	Construction work in process		
	Net utility plant		
	Current Assets		
130	Cash		
141	Customer receivables for electricity		
142	Less Bad Debt allowance		
143	Miscellaneous receivables		
144	Less Bad Debt allowance		
145	Charter capital contributions receivable		
160	Fossil fuel, at average cost		
165	Plant materials and operating supplies		
170	Prepayments and other		
181	Taxes reclaimable and receivable		
	Total Current Assets		
190	Deferred charges		
195	Investments in affiliate companies		
196	Other		
	TOTAL ASSETS		
	Capitalization and Liabilities		
200	*Capitalization*		
201	*Equity*		
202	Charter Capital		
203	Revaluation surplus		
204	Retained Earnings - unallocated		
205	Retained Earnings - allocated ("Special Funds")		
207	Treasury Stock		
	Total equity		
208	Long-term debt		
	Total Capitalization		
210	*Current Liabilities*		
211	Note payable and commercial paper		
212	Current portion of LT debt		
213	Accounts payable for electricity purchases		
214	Trade vendors and affiliates payables		
215	Acrrued budget taxes		
216	Acrrued interest		
217	Non-budget taxes and Other		
218	Dividends declared payable		
	Total Current Liabilities		
220	*Other Credits and Long-Term Liabilities*		
221	Accumulated deferred income taxes		
223	Long-term liabilities - Legal reserve		
230	Investment Fund		
290	Commitments and Contingencies		
	TOTAL CAPITALIZATION & LIABILITIES		

The accompanying notes are an integral part of these financial statements

Russian Company for Electrification

Income Statements
For the years ended 31 December 1993 and 1994

	RR'000 31-Dec-93	RR'000 31-Dec-94
Operating revenues		
Operating Expenses:		
Operation -		
Purchased power		
Fuel		
Administrative and general		
Other		
Maintenance		
Depreciation		
Legal expense fund transfers		
VAT and taxes other than income		
Income taxes		
Provision for investment funds		
Total operating expenses		
Operating income		
Other Income & Expense:		
Equity earnings in nonconsolidated affilate companies		
Other, net		
Income before interest charges		
Interest expense		
Net income		
Average common stock shares outstanding		
Earnings (or loss) per share		

The accompanying notes are an integral part of these financial statements.

Unaudited

Russian Company for Electrification

Statements of Cash Flows
For the years ended 31 December 1993 and 1994

	RR'000	RR'000
	31-Dec-93	31-Dec-93
Cash flows from Operating Activities:		
Net income		
Items not requiring (providing) cash currently:		
Increase in payable		
Increase in receivables		
Increase in accrued taxes		
Depreciation		
Increase in plant materials and operating supplies		
Increase in prepayments and other		
Increase in taxes reclaimable and receivable		
Increase in legal reserve		
Increase in investment fund		
Net cash provided by operating activities		
Cash flows from investing activities		
Construction expenditures		
Investments in affiliate companies		
Net cash used by investing activities		
Cash flows from financing activities:		
Issuance of notes payable and commercial paper		
Treasury stock acquired		
Charter capital contributions *		
Dividends paid		
Net cash used by financing activities		
Net increase in cash		
Beginning balance of cash		
Ending balance of cash		

* Increase of RR X,XXX,XXX to charter capital was a noncash transfer of property.

The accompanying notes are an integral part of these financial statements.

Unaudited

Russian Company for Electrification

Statements of Changes in Owners' Equity
For the years ended 31 December 1993 and 1994

	RR'000 31-Dec-93	RR'000 31-Dec-94
Retained Earnings - unrestricted		
Begining balance		
Net Income		
Less: dividends declared		
Less: amounts allocated		
Ending balance		
Retained Earnings - restricted		
Begining balance		
Amounts allocated from current earnings for:		
Employee social benefits fund		
Production development		
Ending balance		

The accompanying notes are an integral part of these financial statements.

Unaudited

Russian Company for Electrification
Notes to Financial Statements

Description of the Company

The Russian Company for Electrification (RCE), was created December 1992 as the privatization of certain electricity power generation and transmission assets of the Ministry of Energy of the Russian Federation. The power generation facilities comprise all of the larger (i.e. greater than 1000 MW capacity) thermal plants and those hydro facilities with a capacity greater than 300 MW. Nuclear generation facilities were not transferred to RCE. The transmission assets consist of high voltage lines. RCE also holds an X% investment in 72 regional power distribution companies and acts as a bulk power exchange agency for the Russian Federation and other independent states of the former Soviet Union.

Charter Capital

Charter Capital is the historical net book value of properties transferred to RCE by the central government in exchange for ownership shares in the new entity. The shares are held by the State Committee on Property ("GKI") which will make shares available to employees wishing to make a purchase utilizing cash, vouchers or a combination thereof. Certain shares were also made available for employees and affiliates.

Shares issued during the privatization carry a stated value of RR X00 per share.

Principles of Accounting

The financial statements have been prepared in a manner which is consistent with International Accounting Standards ("IAS") as issued by the International Accounting Standards Committee. Certain adjustments have been reflected in these financial statements to conform the RCE accounts (originally prepared in accordance with the Chart of Accounts and related regulations of the Ministry of Finance) to the IAS. The specifics of these adjustments are described within these footnotes.

See also Note __ for a discussion of additional changes which would be required to conform to generally accepted accounting principles acceptable in the United States of America ("US GAAP"). Such a reconciliation would only be required if RCE securities were registered for sale within that country.

Principles of Consolidation

Unaudited

Russian Company for Electrification
Notes to Financial Statements

Western style financial statements normally include a statement similar to the following:

> The financial statements include the accounts of the parent company and all majority 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 Regulation

Tariffs at the retail level by the affiliated regional companies are established by an authority within each administrative region of the Russian Federation. Tariffs for RCE's transmission services are established by ________. Such regulation does not always permit rates to be adjusted on a current basis so as to provide an sufficient opportunity to recover costs and earn a fair return on investment. Similarly, regulation in its present form does not provide a basis for the deferral of costs in the financial statements for recovery in the future. Such deferral is often reflected in western style financial statements when the regulatory framework provides assurance that a future recovery of cost is probable.

It is recognized that "regulation in its present form does not provide a sufficient opportunity to recover costs and earn a fair return" is a critical point that is being addressed by another working group of this project.

Equity investment in nonconsolidated affiliates

Investment income is accounted for on a cost or dividend received basis by Russian companies. RCE was appointed by GKI to hold an X% investment in 72 regional power joint stock companies (called "Energos"). For 1993, dividends amounting to approximately 100% of the earnings of these non-consolidated investments were declared by the Energos and have been accrued in these financial statements. For this reason, there is no significant difference between the equity method of accounting and the cost method.

Revenue recognition

In accordance with IAS 18, revenues and costs have been adjusted to record revenue as the service is performed. Under Russian accounting standards, such revenues are normally recorded only as receivables are collected, so as to minimize the payment of VAT.

Unaudited

Bulk power transactions between the affiliated regional companies are conducted at cost without a profit margin to RCE.

Operating expenses

Operating expenses include amounts allowable under tax regulations and the Chart of Accounts. Interest expense up to rates established by the Central Bank are treated as an operating expense. For example, interest expense in excess of these amounts is accounted for on an after tax basis. A similar procedure exists for nondeductible business and travel expenses. These procedures have been changed to a western style presentation.

Fixed asset accounting

Utility plant in service is stated at the original cost of construction, as revalued by decree No. 595 (14 August 1992) and decree No. 1233 (25 November 1993). The cost of repairs and minor renewals is charged to maintenance expense as incurred. Replacements of major items of property are capitalized and the depreciation reserve is charged with the cost of units retired.

Depreciation

Provision for depreciation of plant in service is based on straight-line composite rates, as established by tax regulations, applied to the revalued cost of depreciable property. The average rate approximated 2.8% for the period ended 31 December 1993.

Inventories

Inventories of materials and operating supplies [and fuel stocks] are carried at average costs.

VAT accounting

A value added tax is applied to all purchases and sales. The rate consists of a regular tax of 20% and, effective 1 January 1994, an additional special tax of 3%. VAT applicable to fixed assets is reclaimable against current VAT obligations after a period of six months and has been reflected as a receivable.

Income Taxes

Corporations are subject to an income tax of 32% for 1993 (35% to 38% for 1994). Taxes are reflected as an operating expense as the tax amounts due are accrued. There are no tax-book timing differences for depreciation or other costs which would result in deferred income taxes for financial statement purposes. When both tax and general purpose financial statements are prepared, there are customarily differences in the way in which recovery of certain assets are recovered. For example, fixed assets may be depreciated on an accelerated basis for tax but not for general reporting purposes. In these situations, the benefit of such accelerated tax write-offs are accrued as a deferred credit on the general purpose financial statements.

Unaudited

Special Purpose Funds

Special purpose funds are used in Russia to account for certain non-deductible expenses as well as internal allocations from net income which are allocated for the financing of capital construction projects and the development of social facilities. Profits earned are "utilized" or allocated for various working capital purposes through these special purpose funds so that there is no residual profit. To conform to the western style of 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 in to the determination of net income. Nondeductible expenses have nevertheless been included as operating expenses in these financial statements

The subsequent expenditure of special purpose funds for capital construction projects does not result in a reduction of these allocated amounts.

Investment Funds

RCE is permitted to charge operations and recover in revenues amounts for certain investment funds. These include amounts for investments in new capital assets and certain insurance and scientific promotional (i.e., research and development) activities. as follows:

investments	- up to 11% of cost of sales - actual charge by RCE during 1993 was approximately 7%
scientific	- up to 1.5% of cost of sales
insurance	- up to 1% of cost of sales

RCE also receives funds from affiliated companies for joint construction projects. These funds and cost allocations are presented in the financial statements as a deferred credit. When expenditures for these purposes are made, the fund is reduced.

Legal Reserve Fund

Russian companies are permitted to charge to operating expenses amounts which are credited to a legal reserve fund in advance of actual expenditures for legal purposes.

Note 2 - Regulatory Matters

In western style financial statements, there is typically a note which describes significant regulatory matters, such as changes to approved tariffs during the year or any rate change requests which are pending. Disclosure usually states the revenue impact of any changes approved or proposed.

Note 3 - Revaluation

In accordance with certain decrees described above, fixed assets have been revalued, effective 1 January 1994. A similar revaluation occurred effective 31 July 1992. In accordance with IAS 16, such revaluations have been recorded directly to revaluation surplus and do not affect reported net income for the period.

Note 4 - Plant In Service

Social assets, such as kindergartens, sanitoriums and the like, were not privatized. Similarly, the State continues to hold title to the land on which RCE's properties are located.

An analysis of property, plant and equipment as of 31 December 1993 follows:
RR 000's.

	Beginning	Additions	Reductions	Ending
Land	0	0	0	0
Buildings	592,328	97,885		990,213
Civil works	673,215		9,629	663,586
Transmission equipment	163,502	27,717		381,219
Machinery	234,503	6,873	27,959	413,417
Vehicles	207	8,735	1,889	107,053
Work tools and other	13,296	35,763	591	48,468
Total	677,051	166,973	40,068	703,956

Unaudited

Note 5 - Income Taxes

An analysis of the effective tax rate follows:

RR (000's)	Net income		140,,721
	Add back:	Income taxes	740,186
		VAT tax	500,177
	Income before taxes		447,084
	Effective rate of all taxes		77%

In the western style, a footnote would describe amounts required to be accrued as expenses in excess of taxes currently due arising from tax-book timing differences.

Disclosure of the actual amount of cash paid for taxes would also be made.

Note 6 - Charter Capital

The source of charter capital was as follows:

	Proposed	Actual
Employee of RCE	1.00%	.12%
Employees of regional companies	28.00%	16.28%
Private citizens (voucher program)	20.00%	13.60%
Subtotal	49.00%	30.00%
State GKI	51.00%	70.00% *
	100.00%	100.00%

* to be verified

An adjustment of RR 887,370 has been reflected in these financial statements on a retroactive basis to December 1992 to reflect charter capital subscriptions receivable and to properly state the total charter capital as of the creation of RCE in accordance with the Presidential Decree of 923 (15 August 1992). As the details necessary to record the transferred fixed assets to various underlying accounting records are received, subscription receivables are reduced and utility plant in service is increased.

During 1993, additional assets with a charter capital value of RR 297,917 were transferred to RCE.

Note 7 - Investment Funds

The following table shows activity in the investment funds:

RR 000's:	
Beginning balance	105,865
Additions charged to operations	571,867
Additions from other sources	714,023
Reductions	(313,800)
Ending balance	1,077,955

Unaudited

Note 8 - Special Funds

The following amounts are shown as allocations of retained earnings. The RCE Board of Directors has the power to reallocate these funds, or return them to unallocated retained earnings at any time, unless prohibited by the Charter.

RR (000s):	
Employees social benefit fund	83,374
Production development	208,854
	292,228

Note 9 - Retirement and Postemployment Benefits

Retirement and postemployment benefits for Russian workers are an obligation of the state, for which RCE contributed RR (000): 510,655 during 1993.

Note 10 - Loans and Credit Facilities

There are no lines of credit.
Long term debt consists of a non-interest bearing loan from the Ministry of Fuel, which was settled during 1994.

Unaudited

Western style financial statements typically include disclosures of the following:

Note 11 - Legal Matters

[This would include a brief discussion of pending legal matters, including management's assessment of the likely outcome. Accrual is required of at least the minimum amount when there is a range of potential settlement amounts exist and no one amount is more accurate than another.]

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.

Note 12 - Related Party Transactions

[Disclosure of the nature of significant related party transactions is required by IAS 24.]

Note 13 - Business Segments

[Disclosure of financial information by business segment is required by IAS 14. Disclosure include sales, segment results and assets.]

Note 14 - Subsequent Event

The Board of Directors declared a dividend equal to 100% of charter capital in April 1994 No exact payment date has yet been scheduled. RCE has been informed that the dividend applicable to shares still held by the State GKI will be reinvested in the company. The accounting for this reinvestment by the State has not been determined.

Note X - Reconciliation to US GAAP

The following table conforms the financial information included in these financial statements to generally accepted accounting principles applicable in the United States of America.

Net income of parent as reported	206,721
Adjustments:	
1. To reverse Legal Reserve provision	200,000
2. To establish an allowance for uncollectible accounts*	(xxx,xxx,xxx)
3. To reverse special purpose fund provisions in excess of actual expenditures	972,090
Net income of parent, as adjusted	xxx,xxx,xxx

* The magnitude of the receivables collection problem is significant.

Unaudited

GENCO

REVIEW OF OPERATIONS

DECEMBER 31, 1994

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GENCO
BALANCE SHEETS
(Millions of Krb)

ASSETS	December 31, 1994	December 31, 1993
PROPERTY AND PLANT		
Electric plant in service	2,965,210	2,543,094
Construction work in progress	97,224	75,381
Electric plan held for future use	9,014	8,905
Nonoperating property	3,574	3,480
Accumulated depreciation	(839,772)	(850,345)
Net Property and Plant	2,235,250	1,780,515
CURRENT ASSETS		
Cash and cash equivalents	2,198	1,076
Customer accounts receivable	69,964	61,342
Other accounts receivable	29,764	25,087
Allowance for uncollectible accounts	(24,014)	(17,778)
Accrued unbilled revenue	17,656	14,453
Prepaid expenses and other	5,894	6,512
Material and supplies – at average cost		
Fuel	56,840	39,715
Construction and maintenance supplies	36,996	24,191
Total Current Assets	195,298	154,598
OTHER ASSETS AND DEFERRED CHARGES		
Investment and subsidiaries	45,429	22,756
Deferred charges	3,874	3,765
Total Other Assets and Deferred Charges	49,303	26,521
TOTAL ASSETS	2,479,851	1,961,634

CAPITALIZATION AND LIABILITIES	December 31, 1994	December 31, 1993
CAPITALIZATION		
Common equity		
Common stock, par value– 200,000 Krb, authorized shares– 2 mill., issued shares 1 mill.	200,000	200,000
Premium on stock and other capital contributions	952,435	952,435
Retained income	156,743	80,329
Total Common Equity	1,309,178	1,232,764
Preference stock, cumulative, par value __ , authorized shares __ , issued shares __		
Long–term debt		
First mortgage bonds (net of unamortized premium and discount and amounts due within one year)	276,212	235,964
Notes payable (net of unamortized discount)	654,095	311,761
Total Long–term Debt	930,307	547,725
Total Capitalization	2,239,485	1,780,489
OTHER NON–CURRENT LIABILITIES		
Capital Lease Obligation	39,981	33,673
Total Other Non–Current Liabilities	39,981	33,673
CURRENT LIABILITIES		
Long–term debt and preferred stock redemption due within one year	27,863	22,087
Short–term debt	55,982	46,127
Accounts payable and accrued payroll	44,101	30,795
Capital lease obligation due within one year	12,564	9,012
Taxes accrued	35,873	19,564
Interest accrued	8,902	7,132
Other	11,098	10,083
Total Current Liabilities	196,383	144,800
DEFERRED CREDITS		
Income taxes	3,881	2,568
Other	121	104
Total Deferred Credits	4,002	2,672
TOTAL CAPITALIZATION AND LIABILITIES	2,479,851	1,961,634

GENCO
STATEMENTS OF EARNINGS
(Millions of Krb)

MONTH ENDED DECEMBER 31,

	1994	1993	Budget	Change from Last Year Amount	Change from Last Year %	Variation from Budget Amount	Variation from Budget %
REVENUE							
Sales of electricity	60,016	50,847	55,660	9,169	18 0	4,356	8
Other electric revenues	200	140	180	60	42 9	20	11
Total Operating Revenue	60,216	50,987	55,840	9,229	18 1	4,376	8
Other operating revenues	254	302	315	(48)	(15 9)	(61)	(19)
Total Revenue	60,470	51,289	56,155	9,181	17 9	4,315	8
OPERATING EXPENSES							
Operation							
Fuel	19,816	15,356	16,125	4,460	29 0	3,691	23
Purchased energy	376	239	270	137	57 3	106	39
Fuel and purchased energy	20,192	15,595	16,395	4,597	29 5	3,797	23
Other operation	10,787	9,082	9,500	1,705	18 8	1,287	14
Maintenance	4,846	4,556	4,905	290	6 4	(59)	(1)
Total Other Operation and Maintenance	15,633	13,638	14,405	1,995	14 6	1,228	9
Total Operation and Maintenance	35,825	29,233	30,800	6,592	22 5	5,025	16
Depreciation and amortization	9,869	8,246	9,660	1,623	19 7	209	2
Profit taxes	2,543	2,094	2,302	449	21 4	241	10
Other taxes	732	574	650	158	27 5	82	13
Total Operating Expenses	48,969	40,147	43,412	8,822	22 0	5,557	13
OPERATING INCOME	11,501	11,142	12,743	359	3 2	(1,242)	(10)
OTHER INCOME							
Net earnings from nonutility auxiliary enterprises	305	504	450	(199)	(39 5)	(145)	(32)
Other, net	432	476	346	(44)	(9 2)	86	25
Total Other Income	737	980	796	(243)	(24 8)	(59)	(7)
INCOME BEFORE INTEREST CHARGES	12,238	12,122	13,539	116	1 0	(1,301)	(10)
INTEREST CHARGES							
Interest on debt	5,898	5,667	5,799	231	4 1	99	2
Net Interest Charges	5,898	5,667	5,799	231	4 1	99	2
NET INCOME	6,340	6,455	7,740	(115)	(1 8)	(1,400)	(18)
Dividend requirements on preferred stock				0		0	
EARNINGS (LOSS) FOR COMMON STOCK	6,340	6,455	7,740	(115)	(1 8)	(1,400)	(18)
Dividends on common stock	(35)	(30)	(35)	(5)	16 7	0	0
ADDITION TO RETAINED INCOME FROM EARNINGS	6,375	6,485	7,775	(110)	(1 7)	(1,400)	(18)
Earnings (Loss) Per Share - Utility Operations (a)	6	6	7	0	1 4	(1)	(17 2)
Earnings (Loss) Per Share - Nonutility enterprises (a)	0	1	0	(0)	(39 5)	(0)	(32 2)
Earnings Per Share - Consolidated (a)	6	6	8	(0)	(1 8)	(1)	(18 1)
Number of Shares Outstanding (thousands)	1,000	1,000	1,000	0	0 0	0	0 0
Megawatt-hours Sold (thousands)	2,111	1,863	1,950	248	13 3	161	8 3
Average Revenue per KWH Sold	28	27	29	1	4 2	(0)	(0 4)
Net System Output (KWH) (thousands)	2,166	1,982	1,990	184	9 3	176	8 8

(a) Average Common Shares

GENCO
STATEMENTS OF EARNINGS
(Millions of Krb)

TWELVE MONTHS ENDED DECEMBER 31,

	1994	1993	Budget	Change from Last Year Amount	Change from Last Year %	Variation from Budget Amount	Variation from Budget %	Percentage of Revenue 1994	Percentage of Revenue 1993
REVENUE									
Sales of electricity	900,650	820,493	860,765	80,157	9 8	39,885	4 6	97 9	98 0
Other electric revenues	3,563	3,213	3,300	350	10 9	263	8 0	0 4	0 4
Total Operating Revenue	904,213	823,706	864,065	80,507	9 8	40,148	4 6	98 3	98 4
Other operating revenues	15,474	13,684	13,564	1,790	13 1	1,910	14 1	1 7	1 6
Total Revenue	919,687	837,390	877,629	82,297	9 8	42,058	4 8	100 0	100 0
OPERATING EXPENSES									
Operation									
Fuel	202,730	184,023	188,783	18,707	10 2	13,947	7 4	22 0	22 0
Purchased energy	485	303	325	182	60 1	160	49 2	0 1	0 0
Fuel and purchased energy	203,215	184,326	189,108	18,889	10 2	14,107	7 5	22 1	22 0
Other operation	103,106	98,103	99,875	5,003	5 1	3,231	3 2	11 2	11 7
Maintenance	47,514	46,383	45,795	1,131	2 4	1,719	3 8	5 2	5 5
Total Other Operation and Maintenance	150,620	144,486	145,670	6,134	4 2	4,950	3 4	16 4	17 3
Total Operation and Maintenance	353,835	328,812	334,778	25,023	7 6	19,057	5 7	38 5	39 3
Depreciation and amortization	92,835	90,953	92,076	1,882	2 1	759	0 8	10 1	10 9
Profit taxes	51,604	47,975	49,780	3,629	7 6	1,824	3 7	5 6	5 7
Other taxes	46,578	43,688	44,576	2,890	6 6	2,002	4 5	5 1	5 2
Total Operating Expenses	544,852	511,428	521,210	33,424	6 5	23,642	4 5	59 2	61 1
OPERATING INCOME	374,835	325,962	356,419	48,873	15 0	18,416	5 2	40 8	38 9
OTHER INCOME									
Net earnings from nonutility auxiliary enterprises	9,088	7,956	8,578	1,132	14 2	510	5 9	1 0	1 0
Other, net	5,221	4,462	4,798	759	17 0	423	8 8	0 6	0 5
Total Other Income	14,309	12,418	13,376	1,891	15 2	933	7 0	1 6	1 5
INCOME BEFORE INTEREST CHARGES	389,144	338,380	369,795	50,764	15 0	19,349	5 2	42 3	40 4
INTEREST CHARGES									
Interest on debt	70,201	65,889	66,890	4,312	6 5	3,311	4 9	7 6	7 9
Net Interest Charges	70,201	65,889	66,890	4,312	6 5	3,311	4 9	7 6	7 9
NET INCOME	318,943	272,491	302,905	46,452	17 0	16,038	5 3	34 7	32 5
Dividend requirements on preferred stock				0		0		0 0	0 0
EARNINGS (LOSS) FOR COMMON STOCK	318,943	272,491	302,905	46,452	17 0	16,038	5 3	34 7	32 5
Dividends on common stock	86,735	84,322	80,876	2,413	2 9			9 4	10 1
ADDITION TO RETAINED INCOME FROM EARNINGS	232,208	188,169	222,029	44,039	23 4	10,179	4 6	25 2	22 5

	1994	1993	Budget	Change from Last Year Amount	Change from Last Year %	Variation from Budget Amount	Variation from Budget %
Earnings (Loss) Per Share - Utility Operations (a)	310	265	294	45	17 1	16	5 3
Earnings (Loss) Per Share - Nonutility enterprises (a)	9	8	9	1	14 2	1	5 9
Earnings Per Share - Consolidated (a)	319	272	303	46	17 0	16	5 3
Number of Shares Outstanding (thousands)	1,000	1,000	1,000	0	0 0	0	0 0
Megawatt-hours Sold (thousands)	25,546	24,544	25,454	1,002	4 1	92	0 4
Average Revenue per KWH Sold	35	33	34	2	5 5	1	4 3
Net System Output (KWH) (thousands)	26,642	25,763	25,400	879	3 4	1,242	4 9

(a) Average Common Shares

GENCO
OPERATING REVENUE AND SALES STATISTICS
Month Ended December 31, 1994
(Millions of Krb)

	Revenue (Millions of Krb)				
Source	Amount	Change from Last Year Amount	Change from Last Year %	Variation from Budget Amount	Variation from Budget %
Power Pool	46,530	7,014	18%	3,424	8%
Residential	3,085	515	20%	221	8%
Industrial	4,517	590	15%	312	7%
Public Authorities	4,081	803	24%	293	8%
Railways	1,803	247	16%	106	6%
Other than Energy Sales	454	12	3%	(41)	-8%
Total	60,470	9,181	18%	4,315	8%

	Megawatt-hour Sales (Thousands of MWH)				
Source	Amount	Change from Last Year Amount	Change from Last Year %	Variation from Budget Amount	Variation from Budget %
Power Pool	1,629	171	12%	129	9%
Residential	110	18	20%	8	7%
Industrial	161	21	15%	11	7%
Public Authorities	146	29	24%	10	7%
Railways	64	9	16%	4	6%
Other than Energy Sales					
Total	2,111	248	13%	161	8%

Megawatt-hour Sales (Decrease) Increase	Month Ended December 31,
1993 over 1992	1%
1992 over 1991	-3%
1991 over 1990	-9%

GENCO
OPERATING REVENUE AND SALES STATISTICS
Twelve Months Ended December 31, 1994
(Millions of Krb)

Source	Revenue (Millions of Krb)				
	Amount	Change from Last Year Amount	Change from Last Year %	Variation from Budget Amount	Variation from Budget %
Power Pool	671,924	63,082	10%	31,242	5%
Residential	48,849	4,281	10%	2,194	5%
Industrial	67,639	5,764	9%	2,997	5%
Public Authorities	75,364	5,883	8%	3,056	4%
Railways	36,874	1,147	3%	1,396	4%
Other than Energy Sales	19,037	2,140	13%	1,173	7%
Total	919,687	82,297	10%	42,058	5%

Source	Megawatt-hour Sales (Thousands of MWH)				
	Amount	Change from Last Year Amount	Change from Last Year %	Variation from Budget Amount	Variation from Budget %
Power Pool	19,011	514	3%	(75)	-0%
Residential	1,396	122	10%	25	2%
Industrial	1,933	165	9%	66	4%
Public Authorities	2,153	168	8%	59	3%
Railways	1,054	33	3%	17	2%
Other than Energy Sales					
Total	25,546	1,002	4%	92	0%

Megawatt-hour Sales (Decrease) Increase	Twelve Months Ended December 31,
1993 over 1992	2%
1992 over 1991	-3%
1991 over 1990	-10%

GENERATING OPERATING STATISTICS
NET GENERATION, PLANT USE CAPACITY FACTOR AND RELATED STATISTICS

	TOTAL GENERATION – THOUSANDS MWH		PLANT USE CAPACITY FACTOR			
	MONTH ENDED DECEMBER 31,		MONTH ENDED DECEMBER 31,		TWELVE MONTHS ENDED DECEMBER 31,	
STEAM PLANT	1994	1993	1994	1993	1994	1993
Plant 1	320	286	10.1	9.4	10.9	9 5
Plant 2	750	714	59.3	55.6	60 1	57 2
Plant 3	638	602	50.4	47.8	49 8	45.6
Plant 4	566	499	22.7	20.3	22.5	19.7
Total	2,274	2,101	36.7	35.4	35.9	34.8

FUEL BURNED BY % OF BTU

	MONTH ENDED DECEMBER 31,		TWELVE MONTHS ENDED DECEMBER 31,	
FUEL TYPE	1994	1993	1994	1993
Coal	88 2	86.9	85.4	84 2
Mazut	10.5	11.3	12.2	12.5
Natural gas	1 3	1.8	2 4	3.3
Total	100	100	100	100

EQUIVALENT AVAILABILITY

	MONTH ENDED DECEMBER 31,	TWELVE MONTHS ENDED DECEMBER 31,
1994 Actual	61.4	60 2
1994 Projected	64.3	62.2
1993 Actual	63.1	63.1

MWH GENERATED BY SOURCE
% OF TOTAL GENERATION

	MONTH ENDED DECEMBER 31,		TWELVE MONTHS ENDED DECEMBER 31,	
SOURCE	1994	1993	1994	1993
Coal	87.6	86 3	84 9	83.9
Mazut	10.8	11.9	12 5	13.2
Natural gas	1.6	1.8	2.6	2.9
Total	100	100	100	100

ELECTRIC SYSTEM DATA

	MONTH ENDED DECEMBER 31,	
	1994	1993
Energy sold(thousands MW	2,111	1,863
Peak demand (MW)	2,826	2,635
System available capability (MW)	3,590	3,805
System margin – MW	764	1,170
System margin – %	21.3%	30 7%

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FUEL AND OPERATING STATISTICS

COST OF FUEL PER MBTU (THOUSANDS OF KRB)

	MONTH ENDED DECEMBER 31,		CHANGE		TWELVE MONTHS ENDED DECEMBER 31,		CHANGE	
FUEL TYPE	1994	1993	AMOUNT	%	1994	1993	AMOUNT	%
Coal	115	106	9	8.5%	112	104	8	7.7%
Mazut	136	124	12	9.7%	133	121	12	9.9%
Natural gas	133	120	13	10.8%	129	118	11	9.3%
Average	119	109	10	9.2%	116	107	9	8.4%

COST OF FUEL PER KWH (THOUSANDS OF KRB)

	MONTH ENDED DECEMBER 31,		CHANGE		TWELVE MONTHS ENDED DECEMBER 31,		CHANGE	
FUEL TYPE	1994	1993	AMOUNT	%	1994	1993	AMOUNT	%
Coal	1.16	1.08	0.08	7.4%	1.14	1.06	0.08	7.5%
Mazut	1.38	1.25	0.13	10.4%	1.36	1.22	0.14	11.5%
Natural gas	1.35	1.23	0.12	9.8%	1.31	1.19	0.12	10.1%
Average	1.21	1.10	0.11	10.0%	1.19	1.08	0.11	10.2%

HEAT RATE (BTU/KWH)

	MONTH ENDED DECEMBER 31,		CHANGE		TWELVE MONTHS ENDED DECEMBER 31,		CHANGE	
FUEL TYPE	1994	1993	AMOUNT	%	1994	1993	AMOUNT	%
Coal	10,486	10,555	(69)	-0.7%	10,578	10,692	(114)	-1.1%
Mazut	10,855	11,078	(223)	-2.0%	10,943	11,162	(219)	-2.0%
Natural gas	11,008	11,187	(179)	-1.6%	11,114	11,228	(114)	-1.0%
Average	10,585	10,638	(53)	-0.5%	10,653	10,747	(94)	-0.9%

AVERAGE DELIVERED FUEL COSTS (THOUSANDS KRB)

	MONTH ENDED DECEMBER 31,		CHANGE		TWELVE MONTHS ENDED DECEMBER 31,		CHANGE	
FUEL TYPE	1994	1993	AMOUNT	%	1994	1993	AMOUNT	%
Coal (per ton)	3,200	2,560	640	25.0%	3,150	2,503	647	25.8%
Mazut (per barrel)	3,840	3,280	560	17.1%	3,790	3,194	596	18.7%
Natural gas (per MCF)	512	480	32	6.7%	501	456	45	9.9%
GENERATION								
Net generation (000's MWH)	2,274	2,101	173	8.2%	28,042	27,118	924	3.4%
Peak demand (MW)	2,826	2,635	191	7.2%	--	--	--	--

GENCO
SUMMARY OF OPERATIONS AND MAINTENANCE
(MILLIONS OF KRB)

	Month Ended December 31,			Twelve Months Ended December 31,		
	1994	1993	Budget	1994	1993	Budget
Operation						
Production - Fuel	19,816	15,356	16,125	202,730	184,023	188,783
- Other	1,958	1,365	1,522	19,653	17,984	18,833
Transmission	1,294	983	1,044	17,764	16,812	17,453
Distribution	987	795	802	14,802	13,255	13,268
Customer accounts	415	348	357	7,181	6,874	6,847
Sales	238	250	245	3,342	3,324	3,463
Administrative and general	8,895	7,341	8,530	43,364	42,854	43,011
Total Operation	33,603	26,438	28,625	308,836	285,126	291,658
Maintenance						
Production	3,330	3,210	3,460	32,612	31,798	30,994
Transmission	353	248	303	3,546	3,591	3,497
Distribution	237	205	240	2,569	2,431	2,713
Administrative and general	926	893	902	8,787	8,563	8,591
Total Maintenance	4,846	4,556	4,905	47,514	46,383	45,795
Other Power Supply Expenses						
Purchased power	376	239	270	485	303	325
Total Operation and Maintenance	38,825	31,233	33,800	356,835	331,812	337,778

GENCO
Cash Forcast Including External Financings
For the Period Ending December 31, 1995
(Millions Krb)

Cash Flow - Utility Operations	Jan '95	Feb '95	Mar '95	Apr '95	May '95	Jun '95	Jul '95	Aug '95	Sep '95	Oct '95	Nov '95	Dec '95	Total 1995	Actual 1994
Operating Receipts														
Consumer Receipts	54,563	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	659,563	606,351
Other Receipts	11,025	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	55,025	50,874
Total Operating Receipts	65,588	59,000	59,000	59,000	59,000	59,000	59,000	59,000	59,000	59,000	59,000	59,000	714,588	657,225
Other electric revenues	2,345	3,000	1,000	3,000	1,000	3,000	1,000	3,000	1,000	3,000	1,000	3,000	25,345	22,908
Total Receipts	67,933	62,000	60,000	62,000	60,000	62,000	60,000	62,000	60,000	62,000	60,000	62,000	739,933	680,133
Operating Disbursements														
Fuel Purchases	19,860	21,000	21,000	22,000	22,000	23,000	23,000	25,000	25,000	25,000	27,000	27,000	280,860	210,656
Energy Purchases	104	100	0	0	0	100	0	100	0	0	0	0	404	455,000
Interest	5,664	5,700	5,700	5,700	6,000	6,000	6,000	6,800	6,800	6,800	6,800	6,800	74,764	68,975
Taxes	4,454	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	53,954	51,098
Other Operating Disbursements	13,458	15,000	15,000	16,000	17,000	17,000	17,000	18,000	18,000	18,000	19,000	19,000	202,458	197,082
Total Operating Disbursements	43,540	46,300	46,200	48,200	49,500	50,600	50,500	54,400	54,300	54,300	57,300	57,300	612,440	982,811
Net Operating Receipts (Disbursements)	24,393	15,700	13,800	13,800	10,500	11,400	9,500	7,600	5,700	7,700	2,700	4,700	127,493	(302,678)
Other Disbursements														
Construction	10,984	50,000	10,000	10,000	5,000	10,000	3,000	10,000	30,000	1,000	10,000	5,000	154,984	125,613
Dividends	1,254	0	0	1,300	0	0	1,300	0	0	1,300	0	0	5,154	5,125
Sinking Fund & Debt Repayment	5,642	5,600	5,600	5,600	6,000	6,000	6,000	6,400	6,400	6,400	6,400	6,400	72,442	68,902
Total Other Disbursements	17,880	55,600	15,600	16,900	11,000	16,000	10,300	16,400	36,400	8,700	16,400	11,400	232,580	199,640
Net Utility Receipts (Disbursements)	6,513	(39,900)	(1,800)	(3,100)	(500)	(4,600)	(800)	(8,800)	(30,700)	(1,000)	(13,700)	(6,700)	(105,087)	(502,318)
Subsidisary Transfers & Loans														
Loans (To)/From	(1,549)	(500)	(1,000)	(500)	0	(500)	(1,000)	(1,500)	(500)	(500)	(1,000)	(500)	(9,049)	(8,875)
Equity Transfers (To)/From	(391)	(100)	0	0	(100)	0	0	(100)	0	0	0	0	(691)	(465)
Total Transfers & Loans	(1,940)	(600)	(1,000)	(500)	(100)	(500)	(1,000)	(1,600)	(500)	(500)	(1,000)	(500)	(9,740)	(9,340)
Net Receipts (Disbusrements) Excluding Financings	4,573	(40,500)	(2,800)	(3,600)	(600)	(5,100)	(1,800)	(10,400)	(31,200)	(1,500)	(14,700)	(7,200)	(114,827)	(511,658)
Financings														
First Mortgage Bonds	0	0	0	0	100,000	0	0	0	0	0	0	0	100,000	200,000
Long-term Notes	0	0	0	0	0	0	0	200,000	0	0	0	0	200,000	150,000
Total Financings	0	0	0	0	100,000	0	0	200,000	0	0	0	0	300,000	350,000
Short-term Borrowing Balance														
Beginning Short-term Debt	(88,213)	(83,640)	(124,140)	(126,940)	(130,540)	(31,140)	(36,240)	(38,040)	151 560	120 360	118,860	104 160		
Net Receipts (Disbursements)	4,573	(40,500)	(2,800)	(3,600)	99,400	(5,100)	(1,800)	189,600	(31,200)	(1,500)	(14,700)	(7,200)		
(Increase) Decrease in Cash Balances														
(Increase) Decrease in Investments														
Ending Short-term (Debt)/Investment	(83,640)	(124,140)	(126,940)	(130,540)	(31,140)	(36,240)	(38,040)	151,560	120,360	118,860	104,160	96,960		

GENCO
PROPERTY AND PLANT HIGHLIGHTS
DECEMBER 1994

	MONTH			YEAR-TO-DATE			
ELECTRIC PLANT IN SERVICE	ADDITIONS	TRANSFERS	RETIRE-MENTS	ADDITIONS	TRANSFERS	RETIRE-MENTS	BALANCE AT DEC.31, 1994
Intangible							
Steam production							
Other production							
Transmission							
General							
Total							
Construction in progress							
Electric plant held for future use							
Experimental elec. plant							
Total electric plant							
Non-utility property							
Total property and plant							

GENCO
ANALYSIS OF ACCUMULATED DEPRECIATION AND AMORTIZATION
DECEMBER 1994

ELECTRIC PLANT IN SERVICE	MONTH DEPREC. EXPENSE	MONTH TRANSFERS & OTHER	MONTH RETIRE-MENTS	YEAR-TO-DATE DEPREC. EXPENSE	YEAR-TO-DATE TRANSFERS & OTHER	YEAR-TO-DATE RETIRE-MENTS	BALANCE AT DEC.31, 1994
Intangible							
Steam production							
Other production							
Transmission							
General							
Total							
Electric plant held for future use							
Experimental elec. plant							
Total electric plant							
Non-utility property							
Total property and plant							

GENCO

PRODUCTION EXPENSES AND STATISTICS

DECEMBER 31, 1994

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GENCO
PRODUCTION EXPENSES - SYSTEM TOTAL
DECEMBER 1994

		MONTH			YEAR-TO-DATE		
	ACCT. NO.	AMOUNT	MILLS PER KWH	CHANGE FROM PRIOR YEAR	AMOUNT	MILLS PER KWH	CHANGE FROM PRIOR YEAR
POWER GENERATION							
OPERATION							
Oper. supervis.& engin.	00500						
Fuel -steam	00501						
Steam expenses	00502						
Electric expenses	00505						
Misc. power expenses	00506						
Total Operation							
MAINTENANCE							
Maint -supervis. & engin.	00510						
Maint -structures	00511						
Maint -boiler plant	00512						
Maint -electric plant	00513						
Maint -misc steam plant	00514						
Total Maintenance							
Total Steam Operating exp.							
OTHER POWER SUPPLY EXP.							
Sys. control & load dispatch	00556						
TOTAL PRODUCTION EXPENSES							

GENCO
PRODUCTION EXPENSES - PLANT #1 TOTAL
DECEMBER 1994

		MONTH			YEAR-TO-DATE		
	ACCT. NO.	AMOUNT	MILLS PER KWH	CHANGE FROM PRIOR YEAR	AMOUNT	MILLS PER KWH	CHANGE FROM PRIOR YEAR
POWER GENERATION							
OPERATION							
Oper. supervis.& engin.	00500						
Fuel -steam	00501						
Steam expenses	00502						
Electric expenses	00505						
Misc. power expenses	00506						
Total Operation							
MAINTENANCE							
Maint -supervis. & engin.	00510						
Maint -structures	00511						
Maint -boiler plant	00512						
Maint -electric plant	00513						
Maint -misc steam plant	00514						
Total Maintenance							
Total Steam Operating exp.							
OTHER POWER SUPPLY EXP.							
Sys. control & load dispatch	00556						
TOTAL PRODUCTION EXPENSES							

GENCO
PRODUCTION EXPENSES - PLANT #2 TOTAL
DECEMBER 1994

		MONTH			YEAR-TO-DATE		
	ACCT. NO.	AMOUNT	MILLS PER KWH	CHANGE FROM PRIOR YEAR	AMOUNT	MILLS PER KWH	CHANGE FROM PRIOR YEAR
POWER GENERATION							
OPERATION							
Oper. supervis.& engin.	00500						
Fuel -steam	00501						
Steam expenses	00502						
Electric expenses	00505						
Misc. power expenses	00506						
Total Operation							
MAINTENANCE							
Maint -supervis. & engin.	00510						
Maint -structures	00511						
Maint -boiler plant	00512						
Maint -electric plant	00513						
Maint -misc steam plant	00514						
Total Maintenance							
Total Steam Operating exp.							
OTHER POWER SUPPLY EXP.							
Sys. control & load dispatch	00556						
TOTAL PRODUCTION EXPENSES							

GENCO
PRODUCTION EXPENSES - PLANT #3 TOTAL
DECEMBER 1994

		MONTH			YEAR-TO-DATE		
	ACCT. NO.	AMOUNT	MILLS PER KWH	CHANGE FROM PRIOR YEAR	AMOUNT	MILLS PER KWH	CHANGE FROM PRIOR YEAR
POWER GENERATION							
OPERATION							
Oper. supervis.& engin.	00500						
Fuel -steam	00501						
Steam expenses	00502						
Electric expenses	00505						
Misc. power expenses	00506						
Total Operation							
MAINTENANCE							
Maint -supervis. & engin.	00510						
Maint -structures	00511						
Maint -boiler plant	00512						
Maint -electric plant	00513						
Maint -misc steam plant	00514						
Total Maintenance							
Total Steam Operating exp.							
OTHER POWER SUPPLY EXP.							
Sys. control & load dispatch	00556						
TOTAL PRODUCTION EXPENSES							

GENCO
PRODUCTION STATISTICS – FUEL
DECEMBER 31, 1994

STATION	COAL NET TONS	MAZUT GALLONS	NAT. GAS MCF	DAYS SUPPLY	% CHANGE FROM PRIOR YEAR COAL	% CHANGE FROM PRIOR YEAR MAZUT	% CHANGE FROM PRIOR YEAR NAT. GAS
Plant #1							
Plant #2							
Plant #3							
Other storage							
System Total							

	MONTH			YEAR-TO-DATE		
		CHANGE FROM PRIOR YEAR			CHANGE FROM PRIOR YEAR	
DELIVERED COST – COAL PURCHASES –COST PER NET TON	AMOUNT	AMOUNT	%	AMOUNT	AMOUNT	%
Plant #1						
Plant #2						
Plant #3						
System Avg.						
BURNED – COST PER NET TON						
Plant #1						
Plant #2						
Plant #3						
System Avg.						
BURNED – COST PER MBTU						
Plant #1						
Plant #2						
Plant #3						
System Avg.						

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GENCO
PRODUCTION STATISTICS – FUEL
DECEMBER 31, 1994

	MONTH								
				CHANGE FROM PRIOR YEAR					
QUANTITIES BURNED	COAL NET TONS	MAZUT GALLONS	NAT. GAS MCF	COAL NET TONS	%	MAZUT GALLONS	%	NAT. GAS MCF	%
STATION/UNIT									
Plant #1 –Unit 1									
Plant #1 –Unit 2									
Plant #1 –Unit 3									
Plant #1 –Unit 4									
Plant #2 –Unit 1									
Plant #2 –Unit 2									
Plant #2 –Unit 3									
Plant #3 –Unit 1									
Plant #3 –Unit 2									
System Total									
TOTAL COST PER UNIT BURNED									
Plant #1 –Unit 1									
Plant #1 –Unit 2									
Plant #1 –Unit 3									
Plant #1 –Unit 4									
Plant #2 –Unit 1									
Plant #2 –Unit 2									
Plant #2 –Unit 3									
Plant #3 –Unit 1									
Plant #3 –Unit 2									
System Avg.									
BTU PER UNIT FUEL BURNED									
Plant #1 –Unit 1									
Plant #1 –Unit 2									
Plant #1 –Unit 3									
Plant #1 –Unit 4									
Plant #2 –Unit 1									
Plant #2 –Unit 2									
Plant #2 –Unit 3									
Plant #3 –Unit 1									
Plant #3 –Unit 2									
System Avg.									

GENCO

PRODUCTION STATISTICS – FUEL

DECEMBER 31, 1994

	YEAR-TO-DATE			CHANGE FROM PRIOR YEAR					
	COAL	MAZUT	NAT. GAS	COAL		MAZUT		NAT. GAS	
QUANTITIES BURNED	NET TONS	GALLONS	MCF	NET TONS	%	GALLONS	%	MCF	%
STATION/UNIT									
Plant #1 –Unit 1									
Plant #1 –Unit 2									
Plant #1 –Unit 3									
Plant #1 –Unit 4									
Plant #2 –Unit 1									
Plant #2 –Unit 2									
Plant #2 –Unit 3									
Plant #3 –Unit 1									
Plant #3 –Unit 2									
System Total									
TOTAL COST PER UNIT BURNED									
Plant #1 –Unit 1									
Plant #1 –Unit 2									
Plant #1 –Unit 3									
Plant #1 –Unit 4									
Plant #2 –Unit 1									
Plant #2 –Unit 2									
Plant #2 –Unit 3									
Plant #3 –Unit 1									
Plant #3 –Unit 2									
System Avg.									
BTU PER UNIT FUEL BURNED									
Plant #1 –Unit 1									
Plant #1 –Unit 2									
Plant #1 –Unit 3									
Plant #1 –Unit 4									
Plant #2 –Unit 1									
Plant #2 –Unit 2									
Plant #2 –Unit 3									
Plant #3 –Unit 1									
Plant #3 –Unit 2									
System Avg.									

GENCO
PRODUCTION STATISTICS – FUEL
DECEMBER 31, 1994

	MONTH											
					CHANGE FROM PRIOR YEAR							
COST PER MILLION BTU	COAL	MAZUT	NAT. GAS	TOTAL	COAL	%	MAZUT	%	NAT. GAS	%	TOTAL	%
STATION/UNIT												
Plant #1 –Unit 1												
Plant #1 –Unit 2												
Plant #1 –Unit 3												
Plant #1 –Unit 4												
Plant #2 –Unit 1												
Plant #2 –Unit 2												
Plant #2 –Unit 3												
Plant #3 –Unit 1												
Plant #3 –Unit 2												
System Avg.												

	YEAR–TO–DATE											
					CHANGE FROM PRIOR YEAR							
COST PER MILLION BTU	COAL	MAZUT	NAT. GAS	TOTAL	COAL	%	MAZUT	%	NAT. GAS	%	TOTAL	%
STATION/UNIT												
Plant #1 –Unit 1												
Plant #1 –Unit 2												
Plant #1 –Unit 3												
Plant #1 –Unit 4												
Plant #2 –Unit 1												
Plant #2 –Unit 2												
Plant #2 –Unit 3												
Plant #3 –Unit 1												
Plant #3 –Unit 2												
System Avg.												

GENCO
PRODUCTION STATISTICS – FUEL
DECEMBER 31, 1994

	MONTH			YEAR-TO-DATE		
		CHANGE FROM PRIOR YEAR			CHANGE FROM PRIOR YEAR	
COST PER KWH GENERATED	AMOUNT	AMOUNT	%	AMOUNT	AMOUNT	%
STATION/UNIT						
Plant #1 –Unit 1						
Plant #1 –Unit 2						
Plant #1 –Unit 3						
Plant #1 –Unit 4						
Plant #2 –Unit 1						
Plant #2 –Unit 2						
Plant #2 –Unit 3						
Plant #3 –Unit 1						
Plant #3 –Unit 2						
System Avg.						

BTU PER KWH GENERATED						
STATION/UNIT						
Plant #1 –Unit 1						
Plant #1 –Unit 2						
Plant #1 –Unit 3						
Plant #1 –Unit 4						
Plant #2 –Unit 1						
Plant #2 –Unit 2						
Plant #2 –Unit 3						
Plant #3 –Unit 1						
Plant #3 –Unit 2						
System Avg.						

GENCO
PRODUCTION STATISTICS – OUTPUT
DECEMBER 31, 1994

	MONTH			YEAR-TO-DATE		
		CHANGE FROM PRIOR YEAR			CHANGE FROM PRIOR YEAR	
KWH GENERATED	AMOUNT	AMOUNT	%	AMOUNT	AMOUNT	%
STATION/UNIT						
Plant #1 –Unit 1						
Plant #1 –Unit 2						
Plant #1 –Unit 3						
Plant #1 –Unit 4						
Plant #2 –Unit 1						
Plant #2 –Unit 2						
Plant #2 –Unit 3						
Plant #3 –Unit 1						
Plant #3 –Unit 2						
EHV losses						
System Output						
KWH SALES–GENCO SYSTEM						
Billed						
Unbilled						
KWH used by GENCO						
KWH unaccounted for						
System Total						
SIMULTANEOUS 60–MINUTE PEAK						
STATION/UNIT						
Plant #1 –Unit 1						
Plant #1 –Unit 2						
Plant #1 –Unit 3						
Plant #1 –Unit 4						
Plant #2 –Unit 1						
Plant #2 –Unit 2						
Plant #2 –Unit 3						
Plant #3 –Unit 1						
Plant #3 –Unit 2						
EHV losses						
System Total						

GENCO
PRODUCTION STATISTICS – OUTPUT CAPACITY
DECEMBER 31, 1994

CAPABILITY (KW) STATION/UNIT	GROSS CAPABILITY	STATION SERVICE	NET CAPABILITY
Plant #1 –Unit 1			
Plant #1 –Unit 2			
Plant #1 –Unit 3			
Plant #1 –Unit 4			
Plant #2 –Unit 1			
Plant #2 –Unit 2			
Plant #2 –Unit 3			
Plant #3 –Unit 1			
Plant #3 –Unit 2			
System Total			

OUTPUT (KW) MAXIMUM 60-MIN. PEAK(NET)	MONTH			YEAR-TO-DATE		
		CHANGE FROM PRIOR YEAR			CHANGE FROM PRIOR YEAR	
STATION/UNIT	AMOUNT	AMOUNT	%	AMOUNT	AMOUNT	%
Plant #1 –Unit 1						
Plant #1 –Unit 2						
Plant #1 –Unit 3						
Plant #1 –Unit 4						
Plant #2 –Unit 1						
Plant #2 –Unit 2						
Plant #2 –Unit 3						
Plant #3 –Unit 1						
Plant #3 –Unit 2						
EHV losses						

PRINCIPLES OF PROFIT CENTER FORMATION AND THE TRANSFER PRICING PROCESS

The electric generation power sector of Ukraine is undergoing dramatic changes as part of a series of economic reforms initiated by the government. In accordance with presidential decrees, the once fully integrated electric generating enterprises have been split up into generation, transmission and distribution enterprises in under a plan to privatize this industry. The transformation of the industry has been structured to create a competitive marketplace where there is an incentive to produce electricity in an efficient manner and to sell such electricity to the energo market through bids which maximize profits. In response to the organizational changes required due to the break up of the fully integrated electric generating enterprises and the change in the focus on operations being more cost conscious, the new enterprises will have to evaluate the organizational structure of the new corporations. To operate in such an environment, the electric generating enterprises (referred to as Genco's) should consider developing modified management techniques.

Two important concepts may be useful to the new Genco's in structuring their organization and developing management styles which focus on the corporation's activities and the related revenues and expenses associated with these activities. These concepts are profit centers and transfer pricing principles. This paper discusses some of the philosophies supporting the use of profit centers within a corporation's organizational structure and explains the basis for transfer pricing principles as applied to the exchange of goods and services between profit centers of a corporation.

I. PROFIT CENTERS

The organizational structure of a corporation should be developed to conform to the business goals, objectives and strategies of the business. The organizational structure should provide a framework, based upon established criteria, to organize the officers and employees to effectively carry out these objectives and strategies. There are an infinite variety of organizational structures that a corporation could use to organize itself under and the structure that is chosen by management is determined by many factors including the centralization of decision making, the level of autonomy that is given to departments, the nature of the business, the types of products or services sold and the diversity of such products and services and any number of other factors considered significant to management.

One corporate structure component that has successfully evolved and is in use by a multitude of differing industries is that of profit centers. As discussed below, profit centers are based on the theory of identifying and segregating an area of similar activities to focus management's attention on those activities.

PRINCIPLES OF PROFIT CENTER FORMATION AND THE TRANSFER PRICING PROCESS

Rationale behind the creation of profit centers

Corporations can be enormous organizations which produce and sell long lists of goods and or services which range from similar items to widely divergent ones. In response to these situations where there is a wide variety of products and services, profit centers are often established. The creation of profit centers is an attempt to better focus management's attention on its operations in the production of the goods and services it delivers, the revenues received from sales of these items and the items themselves. The production and sale of similar goods and or services can be placed in a profit center to segregate the processes involved in such production and sales to allow for increased control over assets used, sources and uses of resources and revenues and expenses that are associated with those activities. This level of management is very involved in a concentrated role of overseeing the activities of their profit center which allows them to become very familiar with the profit center's operations and to carry out the corporation's strategic plans as applicable through the profit center's operations. These managers become responsible for all aspects of that segment of the corporation's business.

Profit centers are created for 1) resource management: company assets and resources are identify and segregated as determined by management and placed in profit centers so as to monitor the efficient and effective use of the assets and resources; and 2) allows for the proper focus of attention and coordination of operations for specific functions within the company by one designated group of people who take direction from the profit center manager.

Many electric utilities in the U.S. and elsewhere have created profit centers in response to competition. An important part of the rationale is frequently to make each segment of the utility more accountable for and aware of its expenses and revenues and overall contribution to the utility's shareholder value. This requires an accurate understanding of the direct and indirect sources of costs and revenues broken down by profit center.

It should be noted that the creation of profit centers would be done in conjunction with an organizational structure based on decentralize decision making. In such an organization, managers of the profit centers would be given the responsibility of running these business units. They would still report to headquarters, follow corporate goals and strategies and be evaluated in their business unit's performance, but they would be given the autonomy to run the profit center under their direction. Depending on the corporation's management style, the profit center can be given varying levels of responsibility which would give the business unit's management a corresponding level of freedom in decision making. A list of some of the advantages of decentralization would include:

- develops a competitive climate within the organization
- subunits can become highly focused and tailored
- encourages development of professional managers
- places decision making closer to the point of decision
- subunit managers can make more timely decisions
- better utilizes the time and ability of executives
- senior management can focus more attention on strategic planning

Some of the disadvantages might include:

- possible duplication of certain tasks
- potential lack of unity of decisions within the organization and inconsistent application of corporate policies
- decisions made to benefit the subunit could actually be detrimental to the company as a whole

Definitions of a profit center

In order to create meaningful profit centers, it is necessary for the corporation to have a clear definition of what a profit center should be, its place in the corporate structure and areas for which it will be responsible. While this is a matter of corporate management's judgment, possible definitions could include the following terms:

- A natural profit center can be defined in terms of a pool of physical resources that are solely dedicated to the design, manufacture, and sale of its line of products.

- A natural profit center can also be defined in terms of the external market that its products are intended to serve.

- Many companies defined their profit centers as "the smallest practical component where a manager has control of all business functions (i.e. marketing, engineering and manufacturing) necessary to make and sell a product."

- Some companies establish profit centers for items which will only be consumed internally.

- Some profit centers are used by some for units which complete one element of a production chain and distribute their components to another unit.

- A genuine division is relatively independent of other divisions and is given some degree of autonomy to run the division in accordance with corporate goals.

- Profit centers are often formed based on market focus.

The definition of the profit center will exhibit management's chosen style of management. There could be many profit centers identified by very specific activities, profit centers that cover a large segment of the corporation's products or services, profit centers based on types of resources used, profit centers that have just serve other profit centers within the corporation or any other criteria selected that is deemed to be vital and better managed as a separate business unit.

Responsibilities of a profit center

Profit center managers have varying degrees of autonomy (depending on the corporate design). Each profit center manager has a set of responsibilities and he should have appropriate autonomy in fulfilling these responsibilities. The breadth and limit of assigned responsibilities should be conveyed to the manager of the profit center. The manager should know when clearance and approval of actions by headquarters management is required. Some decisions require clearance because the effects of such decisions could have impacts on other profit centers.

Typical areas of responsibility assigned to the profit center would include the preparation of budgets, formulation of strategies (both short- and long-term, and in accordance with the corporation's overall strategies), monitoring performance of the profit center, and making decisions in managing the unit's operations.

The responsibilities assigned to the profit center's management can take the form of financial and non-financial. The financial responsibilities often acquire a more prominent position in evaluating the unit's performance since performance is most typically measured in financial terms such as costs, revenues and profits. Responsibilities assigned to the profit center's management should be fully communicated and understood so that management has a clear understanding of their responsibilities, their authorities and how the profit center's performance and they will be evaluated. One of the reasons for establishing profit centers is to improve the monitoring of performance of the organization and, accordingly, a profit center measurement system is developed. The primary function of a profit center measurement system is to define the financial responsibility of the profit center's management. Relevant points in the development of a measurement system are discussed below.

When establishing profit centers, clearly established chains of command and levels of authority are necessary in the organization to properly coordinate the activities of the profit centers. All activities of the corporation should be considered along with all of the assigned responsibilities of each profit center so as to best coordinate profit centers' activities and to avoid any overlooked or overlapping areas of responsibilities between profit centers.

Measurement of performance

Measurement systems are critical when the organizational structure includes profit centers. These measurement systems can serve many purposes and allow for the review of a wide range of aspects of profit centers' operations. Several typical purposes of financial measurement systems for evaluation of profit centers' performance are as follows:

1. Coordination of planning for and budgeting the allocation of corporate assets. The financial measurement system provides a method to assign responsibility of cost to individuals to oversee. Such managers should budget costs they are responsible for overseeing.

2. The financial measurement system provides a quantitative framework of the range and extent of responsibilities assigned to that profit center. The profit center manager will know what assets and resources are assigned to his oversight, and which revenues costs fall within their scope of responsibilities. This should eliminate situations of duplication of efforts and unmonitored areas. The financial measurement system will provide feedback on the profit center's performance against targets.

3. The financial measurement system provides a quantitative feedback on the profit center's operating effectiveness. This would include the monitoring of uses of resources, evaluation of operations against budgets and prior periods, potentially provide insights and improve understandings of critical variables effecting profitability.

4. Corporate investment in the resources that a profit center utilizes are often analyzed to evaluate the productivity of the capital employed in each business segment. Investment base would generally include the asset values of external receivables, inventories and plant and equipment that can be directly identified with a specific profit center. There are other types of corporate assets where practices vary when including or excluding such assets from a profit center's investment base: 1) shared resources = cash, intra-company receivables, shared plant and equipment and headquarters facilities; and 2) nonoperating assets (intangibles and other investments).

The development of a financial measurement system depends on factors such as the complexity of the organization, the level of detail of the system and analysis of results, the degree of emphasis placed on the financial results of operations. Regardless of the specific system developed, several general elements should be incorporated into the design of the system. Consideration should be given to incorporating the following elements into the system:

- A set of accounting rules must be developed for the recordkeeping to properly reflect financial position and results of operations of each profit center. The accounting rules should be consistently applied. Conformity in the application of the accounting rules should be maintained for all profit centers in order to make comparisons meaningful.

- Reporting by profit centers should be done in a uniform manner to enhance comparability.

- Reporting should be detailed and comprehensive enough to cover all types of expenses of the corporation.

A critical component of the financial measurement system is the reporting element. The data and reports produced by the financial measurement system provide quantitative presentations of the results of operations and financial position of profit centers. The reporting element is one of the primary means of communication of financial matters between headquarters and the profit centers. While the measurement systems developed by corporations are structured to meet each corporation's specific needs, a properly structured financial reporting system should facilitate the communication of the following messages which should be a product of the financial measurement system:

1. Communicate corporate goals to operating units to support decentralized decision making by linking business unit activities with these goals and measuring results against those goals.

2. Communicate operating unit results to executives to enable the performance of units and investments to be measured.

3. Allow for establishment of information comparable against peers, competitors and benchmarks.

4. Properly designed profit and loss statements at the profit center level can help support an ethic that recognizes that every action has consequences for corporate value.

One of the basic reasons for establishing profit centers is to create a defined business unit which is manageable, and by this we mean that assets can be controlled and performance can be measured by a distinct group within the corporation. In our discussion of financial measurement systems for profit centers, we note that all of these systems will be similar in their basic purpose which is to provide quantitative data on performance. However, the interpretation of the performance of profit centers as quantified by the data produced by the financial measurement system will be based on criteria and evaluations unique to each corporation. Corporations monitor and evaluate performance subjectively and objectively through analysis of financial statistics, ratios and other factors. Some typical performance indicators used by corporations are:

- Income, earnings or profit are the most frequently reported financial performance measures.
- Rate of return
- Other financial indicators measures of cash flows, volume of sales or revenues and returns on sales.
- Nonfinancial indicators are also at times considered in evaluating profit center performance. Profit center profit and loss statements can encourage managers to focus too heavily on short-term results which may reduce costs but could be detrimental to the company on a long-term basis. An example would include reducing maintenance costs too dramatically which would favorable reduce in expenses for the current period, but may harm capital assets over a longer period.

Profit and loss statements

A widely used reporting format created to present the financial measurement systems data is the profit and loss statement. Profit and loss statements are typically designed to present revenues and expenses incurred, assigned or allocated to a profit center for a period. The exact elements of the statement will depend on what headquarters management wants the profit center management to concentrate on. Depending on the nature of operations of the profit center, the profit and loss statement could be structured to emphasize what is important for each profit center and could include components such as, revenues and expenses or just expenses; it could include all revenues and expenses or just those over which it has some level of control; or it could include a separation of costs within the report grouping costs that are directly controllable from those that are less so.

The determination of which types of costs and the methods by which they are assigned to a profit center can be a very difficult task, and this determination can result in the profit center's management to alter decision making depending on its operations and the cost components. When assigning costs, it is important to consider all the types of costs that could be considered to be associated with a profit center's operations. A brief list of costs could include the following classifications:

a.) direct expenses - costs that are clearly attributable to a function.

b.) capital related costs - these would include depreciation, interest and taxes. Capital related charges represent sunk costs, that is to say, the money has already been spent. For that reason, they are sometimes considered to be fixed costs and beyond the control of the profit center's management. Interest charges are often calculated as the overall cost of capital rate applied to the operating unit's investments.

c.) indirect costs - these are not directly related to any particular operating function. Such costs include corporate functions such as legal, finance and marketing, and other administrative costs incurred in performing operating functions such as computer usage, telephone charges and rent.

In developing profit and loss statements, it is important to consider that profit centers will need to receive financial reports which are based to some extent on transfer pricing between business units, allocations of common costs and perhaps eventually of corporate overhead cost pools, as is discussed below under section II. Transfer Pricing Principles.

It should be noted that the costs of creating profit and loss statements can be significant. Such costs would include both the design and development of the actual statements and the training of managers to use the statements properly as a management tool.

Cross subsidization

The creation of profit centers is done to focus management's attention to distinct areas of common activities which have been organized into decentralized units. In the case of an electric generating corporation, it may have a wide variety of activities and some profit centers are created for areas of operations which are subject to the jurisdiction of a regulatory body. Other profit centers, though, may be unrelated to the production and sale of electricity and, accordingly, its activities will fall outside the scope of a regulator. This becomes significant when goods and services are exchanged between profit centers, some of which are subject to regulatory oversight and some of which are not.

As is discussed below, transfer pricing is a process by which costs are assigned to goods and services exchanged between profit centers. The establishment of transfer price is very subjective and can be developed under many different pricing strategies. Depending on the basis for the calculation of transfer prices, regulators could intervene if it becomes the perception that cross subsidization is occurring. Cross subsidization refers to a situation where activities of the regulated business (the production of electricity) are subsidizing the non-regulated activities. An example of this would be as follows:

> Assume an electric generating corporation has many auxiliary enterprises, including an asphalt manufacturing plant. In order to assist the asphalt manufacturer's operations, the electric generation profit center provides electricity used in the asphalt manufacturer's plant. The electric generation profit center charges low or no rates on the electricity delivered to the asphalt manufacturing profit center. The electric generation profit center would be considered to be subsidizing the operations of the asphalt manufacturing profit center since it charges no fee for delivery of electricity. If the asphalt manufacturing profit center was an unrelated party, it would have to pay for the electricity received, and so by nature of its related party status to the electric generation profit center it has received a subsidy. The regulator would step in and revise the rates it allows the electric generation profit center charge customers if it concluded that electric generation profit center was subsidizing the operations of the asphalt manufacturing profit center since costs of generation were not being recovered from the asphalt manufacturing profit center and the customers of the electric generation profit center could be absorbing these costs.

Regulators will generally not allow cross subsidization, and as a result, transactions between regulated and non-regulated profit centers should be documented. Transfer pricing methods should be supported with documentation that will substantiate claims that the exchange of goods and services is charged at "fair" prices and do not create subsidies.

II. TRANSFER PRICING PRINCIPLES

A corporation which has established profit centers in its organizational structure will often have exchanges of goods and services between these profit centers. For this reason, a transfer pricing process must be established to assign values to these exchanges of goods and services so each profit center can include this activity in the measurement of its performance. Costs may be assigned to profit centers from either a corporate level activity and/or from other profit centers. These cost assignment methods are commonly called transfer prices because the amount of cost assigned to a profit center is determined by attaching a value to each unit of a product or service that it receives from other profit centers of the corporation.

In light of the fact that the profit centers were created to promote some degree of autonomous operations, each profit center will have responsibilities to run its operations in an efficient and profitable manner. This situation has created an area with many divergent practices and has generated much discussion amongst scholars and industry experts on how to properly value such exchanges. The questions which arise center on the fact that while these profit centers have been established to run as somewhat autonomous units, they are still a part of the corporation as a whole and the sum of each profit center contributes to the overall results of operations of the corporation. Based on this fact, headquarter's management is required to formulate a transfer pricing process which must establish transfer pricing policies which impact the results of each individual profit center but theoretically have no net impact on the results of operations for the corporation as a whole. Relevant decisions which be made involve determinations of whether exchanges should be valued at cost or whether a profit margin should be included.

There is not necessarily a "right" way when developing transfer pricing policies, much is dependent on many different factors such as the level of effort headquarter's management want to spend developing policies, the level of effort they want accounting personnel to spend maintaining the books and records for transfer pricing, the nature of the transfers between profit centers, the desired level of emphasis on the profit and loss statements for each profit center and many other considerations.

Transfer pricing functions

Many corporations have cited performance evaluation as the primary reason for utilizing transfer pricing. It is used in connection with the purposes behind the establishment of profit centers. In order to truly evaluate the performance of a profit center, all costs of resources used and consumed in operations must be included in such considerations. Transfer pricing allows for the inclusion of costs of resources used by one profit center that were originated or provided by another profit center of the company.

Development of transfer prices

There have been a number of methodologies created for use in setting transfer prices between profit centers. This section of the report discusses the basic methodologies used and describes situations where one method may be more appropriate than another. The transfer pricing methodologies can be categorized by four basic groups as follows:

Cost
- actual cost
- standard cost

Cost plus
- cost plus a flat percentage markup
- cost plus a defined profit margin

Market
- market prices
- adjusted market prices

Negotiated
- negotiated prices between profit centers

Cost basis

The transfer prices are based on actual costs generally include direct and indirect variable costs and can include a share of overhead costs. Standard costs include the same components as actual costs but transactions are valued based on a predetermined unit cost.

Cost plus basis

This method is based on actual costs but attempts to simulate a market price by adding a defined profit component to the transfer price which is "earned" by the profit center providing the good or service to the "purchasing" profit center. The profit component of the price is determined by allocating contribution margin between the supplying and receiving divisions or by adding a flat percentage markup to the cost of the product or service. There are theoretical arguments which state that the optimum transfer price is equal to "standard variable cost plus the contribution margin per unit on the outside sale given up by the company when a segment sells internally."

Market basis

The transfer prices are based on this method may be based on external pricing information or on the list price at which the product or service is sold by the corporation to external customers. It attempts to approximate prices based on what would be arm's length transactions with unrelated parties.

A variation of this method would be the adjusted market price, which would include an adjustment to the market price due to the fact that certain costs (like selling expense) are avoided for internal transfers.

Using market-based prices requires that functions define the products that they purchase and sell rather precisely. In the case of transfers between Power Supply and Distribution, kWh differ by rate of consumption (kW), time of consumption and guarantee of delivery.

Negotiated basis

Negotiated prices are based on a policy of allowing the profit center managers to simply negotiate their own prices for transfers of goods and services. Corporate guidelines may be set for such practices, but the prices are generally negotiated around the market price.

PRINCIPLES OF PROFIT CENTER FORMATION AND THE TRANSFER PRICING PROCESS

The selection of a transfer pricing methodology is based on factors such as the assessed fairness of the method, the impact on the profit centers, the determination of whether the nature of operations of the profit centers in question warrant transfer prices that include a profit component of treatment as market prices and the time and resources headquarters wants to devote to developing and administrating the transfer pricing process. Also note that the transfer pricing methodologies can be set differently within one corporation depending on the nature of the profit centers. A profit center at the corporate level, which serves all or many of the operations profit centers and is not organized to realize profits from its activities, would commonly transfer its goods or services at cost. An operations profit center, though, which is organized to realize sales and profits, may use transfer pricing for goods and services to other profit centers at a higher than cost level in order to recognize some level of profit margin on such sales. When selecting a methodology, further consideration should also be given to the following points:

1. Actual full cost prices have the virtues of simplicity and clarity. The total fixed and variable costs incurred by a division are divided by its output, and then internal transactions are priced at that average cost. Actual full cost prices, though, tend to offer little guidance for decision support. When internal sales comprise a major component of the supplying division's market, the supplying division has little incentive to control its costs. Any inefficiencies in the supplying department will show up as lost profits in the "purchasing" division.

2. Standard cost sets prices in advance and are based on what full costs are expected to be. They offer an advantage over actual cost transfer prices because they return cost control incentives to the supplying division.

3. The cost basis in general, whether actual or standard, can in some situations lead to dysfunctional decision making, especially when such costs are heavily loaded with overhead costs. In effect, they turn the supplying division's fixed costs into the purchasing division's variable costs. Therefore, decisions that make sense from the purchasing division's perspective may not from the corporate perspective. This situation occurs when the "selling" division offers services to another division at cost and this cost is a calculated as a percentage of the total fixed and overhead costs of the supplying division. The purchasing division may find that it can get the same services from an outside company for a lower price. From the purchasing division's perspective, it is saving the corporation money since it will purchase the needed services from an outside company at a lower price that it would have been charged by the selling division. However, since the price quoted by the selling division was based on fixed costs, these costs will be incurred regardless of whether the purchasing division uses them or not. What in effect results is that even though the purchasing division looks like it was more profitable since in incurred lower costs, the corporation as a whole was less profitable

since the fixed costs of the selling division were still incurred (even though no specific services were performed for the purchasing division) and additional costs were incurred by the purchasing division by its procurement of services from the outside company.

4. Marginal costs based transfer prices are set at the incremental cost of producing an additional unit of output. The goals of the purchasing unit, the selling unit and the corporation are then congruent, since any action taken to improve an operating unit's financial performance will also improve the company's.

   In practice, difficulties arise. The selling unit typically does not have a single marginal cost, it has a schedule of marginal costs that depend upon the level of production. As the level of production increase, the marginal cost of production increases. In addition, the purchasing unit typically bases its purchase on the price it must pay. The higher the price for an internal service, the less the purchaser will be willing to buy.

   In order to set margin cost based transfer prices correctly, it is necessary to compare the supply and demand curves for the intermediate products to determine the equilibrium level of output and the corresponding price.

Pricing allocations of shared resources

Assigning transfer prices to resources that are shared by many profit centers has its own issues to consider. Costs associated with shared resources are those costs which are charged to a profit center because it has shared in the utilization of resources that are under the functional authority of other divisions. The corporation will have pools of resources at headquarters or other levels within the organization that are shared among profit centers. Shared resources could include:

administrative services	corporate services
sales	finance
accounting	legal
interest	taxes
repairs	maintenance

In general, corporate service costs should be charged directly to the profit center to the maximum extent possible on the basis of a beneficial or causal relationship between supporting activities and receiving activities, leaving the fewest possible dollars in residual overhead pools to be allocated. Shared resource costs should be charged directly to the maximum extent possible on the basis of a beneficial or causal relationship between supporting activities and receiving activities, leaving the fewest possible dollars in residual overhead pools to be allocated.

Methods to allocate the shared resources to profit centers should be based on some basic principles such as fairness, the level of usage of resources by profit center, what control profit center has over usage of resource. In developing a transfer pricing methodology for these type of shared resources, the following methods are generally employed:

a.) chargebacks from other departments - this method generally treats the usage of shared resource as controllable expenses since the chargebacks are based on actual activities performed by other units at the profit center's request.

b.) allocated charges based on levels of activities - indirect costs are charged to a profit center based on some specific level of activity. As an example, some indirect overhead costs could be allocated each period based on the application of some rate to the profit center's labor costs. The higher the labor costs, the higher the charge for the related indirect costs.

c.) allocations - based upon a review of the profit center's characteristics, a set allocation of certain indirect costs would be charged to the profit center each period.

The allocation of shared resources is a determination that headquarters management should make. Considerations of what types of costs to allocate and how to allocate them are influenced by factors such as the desire to assign costs to fully reflect the costs incurred by profit centers, the assessed degree of direct benefit the profit centers receive, the ability of profit centers to bear such costs, concerns about arbitrary allocations of corporate overhead, the degree of control profit centers have over such costs and the necessity of the costs.

Establishing transfer prices

The responsibility for establishing transfer prices is normally assigned by a level of management high enough to possess the corporate authority necessary to impose the transfer prices on all profit centers and include input from management of profit centers who are effected by the transfer prices who are at a level close to operations. The establishment of transfer pricing policies is typically executed by methods including the following: policy guidelines are set by senior management, corporate accounting policies are set by corporate financial management and unit management establishes the market price for transfers.

Once transfer pricing policies have been established, subsequent requests by profit centers to appeal predetermined transfer prices are made generally made to: transfer pricing committees, corporate level management or the first common reporting level above the two profit centers.

Applying transfer prices

The adoption of transfer prices has various accounting implications on the organization. A general increase in the level of administrative tasks accompanies the recordkeeping responsibilities which are part of processing transfer pricing transactions. Administrative and accounting matters which should be considered when using transfer pricing are as follows:

1. External reporting requires the elimination of intercompany profits. Accounting systems must be created to be able to eliminate the intercompany profits, sometimes these systems are complex and require a good deal of time, effort, costs to run.

2. Methods of intracompany profit elimination:

   a. estimate an overall margin percentage to be used for elimination of intracompany profits. Separate percentages may be developed for various product classes or for different producing locations. The amount of inventory which remains on the books of the company at the end of an accounting period will be adjusted by this percentage factor to bring the inventory value back down to cost.

   b. segregate in the detailed inventory records the actual amount of intracompany profit associated with each item so that the total intracompany profit to be eliminated can be determined by adding up these individual amounts.

3. Accounting effort is generally influenced by the complexity of the product, the number of layers of intracompany profit and the cycle time required for production. Also, if products are transferred at actual cost, rather than standard cost, accounting effort can increase.

COMPARISON BETWEEN INTERNATIONAL ACCOUNTING STANDARDS AND UKRAINIAN ACCOUNTING STANDARDS

Standard	IAS	Ukrainian
IAS 1 - DISCLOSURE OF ACCOUNTING POLICIES		
1. IAS 1 - Comparative financial statements	Requires that financial statements contain corresponding figures for the previous period.	Same as IAS 1, except for Income Statement.
2. IAS 1 - Accrual basis of accounting	Required.	Required for expenses. Accrual basis can be chosen for revenues, but most companies utilize a collection basis to record revenues due to tax implications.
3. IAS 1 - Significant accounting policies	Disclosed	Policies are not disclosed, but are established by regulation, particularly the Regulation on Accounting and Reporting issued by the Ministry of Finance. Changes in policies should be disclosed.
4. Consistency of accounting policies.	Accounting policies are consistent from one period to another.	Same.
IAS 2 - INVENTORIES		
5. IAS 2 - Valuing stock	Inventories are valued at the lower of cost and net realizable value ("NRV").	Same as IAS 2.
6. IAS 2 - Basis of valuing cost	The benchmark is FIFO or weighted average and the allowed alternative is LIFO. [An IAS exposure draft would eliminate the LIFO alternative.]	Regulations permit FIFO, LIFO or average cost.
7. Overhead costs assigned as a component of inventory cost	Included as part of inventory.	Cannot be included as part of inventory.
8. IAS 2 - Valuation of inventory/stock above historical cost	There is normally no exception to the basic requirement that stocks are valued at the lower of historical cost and NRV. However, under IAS 29, revaluation of inventory would be made for financial reporting in a hyperinflationary environment.	Revalution is allowed.
IAS 4 - DEPRECIATION ACCOUNTING		
9. IAS 4 - Depreciable assets	All assets with a limited life should be depreciated.	Same.
10. IAS 4 - Depreciation	Depreciation is defined as a systematic and rational process of allocation over an asset's useful life; it does not create a cash fund for asset replacement.	Same, but useful life is determined by the Ukrainian government and less then economic life.

Standard	IAS	Ukrainian
11. IAS 4 - Disclosures	Requires disclosure for each major class of depreciable asset; the useful lives or the depreciation ratesused, method used, total depreciation charge for the period, gross amount of depreciable assets and accumulated depreciation.	Requires only disclosure for each major class of asset and movements within categories.
12. Salvage value	Depreciable amount should be reduced for significant residual values.	Salvage or negative salvage is not considered.
IAS 5 - INFORMATION TO BE DISCLOSED IN THE FINANCIAL STATEMENTS		
13. IAS 5	Deals with the minimum disclosures of information.	Statements prepared in accordance with Ukrainian AS would have to include addtional disclosures to comply with IAS 5 in all material respects.
IAS 7 - CASH FLOW STATEMENTS		
14. Presentation and classification	A cash flow statement is required. Cash flows should be classified as operating, investing and financing activities.	Not required in the western format. A schedule of "funds" required.
IAS 8 - UNUSUAL AND PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES		
15. IAS 8 - Extraordinary items	Extraordinary Items ("EI") will be rare; they must be clearly distinct from ordinary activities (e.g., expropriation of assets or an earthquake). Nature and amount of items should be separately disclosed from profit and loss of ordinary activities.	There is no requirement for separation between ordinary activities and EI. Such events could be mentioned as a note to the balance sheet.
16. IAS 8 - Discontinued operations	Deals with disclosures, but not recognition and measurement issues.	There are no rules for special disclosures of discontinued operations. Where such exist, they could be mentioned as a note to the balance sheet.
17. IAS 8 - Prior Period items/changes in accounting policies	The benchmark is to adjust opening retained earnings and restate the comparatives. The allowed alternative treatment is to include the cumulative effect in the Income Statement of the current period.	Changes are made on a prospective basis only.
18. IAS 8 - Disclosure of recently published accounting standards	Financial statements may contain a voluntary disclosure when an IAS has been published but has not yet come into force. The entity may disclose the nature of the future change in accounting policy and an estimate of its effect on the entity's profit or loss and financial position.	Not required.

Standard	IAS	Ukrainian
IAS 9 - RESEARCH AND DEVELOPMENT ACTIVITIES		
19. IAS 9 - Recognition of Research & Development ("R&D") costs	Development costs should be capitalized when certain criteria for asset recognition are met (i.e., probable future economic benefits and a cost or value that can be measured reliably).	R&D costs should be capitalized as an intangible asset.
20. IAS 9 - Amortization of capitalized R&D costs	Places a time limit on the amortization period. IASC believes that the uncertainties inherent in predicting the recoverability of the development costs and the difficulties in estimating future revenues and costs make it appropriate to use a short amortization period. Capitalized costs are normally amortized over a period not exceeding 5 years.	Capitalized costs should be amortized over the estimated period or 10 years.
21. IAS 9 - Disclosures	R&D disclosures are required by all enterprises and these include the amounts charged to expense and amortization methods and rates used. IAS 9 encourages companies to provide a description of their R&D activities.	Not required.
IAS 10 - CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE		
22. IAS 10 - Contingencies	A contingent loss is accrued where 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. Disclosures should cover: (a) the nature of the contingency; (b) the uncertain factors that may affect the future outcome and, (c) an estimate of the financial effect, or a statement that such an estimate cannot be made. Contingent gains are disclosed but not recorded.	Claims and penalties recorded went they are recognized due by debtor. Same.

Standard	IAS	Ukrainian
23. IAS 10 - Post balance sheet events	Financial statements are adjusted when a subsequent event provides additional information regarding conditions that existed as of the balance sheet date. Otherwise, provision for the presentation of additional proforma information where "such event may be so significant that disclosure can best be made by supplementing the historical financial statements, "for example of such a nature that disclosure is required to keep the financial statements for being misleading. For non-adjusting events, IAS does not permit reclassification of a non-adjusting event as adjusting, even in exceptional circumstances.	There is no such practice.
24. IAS 10 - Dividends	Takes a flexible approach to final dividends (i.e., dividends in respect of the period covered by the financial statements and that are proposed or declared after the balance sheet date but before approval of the financial statements). IAS states that such dividends should be either adjusted or disclosed.	Dividends are accounted for when they are declared.
IAS 11 - CONSTRUCTION CONTRACTS		
25. This standard deals with accounting by a building contractor and thus is not applicable.	Not applicable.	Not applicable.
IAS 12 - ACCOUNTING FOR TAXES ON INCOME		
26. IAS 12 - Methodology	Permits either the deferral or the liability method. IAS states that full provision for deferred tax should normally be made; however, it also permits partial provision for the timing differences which will not reverse for the considerable period (at lease 3 years). An IAS exposure draft (ED33) proposes that the liability method be used and states a preference for full provision for deferred tax; partial provision is still permitted.	The deferred tax method is not allowed.

Standard	IAS	Ukrainian
27. IAS 12 - Timing differences	Differences between the taxable income and accounting income for a period that arise because the period in which some items of revenue and expense are included in taxable income do not coincide with the period in which they are included in accounting income. Timing differences originate in one period and reverse in one or more subsequent periods.	As a rule there is no difference between the "book" and "tax" income.
IAS 13 - PRESENTATION OF CURRENT ASSETS AND CURRENT LIABILITIES		
28. IAS 13 - Presentation	A classified presentation is intended to give an approximate measure of the liquidity of the organization. IAS 13 provides guidance on items to be included in current assets and current liabilities.	A classified presentation is intended to give an approximate measure of the liquidity of the organization. Moreover the classification of assets is not consecutive or consistent.
IAS 14 - REPORTING FINANCIAL INFORMATION BY SEGMENT		
29. IAS 14 - Scope	Applies to all enterprises whose securities are publicly traded and to other economically significant entities including subsidiaries. An entity is defined as economically significant if its levels of revenues, profits, assets or employment are significant in the countries in which its major operations are conducted. There is no exemption in IAS 14 to allow companies not to disclose segmental information on the grounds that disclosure would be seriously prejudicial to the interests of the company.	Segment reporting is not required.
30. IAS 14 - Segment assets	Requires that segment assets employed are to be disclosed. Segment assets include all tangible and intangible assets that can be identified with that particular segment, as well as an allocation of assets shared between that segment and one or more other segments. Liabilities are generally not allocated because they are viewed as giving rise to a financing result rather than an operating result. The segment assets may be disclosed in money amounts or as percentages of the consolidated totals.	Segment reporting is not required.
31. IAS 14 - Basis of inter-segment pricing	Requires the basis of inter-segment pricing to be disclosed.	Segment reporting is not required.
32. IAS 14 - Sales to large customers	No specific disclosures.	No specific disclosure requirements exist.

Standard	IAS	Ukrainian
IAS 15 - INFORMATION REFLECTING THE EFFECTS OF CHANGING PRICES		
33. IAS 15 - Disclosures [Also see IAS 29 for related requirements.]	IAS 15 (replaces IAS 6) provides guidance on what are usually supplemental disclosures. The primary financial statements need not reflect the effects of changing prices to conform to IAS. These supplemental disclosures are encouraged and when made, they should include the adjustment to depreciation of property, plant and equipment, cost of sales, adjustments to monetary items, and the effect of borrowing or equity interests.	A discussion of factors affecting prices and financial results is required.
IAS 16 - PROPERTY PLANT AND EQUIPMENT		
34. IAS 16 - Measurement	The benchmark treatment is historical cost. Under the allowed alternative treatment, the asset is carried at the revalued amount. IAS 16 demands a systematic approach to revaluations requiring that an entire class of assets be selected for revaluation, or the selection of assets for revaluation be made on a systematic basis, which should be disclosed.	Historical cost, with periodic revaluation, as required by government decree.
35. IAS 16 - Components of cost (See also IAS 23 regarding Borrowing Costs.)	Cost comprises purchase price, including non-refundable purchase taxes, and any directly attributable cost of bringing the asset to working condition, less any trade discounts or rebates. Includes site preparation, initial delivery, installation cost (such as special foundations), engineering fees. Administrative and overhead expenses specifically related to the acquisition or bringing it to its working condition are capitalizable. Financing costs that are attributable to a project are capitalized.	Same, excluding administrative and overhead expenses (would perhaps include interest if they had any).
36. IAS 16 - Non-monetary transactions	Fixed assets acquired through a non-monetary exchange are recorded at the fair value of the consideration give or, if more clearly evident, the fair value of the asset acquired.	Fixed assets acquired through a non-monetary exchange are recorded at the book value of the items given.

Standard	IAS	Ukrainian
37. IAS 16 - Improvements & Repairs ("betterment accounting")	Expenditures that increase the future economic benefits from existing assets beyond its previously assessed standard of performance are capitalized. These include extension of the estimated useful life, an increase in capacity, an increase in output quality or a reduction in operating costs.	I&R expenses cannot be capitalized. They are included in expenses with the exceptions of works on reconstruction. or completion of construction.
38. IAS 16 - Revaluation	As distinguished from IAS 15, some financial statements substitute historical cost of plant with a revaluation. An increase in net value is normally credited directly to shareholders' equity.	The statutory revaluation of fixed assets can be declared only by the government. Revaluation is credited directly to shareholder's equity.
39. IAS 16 - Retirements and disposals	In historical cost financials, gains or losses arising on disposal are recognized in income currently. For revalued items, the amount standing in revaluation surplus may be transferred to retained earnings.	Gains or losses arising on disposal are recognized in income currently. There is no transfer of revaluation surplus to retained earnings.
40. IAS 16 - Impairment	If the usefulness of an item or a group of items is permanently impaired (damage or technological obsolescence), net carrying value is reduced to the recoverable (salvage) value as a charge against income.	Same.
41. IAS 16 - Depreciation	This is basically a duplication of IAS 4. All fixed assets with a limited life should be depreciated. Depreciation is required even if the value of the asset exceeds its carrying amount. IAS 16 also emphasizes that buildings have a limited life and are therefore depreciable assets. Investment properties are either treated as property (and therefore depreciated) or as long-term investments (and accounted for under IAS 25).	Depreciation is always required.
42. IAS 16 - Other disclosures	Disclosures include restrictions on title and commitment for acquistion of property.	A similar schedule of activity in the property accounts is required.

Standard	IAS	Ukrainian
IAS 17 - ACCOUNTING FOR LEASES		
43. IAS 17 - Financial leases	A financial lease transfers all the risks and rewards incident to ownership of an asset. IAS 17 lists 4 examples which would result in classification as a finance lease: (1) Transfer of ownership by the end of the lease term, (2) Lease contains bargain purchase option, (3) Lease term is for a major part of the asset's useful life, or (4) Present value of minimum lease payments is greater than or substantially equal to the asset's fair value at inception of the lease.	There is a concept, close to long-term financial lease, which implicates transfer of ownership by the end of the lease term. This kind of lease is to be capitalized.
44. IAS 17 - Disclosure by lessee of operating and finance leases	Disclosure in summary form giving the amounts and period in which the payments will fall due.	No disclosure is required.
IAS 18 - REVENUE		
45. IAS 18 - General	Prescribes rules for recognition of revenue arising from the sale of goods, the rending of services and the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is recognized as the service is performed.	Most companies recognized revenues on an actual cash collection basis.
46. IAS 18 - Dividends	Where the equity method of accounting (see IAS 27) is not used, dividend income is to be recorded when the right to receive payment is established.	Same as IAS.
47. IAS 18 - Non-monetary considerations	Consistent with IAS 16, non-monetary transactions are recorded at fair value.	Same.
48. IAS 18 - Effect of uncertainties on revenue recognition	Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of sale, revenue recognition is postponed. In such cases, it may be appropriate to recognize revenue only as cash is received. If the uncertainty arises subsequent to the time of sale, it is more appropriate to make a separate provision. When the outcome of transaction involving services rendered cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized that are recoverable.	Some companies recognized revenues on an actual collection basis.

Standard	IAS	Ukrainian
IAS 19 - RETIREMENT BENEFIT COSTS		
49. IAS 19 - Government plans	Payments required to be made pursuant to government legislation as contributions to national plans are charged to income as the service of employees is rendered.	Not applicable due to the national plan nature of coverage.
50. IAS 19 - Reconciliation of status of pension plan to amounts shown in employer's balance sheet.	Not required.	Not applicable due to the national plan nature of coverage.
51. IAS 19 - Post retirement benefits other than pensions	Not addressed.	Not applicable due to the national plan nature of coverage.
IAS 20 - ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE		
52. IAS 20 - Applicability	This IAS does not address government participation in the ownership of the enterprise. Grants are assistance by government in the form of transfers of resources to an enterprise in return for past or future compliance with certain conditions relating to operating activities.	Same.
53. IAS 20 - Grants for Fixed Assets	Grants related to depreciable assets are initially recorded as deferred income and are allocated to income over the periods and in the proportions in which depreciation on those assets are charged. An alternative method is to reduce the carrying value of the asset. The grant is thus recognized in the Income Statement by way of reduced depreciation (See #1 - P1) charges.	Grants related to depreciable assets are initially recorded as increase in equity.
IAS 21 - THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES		
54. IAS 21 - Translation of foreign currency income statements	Deals only with accounting for transactions in foreign currencies or translation of the financial statements of foreign operations into the currency of the parent company. See IAS 29 for rules when the parent company itself operates in a hyperinflationary environment. Requires use of the closing balance sheet rate for monetary items.	Deals only with accounting for transactions in foreign currencies. Requires use of the closing balance sheet rate for monetary items.
55. IAS 21 - Disclosure of exchange differences in shareholders' equity	Requires classification as a separate component with disclosure of the movements during the year.	Not required.

Standard	IAS	Ukrainian
IAS 22 - BUSINESS COMBINATIONS		
56. IAS 22 - Goodwill	Goodwill must be capitalized and then amortized over its estimated useful life. The estimated useful life should not exceed 5 years, unless a longer period (not exceeding 20 years) can be justified and is explained in the financial statements.	Goodwill must be capitalized and amortized over not more than 10 years.
57. IAS 22 - Negative goodwill	Under the benchmark treatment, non-monetary assets acquired are reduced proportionately until the negative goodwill is eliminated. If any negative goodwill remains after the allocation to non-monetary assets, it is treated as deferred income and amortized to income systematically over a period not exceeding 5 years unless a longer period (not exceeding 20 years) can be justified. Under the allowed alternative treatment, all negative goodwill is deferred and amortized from 5 to 20 years.	Same as for positive goodwill.
58. IAS - 22 Unitings (Pooling) of interests	Both the form and the substance of the transaction are brought into focus and the conditions under which a uniting of interests occurs are very restricted. The key concept is that the shareholder groups continue to share the same mutual risks and rewards; any arrangements that favor one group of companies, as compared to the other, will negate the ability to apply merger accounting if the criteria are met.	Not applicable.
IAS 23 - BORROWING COSTS		
59. IAS 23 - Capitalization of borrowing costs	Capitalization is the allowed alternative treatment. The concept of capitalization of costs of equity or preferred capital used for construction does not exist.	Capitalization for interest incurred during construction should be included in historic cost of such assets.
60. IAS 23 - Gross or net interest capitalized	To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount eligible for capitalization is determined as the actual borrowing costs incurred on that borrowing less any investment income on the temporary investment of those borrowings.	No specific rule exists.

Standard	IAS	Ukrainian
61. IAS 23 - Commencement of capitalization period	Capitalization should commence when expenditures for the asset and borrowing costs are being incurred and activities necessary to prepare the asset for its intended use or sale are in progress. These activities can include technical and administrative work prior to the commencement of physical construction.	Same.
62. IAS 23 - Cessation of interest capitalization	Capitalization of borrowing costs should cease when the asset is ready for service. If there are multiple parts, capitalization should cease on each part as it is completed.	Same.
63. IAS 23 - Disclosure	The financial statements should disclose the accounting policy for borrowing costs, the amount of borrowing costs that have been capitalized during the period and the capitalization rate used.	
IAS 24- RELATED PARTY DISCLOSURES		
64. IAS 24 - Definition of related party	Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. IAS 24 does not appear to regard associates and shareholders who own less than 20% of the share capital to be related parties of the enterprise.	There are no definitions.
65. IAS 24 - Scope of disclosure	Requires disclosure of all material transactions with related parties.	There are no disclosure requirements.
IAS 25 - ACCOUNTING FOR INVESTMENTS		
66. IAS 25 - Revaluations of long-term investments	Where long-term investments (including investment properties) are periodically revalued, a policy should be adopted with respect to the frequency of revaluations and that policy should apply to all long-term investments which should be revalued at the same time.	Securities could be revalued.
67. IAS 25 - Carrying basis	Investments classified as current assets should be carried at either market value or the lower of costs and market value. Investments classified as long-term assets should be carried at either cost or revalued amounts; or for marketable equity securities, the lower of costs and market value.	Carried at the lower of costs and market value. Decreases in carrying amount are included in income.

Standard	IAS	Ukrainian
IAS 26 - ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS		
68. Not applicable at this time.		
IAS 27 - CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING FOR INVESTMENTS IN SUBSIDIARIES		
69. IAS 27 - Definition of subsidiary	Generally greater than 50% of voting interest, power to control the majority of the board of directors, or power to govern the financial and operating policies.	Not applicable.
70. IAS 27 - Disclosures of consolidated subsidiaries	Name, location, percentage ownership.	Not applicable.
IAS 28 - ACCOUNTING FOR INVESTMENTS IN ASSOCIATES		
71. IAS 28 - Definitions	Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies. The IAS 28 definition elaborates on the ways in which significant influence might be exercisable.	Not applicable.
72. IAS 28 - Application of the equity method	(1) When financial statements with a different reporting date are used, adjustments are made for the effects of any significant events or transactions between the investor and the associate that occur between the date of the investor's financial statements and the associate's. (2) If an associate uses accounting policies other than those adopted by the investor for like transactions and events in similar circumstances, compensating adjustments are made to the associate's financial statements when they are used by the investor in applying the equity method. If it is not practicable for such adjustments to be calculated, that fact is generally disclosed.	Not applicable.
73. IAS 28 - Disclosures of equity investments	Name, description, percentage ownership.	Not applicable.

Standard	IAS	Ukrainian
IAS 29 - FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES		
74. IAS 29 - Applicability	Applies to the primary financial statements of any enterprise that reports in the currency of a hyperinflationary economy, which is defined as one in which the inflation rate exceeds or approaches 100% per year.	No rules have been established.
75. IAS 29 - Balance Sheet	Monetary assets and liabilities linked by agreement to changes in prices are carried at their adjusted amounts. Other nonmonetary assets and liabilities are adjusted using a general price index. Investments accounted for under the equity method are similarly revalued.	Not required.
76. Net monetary position	Gain or loss on the net monetary position should be included in net income and be separately disclosed.	Not required.
77. Disclosures	Disclose: the fact that financial statements for previous periods have been restated for changes in the general purchasing power of the reporting currency and are consequently stated in terms of the measuring unit at the current balance sheet date; whether the financial statements are based on historic or current cost approach; and the identity and level of the price index and its movement during the period.	
IAS 30 - DISCLOSURES IN THE FINANCIAL STATEMENTS OF BANKS AND SIMILAR FINANCIAL INSTITUTIONS		
78. IAS 30 is not applicable to this project		
IAS 31 - FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES		
79. IAS 31 - Method of accounting	The preferred method of accounting for an interest in a jointly controlled entity is to use the proportional (i.e., line by line) consolidation. The allowed alternative method is the equity method of accounting.	Not applicable.

AN INTRODUCTION TO INTERNATIONAL ACCOUNTING STANDARDS

PRICE WATERHOUSE LLP
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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 organisations 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 organisations having an interest in financial reporting. Its activities are supported by the International Federation of Accountants (IFAC) and the International Organisation of Securities Commissions (IOSCO) as well as the business community and stock exchanges worldwide.

This booklet, written by Price Waterhouse in 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 booklet 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. The booklet 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 analysing specific situations.

The structure of this booklet 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 booklet, 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 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 programme 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 categorised 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 booklet 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 specialised entities and are outside the scope of this introductory booklet. A full list of the standards extant at September 1994 can be found in the List of International Accounting Standards extant at September 1994.

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 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 unrealised 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 recognise 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, and

- 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 recognise 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 recognise 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.

IAS 31 also specifies how profits and losses are to be recognised 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 acquirer. 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 recognised 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 recognised 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 recognised as income or expense.

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 acquirer'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 acquirer'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 recognised 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 unamortised 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 recognised 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 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 recognised 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 determined.

Exchange differences arising on foreign currency transactions should be recognised 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 recognised 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 (see discussion of this Exposure Draft at page 37 of this section).

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 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 recognised 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 recognised 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 recognised 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 recognising revenue arising from the sale of goods emphasise 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 recognised 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 recognised simultaneously. For revenue to be recognised, 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 recognised; in such circumstances any consideration already received is recognised 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 recognised 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 recognised only to the extent of recoverable expenses recognised (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 recognised 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 recognised using the percentage of completion method. When the outcome of the contract can be estimated reliably, revenue and costs should be recognised 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 recognised only to the extent of costs incurred that it is probable will be recoverable. In such a case, contract costs should be recognised 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 recognised as an expense immediately.

RESEARCH AND DEVELOPMENT COSTS

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

CAPITALISED DEVELOPMENT COSTS

The development costs of a project should be recognised 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 recognised. 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 unamortised 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 recognised 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 realisable 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 emphasises 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 principal 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 recognised 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 recognised 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 recognised 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 recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

- A revaluation decrease is recognised 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 'realisation' of the revaluation. The revaluation surplus included in shareholders' equity may be transferred directly to retained earnings when the surplus is realised, eg on disposal of the asset. Part of the revaluation surplus may be realised as the asset is used by the enterprise; in such a case, the amount of the surplus realised 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 recognised 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 recognised 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 recognised 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 emphasises that depreciation is required even if the current value of the asset exceeds its carrying amount. It also emphasises 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.

Capitalisation of Borrowing Costs

Benchmark treatment

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

Allowed alternative treatment

Borrowing costs should be recognised 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 capitalisation

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation 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 capitalisation should be determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation 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.

Capitalisation 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. Capitalisation is suspended during extended periods in which active development is interrupted. Capitalisation 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 recognised 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 recognised 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 recognised 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 unamortised 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, recognised 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 recognised immediately. If the sale price is below fair value, any profit or loss should be recognised 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 recognised 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 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 recognise 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 recognised 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 recognised 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 recognise 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 utilised, 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 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 realisable 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 realisable 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 realisable 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 realisation.

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 realised. 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 recognises 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.

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 programmes) 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 recognises 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.

Unrealised 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 recognised 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 recognised 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 recognised 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 recognised 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 realised.

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 (analysed 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 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 recognised 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 recognised 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 recognised as an expense in the income statement where they relate to items shown in the balance sheet as liabilities, and are recognised 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 recognised amounts and intends either to settle on a net basis, or to realise 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 recognised 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 recognised 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 recognised 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 recognised 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 finalised as an International Accounting will standards 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

* 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.

PREPARATION OF FINANCIAL STATEMENTS BASED ON INTERNATIONAL ACCOUNTING STANDARDS

ADJUSTING ACCOUNTING ENTRIES TO BE MADE TO ACCOUNTING RECORDS THAT ARE BASED ON ADMINISTRATIVE ACCOUNTING SYSTEM OF UKRAINIAN

There are a number of differences between the accounting treatment for transactions recorded under the International Accounting Standards (IAS) and under the Administrative Accounting System of Ukraine (UAS). The following list identifies the most common differences between the IAS and UAS basis' of accounting and provides examples of typical adjustments that would be necessary to prepare financial statements in compliance with IAS requirements based on accounting records that are prepared in accordance with UAS requirements.

A. ACCRUAL BASIS OF ACCOUNTING

The majority of companies operating in Ukraine use the cash basis of accounting for recording revenue recognition. The cash basis is used since this allows them to defer the calculation and payment of profit taxes until the time when cash is received. When electric power is delivered to customers, the generating company records a receivable from the customer in the amount of the cost of the electricity generation. When cash is received, the revenue is recognized and the cost of the electricity generation is also recognized at that time, which follows the matching principle.

Under IAS principles, revenue recognition should occur when the electric service is delivered to the customer and a receivable is originated. At that time, the cost of the electricity generation is also recognized at that time, which follows the matching principle.

Due to the difference in the period when revenue and expenses are recognized under these two basis' of accounting, a timing difference is created. This timing difference requires that certain accounts be maintained separately for UAS financial statement preparation and for IAS financial statement preparation. Separate accounts should be created for UAS and for IAS reporting purposes for the following accounts: revenues, expenses, trade accounts receivable and retained earnings. The separate UAS accounts would only be used for preparation of UAS financial statements and the IAS accounts would only be used for preparation of IAS financial statements.

Example Description: The following example shows how the same transactions would be recorded if the cash basis of accounting for revenue recognition is used and dual reporting under IAS requirements is also desired.

1. Electricity is generated for delivery to customers, in this case the power pool. The cost of fuel used in generating the electricity is Kb 2,000,000. Additionally, indirect expenses of Kb 1,000,000 are incurred and Kb 500,000 of administrative costs are also incurred. These expenses should also be recorded in the "UAS Only" expense accounts.

2. These expenses described in # 1 above should also be recorded correspondingly for the same amounts in the "IAS Only" expense accounts. These would be considered to be "one-sided" entries.

3. The indirect expenses recorded in the "UAS Only" accounts are closed at the end of the month to Account 20.

4. Electricity is delivered to the power pool. For UAS accounting purposes, the cost of generating the electricity as recorded in Account 20 is transferred to the services delivered account for the Kb 3,500,000 cost of producing the electricity. For IAS purposes, the expenses should remain in the IAS Only expense accounts.

5. Revenue is recognized for IAS purposes upon the delivery of electricity. The amount expected to be received based on the bid prices and electricity delivered is recorded as an accrued receivable with a corresponding entry to record accrued operating revenue, both of these entries would be recorded in the "IAS Only" accounts. We will assume an amount of Kb 5,000,000 as the receivable.

6. If the end of a reporting period occurred prior to the receipt of cash, under IAS accounting methods the retained earnings would reflect the sale of the electricity to the power pool. But under UAS accounting methods, such sales would not be reflected as income and retained earnings would therefore not include the results of these transactions.

   At the end of the reporting period, the accrued operating revenue, "IAS Only", would be closed and transferred to retained earnings, "IAS Only". At the same time, the IAS Only expense accounts would be closed and such amounts would also be transferred to retained earnings, "IAS Only". There would be no corresponding entries for the UAS Only expense accounts since no expenses are recognized at this time under UAS accounting principles.

7. When cash is subsequently received from the electricity delivery, the cash account would be debited for the amount received, in this example Kb 5,000,000. For UAS accounting purposes, operating revenues would be recorded for the amount of cash received.

8. At the same time that entry #7 is made, trade accounts receivable for the "IAS Only" accounts would be credited for this same amount in a one-sided entry.

9. To match the expenses with the revenues recorded in entry #6 above, the cost of generating the electricity as recorded in the services delivered account, "UAS Only", is transferred to the cost of electric service provided, "UAS Only" account.

PREPARATION OF FINANCIAL STATEMENTS BASED ON INTERNATIONAL ACCOUNTING STANDARDS

Example Entries:

	Account Description	DR.	CR.
1.	#20501 Fuel Expense - UAS Only	2,000,000	
	#06151 Fuel Stock		2,000,000
	#25511 Maintenance of Structures - UAS Only	1,000,000	
	#70232 Accounts Payable - Staff Salaries		1,000,000
	#26921 Office Supplies and Expenses - UAS Only	500,000	
	#60232 Accounts Payable		500,000
2.	#00501 Fuel Expense - IAS Only	2,000,000	
	#00511 Maintenance of Structures - IAS Only	1,000,000	
	#00921 Office Supplies and Expenses - IAS Only	500,000	
3.	#20401 Operation Expense - UAS Only	3,500,000	
	#20501 Fuel Expense - UAS Only		2,000,000
	#25511 Maintenance of Structures - UAS Only		1,000,000
	#26921 Office Supplies and Expenses - UAS Only		500,000
4.	#45000 Goods and Services Delivered - UAS Only	3,500,000	
	#20401 Operation Expense - UAS Only		3,500,000
5.	#00173 Accrued Utility Revenue - IAS Only	5,000,000	
	#00441 Accrued Energy Sales to Power Pool - IAS		5,000,000
6.	#00441 Accrued Energy Sales to Power Pool - IAS	5,000,000	
	#00433 Balance Transferred from Income - IAS		5,000,000
	#00433 Balance Transferred from Income - IAS	3,500,000	
	#00501 Fuel Expense - IAS Only		2,000,000
	#00511 Maintenance of Structures - IAS Only		1,000,000
	#00921 Office Supplies and Expenses - IAS Only		500,000
7.	#51131 Cash in Bank Account - Local Currency	5,000,000	
	#46400 Operating Revenue - UAS Only		5,000,000
8.	#00173 Accrued Utility Revenue - IAS Only		5,000,000
9.	#46401 Cost of Electric Services Delivered - UAS	3,500,000	
	#45000 Goods and Services Delivered - UAS Only		3,500,000

B. ACCOUNTING FOR THE ADOPTION OF ACCRUAL ACCOUNTING IN THE INITIAL YEAR OF ADOPTION

During the initial year of adoption of accrual accounting for revenue and expense recognition, additional adjustments will have to be made to account for transactions which originated in prior periods but were not recognized as revenue and expenses in such prior periods and would have been recognized as such during the current period.

In accordance with IAS 8, a change in accounting policy should be applied retroactively. The "benchmark treatment" requires any adjustments resulting from adoption should be reported as an adjustment to the opening balance of retained earnings. The "allowed alternative treatment" requires that any adjustments resulting from adoption should be reported as an item to be included in the determination of net profit or loss of the current period.

Example Description: The effects of the adoption of the accrual basis of accounting would be determined as described in the following example.

1. At the beginning of the year, there is a Kb 5,000,000 balance in the goods and services delivered "UAS Only" account. This amount represents the costs of electricity generated and delivered to the power pool through the end of the prior year for which payment has not been received and revenue and expenses have not yet been recognized in accordance with the cash basis of accounting. Expected cash receipts from the delivery of the electricity to the power pool is Kb 7,000,000.

2. For IAS financial statement purposes revenues should be recognized for the electricity delivered and the associated expense incurred in the production of the electricity sold to the power pool should also be recognized. The net adjustment, ignoring the effects of taxes, resulting from the adoption of accrual accounting for electricity sales would be a net profit of Kb 2,000,000 profit from the prior year's electricity sales.

3. If the IAS "benchmark treatment" is followed for the adoption of a change in accounting, an accrued revenue receivable, "IAS Only", for Kb 7,000,000 should be recorded and a credit of Kb 2,000,000 is posted to the opening retained earnings balance in the unappropriated retained earnings, "IAS Only", account. Note that the Kb 5,000,000 debit balance in the goods and services delivered, "UAS", account would not be included in preparing the IAS financial statements, and so this produces an effect of crediting this account for Kb 5,000,000 which would result in this entry balancing.

4. If the IAS "allowed alternative treatment" is followed, a debit of Kb 7,000,000 is recorded

for the accrued revenue receivable, "IAS Only, but instead of crediting the beginning retained earnings balance as described in entry #3 above, the revenue and expense components would be recognized currently in income. In order to separate the effects of this change in accounting principle from the results of ordinary operations, this would be recorded as a net credit of Kb 2,000,000 in the extraordinary income, "IAS Only", account. Note that the Kb 5,000,000 debit balance in the goods and services delivered, "UAS Only", would not be included in preparing the IAS financial statements, and so this produces an effect of crediting this account for Kb 5,000,000 which would result in this entry balancing.

Example Entries:

	Account Description	DR.	CR.
1.	- - -		
2.	- - -		
3.	#00173 Accrued Utility Revenues - IAS Only	7,000,000	
	#00216 Unappropriated Retained Earnings-IAS Only		2,000,000
4.	#00173 Accrued Utility Revenues - IAS Only	7,000,000	
	#80434 Extraordinary Income - IAS Only		2,000,000

C. DEFERRED TAXES

As discussed above, under the cash basis of accounting revenue and expense recognition occurs upon the receipt of cash. Profit taxes would then be calculated and become payable at the time of recognition. Under accrual accounting revenue and expense recognition happens earlier, which is the period when electricity is delivered to the power pool. In accordance with IAS 12, 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 expenses to which they relate. The resulting tax effects of the timing difference in revenue and expense recognition are included in the income statement and in the deferred tax balances in the balance sheet. 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 expenses would be recorded in the income statement and recorded as deferred tax liabilities for taxes payable in the future.

Example Description: The following example shows how the deferred taxes would be calculated and recorded if the cash basis of accounting for revenue recognition is used and dual reporting under IAS requirements is also desired.

1. Expenses incurred in the generation of electricity delivered to the power pool totalled Kb 4,000,000 for the month. Revenues accrued upon delivery to the power pool were recorded in the "IAS Only" revenue account for Kb 6,000,000. No revenues or expenses were recognized for UAS financial statement purposes for the month since no cash has yet been received.

2. For IAS financial statement purposes, a deferred tax expense of Kb 600,000 (calculated for illustrative purposes as (Kb 6,000,000 - 4,000,000) * 30%)) would be recorded in deferred profit taxes, "IAS Only", account and a corresponding amount would be credited to the deferred tax liability, "IAS Only", account.

Example Entries:

	Account Description	DR.	CR.
1.	See entries #1,2 and 5 under the ACCRUAL BASIS OF ACCOUNTING section above.		
2.	#00410 Provision for Def. Profit Tax Exp -Util. Oper. - IAS Only	600,000	
	#00255 Accumulated Deferred Profit Taxes - Current - IAS Only		600,000

D. PROVISION FOR BAD DEBT

In accordance with Ukrainian regulations, bad debt expenses are recognized after the time for recoveries has expired. Accordingly, no provision for bad debt expenses are recorded at the point of the sale when accounts receivable are recorded.

Financial reporting under IAS requires that assets be stated at their realizable value. This would include accounts receivable, and in valuing these assets the collectability would be evaluated and a provision for uncollectible accounts would be established. The recording of provisions for bad debts at times prior to when such provisions would be recorded under Ukrainian regulations would be done through the IAS Only accounts. Similarly, upon such time when provisions for bad debts are recorded in accordance with the Ukrainian regulations, only the UAS Only accounts would be affected.

Example Description: The following example shows how the a provision for bad debts would be

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calculated and recorded if the Ukrainian regulations for bad debt recognition is used and dual reporting under IAS requirements is also desired.

1. Sales from non-utility operations of Kb 1,000,000 are accrued and recorded for IAS purpose financial statements. Of this amount, management believes that Kb 40,000 will not be collectible from customers. Therefore, a provision for bad debts was established for estimated uncollectible accounts. This is recorded as a expense in the "IAS Only" accounts and a credit for a corresponding amount was recorded in an "IAS Only" accumulated provision for uncollectible accounts asset off-set account.

2. When accounts receivable are determined to be uncollectible under Ukrainian regulations, provisions for bad debts would be recorded as a an expense and as a corresponding credit to the accumulated provision for uncollectible accounts asset off-set account, both accounts of which are "UAS Only".

Example Entries:

	Account Description	DR.	CR.
1.	#00904 Uncollectible Accounts - IAS Only	40,000	
	#00144 Accum. Provision for Uncoll. Accts.-Credit-IAS		40,000
2.	#26904 Uncollectible Accounts - UAS Only	40,000	
	#89000 Accum. Provision for Uncoll. Accts.-Credit-UAS		40,000

E. REVALUATIONS OF ASSETS

For purposes of financial statements prepared in accordance with IAS, assets are generally carried on the balance sheet at their net realizable values. The following standards specifically address valuations for certain assets.

In accordance with IAS 16, subsequent to the initial recognition of property and plant assets, an item of property and plant should be carried at a revalued amount, which would reflect its fair value less accumulated depreciation. Any increases in asset values based on revaluations should be recorded with a corresponding increase to a revaluation surplus account within owners' equity. However, any revaluation increases reversing prior revaluation decreases recognized as expense should be recognized as income. Any decreases in asset values based on revaluations should be recorded with a corresponding expense. However, any revaluation decreases reversing prior revaluation surpluses recognized as expense should be recorded as decreases to such surplus.

In accordance with IAS 2, inventories should be measured at the lower of cost and net realizable value. Any write-downs of inventories to net realizable value should be recognized as an expense in the period of the write-down. Any reversals of any 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.

In accordance with International Accounting Standard 25, investments should be carried on the balance sheet at either their market value or the lower of cost and market value. Any increase in the carrying value of investments should be credited to owners' equity as a revaluation surplus. Any decreases in investments' carrying value based on revaluations should be recorded with a corresponding expense. However, any revaluation decreases reversing prior revaluation surpluses should be recorded as decreases to such surplus.

Detailed records of valuation adjustments should be maintained. Such information will be required when determining the proper accounting for subsequent years' revaluations.

Example Description: The following example shows how the a revaluation of property and plant would be recorded for IAS reporting purposes.

1. After evaluating a certain class of property, it is determined that such property should be revalued Kb 330,000 higher than current its net book value. The increase in the value of the assets should be recorded in the property account and a corresponding amount should be added to the revaluation surplus account in owners' equity.

1.a. In a subsequent year, the same property discussed in #1 above it is determined to that the property should be revalued Kb 500,000 lower that the previously revalued amount. The Kb 500,000 decrease in assessed value would be recorded as a) a decrease in the property account for Kb 330,000 and a corresponding decrease in the revaluation surplus account in owners' equity and b) an expense of Kb 170,000 would be recorded.

2. Inventories are evaluated and it is determined that the net realizable value of a certain class of inventory items is Kb 1,000,000 less than its currently recorded cost. The inventory account should be reduced by the Kb 1,000,000 decrease in assessed value and a charge for the same amount should be reflected as an expense.

2.a. In the subsequent year, one-half of the same class of assets discussed in entry 2 above, remains on hand. At the later date, it is determined that the net realizable value of the inventory items has increased by Kb 600,000. The revaluation should be recorded as a debit to the inventory account of Kb 500,000. The remaining Kb 100,000 of the revaluation increase is not recorded in accordance with the lower of cost and net realizable value principle. (Note that since only one-half of the inventory remained, only Kb 500,000 of the revaluation surplus remained.) Kb 500,000 would be recorded as a credit to the cost of goods sold expense.

Example Entries:

	Account Description	DR.	CR.
1.	#01121 Non-Utility Property	330,000	
	#88209 Revaluation Surplus		330,000
1.a.	#88209 Revaluation Surplus	330,000	
	#81422 Other Deductions - Taxable	170,000	
	#01121 Non-Utility Property		500,000
2.	#81422 Other Deductions - Taxable	1,000,000	
	#06151 Fuel Stock		1,000,000
2.a.	#06151 Fuel Stock	500,000	
	#20501 Fuel Expense - UAS Only		500,000
and a simultaneous one-sided entry:			
	#00501 Fuel Expense - IAS Only		500,000

F. REPORTING IN HYPERINFLATIONARY ECONOMIES

Prices change over time for a number of various reasons. In hyperinflationary economies, financial statements are useful only if they are expressed in terms of the measuring unit current at the balance sheet date. Financial statements prepared in hyperinflationary economies should be restated in order to provide useful information. Due to the loss of purchasing power of money comparisons of amounts from transactions occurring at different times, become misleading.

In accordance with IAS principles, all nonmonetary assets and liabilities should be restated for financial statements. Monetary items include money held and items to be received or paid in money. Additionally, monetary gains and losses arising from increases and decreases in purchasing power should be included in net income for the period. The gain or loss on net monetary position may be derived as the difference resulting from the restatement of non-monetary assets, owners equity and income statement items and the adjustment of index linked assets and liabilities.

Example Description: See the attached example on the calculation of adjustments to financial statements for hyperinflationary economies.

G. ELIMINATION OF CERTAIN RESERVES

Under UAS methodologies, special funds and reserve funds are used to allocate the enterprise's resources for certain specified purposes. This is done through allocations of the enterprise's profits for establishment or additions to special or reserve funds. The special or reserve fund are created for purposes such as: future payments to employees, set aside of profits for future years' losses and expenditures, future construction of assets, payment of future legal expenses, payment of social and welfare type benefits and the direction of the enterprise's profits for other purposes.

The accounting for the application of profits for specific uses and allocations to these reserves is done through Account 81 Use of Profits, and this account is written off at year end to Account 80 Profit and Loss. The effect of these transactions is such that the net amount left in Account 80 is the net profit from operations, less allocations for the enterprise's business development plans and social responsibilities.

Under IAS methodologies, reserves are only established in the accounting records when management has determined that identifiable future expenditures are both a)considered to be probable of occurrence and b) estimable in amount. The establishment of reserves and additions to such reserves would be included as reduction in the determination of net income. Reserves under IAS reflect the prudent accrual of expenditures for which the event or obligation creating the expenditure has already occurred and which are considered to be likely to be required payments. No other reserves would be established since these would reflect discretionary debits to net income that are not representative of current activities. If management wanted to set aside resources for future activities, it could create appropriations of retained earnings for such purposes.

Example Description: The following example shows how the a revaluation of reserves established under IAS would be adjusted for financial statement reporting under IAS.

1. In prior years, management established a special fund of Kb 7,000,000 for social developments. There are no contractual obligations to make predetermined payments for these benefits and so this would reflect an appropriation of retained earnings rather than a reserve for estimated payments required to be made.

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Example Entries:

	Account Description	DR.	CR.
1.	#89228 Accumulated Misc. Operating Provisions	7,000,000	
	#88215 Appropriat. Retained Earnings - Spec. Funds		7,000,000

H. INCOME STATEMENT PRESENTATION - 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 expense items (including income taxes) would be included in the determination of net income (or loss). The presentation would not include any distinctions in items that are considered taxable or non-taxable for profits and other taxes payable determinations.

In accordance with UAS guidelines, Account 46 Sales of Goods and Services records all of 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 80 also accumulates other types of revenues. Account 81 records certain expenses not allowable for profit and other tax calculations, and it also accumulates the allocations of profits for special funds as discussed above in "ELIMINATION OF CERTAIN RESERVES".

In preparation of an income statement in accordance with IAS principles from accounting records prepared under UAS principles, certain information must be evaluated and extracted from the records to evaluate the nature of the transactions to determine the financial statement presentation. The following typical transactions would be treated as described below:

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

- As discussed above in "ELIMINATION OF CERTAIN RESERVES", allocations of profits for reserves obligations that are considered probable of occurrence and estimable for events that have already occurred should be reflected as expenses for the period reported on by the income statement. All other allocations for reserves are not considered expenses which should be included in the determination of net income.

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

I. FINANCIAL STATEMENT PRESENTATION

Financial statements prepared in accordance with IAS are intended to be useful to a wide range of readers who have differing needs for financial information which should be presented in the financial statements. The financial statements are intended to disclose information about the enterprise and its assets, liabilities and equities, its results of operations, its sources and uses of funds and other specific disclosures of comments on matters relevant to items included in the financial statements and future operations.

These disclosures are to be presented in financial statements consisting of a balance sheet, an income statement, a statement of cash flows and accompanying notes which provide further information and explanatory material.

The attached financial statements provide a pro forma example of how an electric generating company would present financial statements in accordance with IAS principles.

J. INCLUSION OF AUXILIARY ENTERPRISES IN FINANCIAL STATEMENTS

All enterprises associated with the electric plants of the GENCO's should be consolidated into the financial statements for each plant, and then each consolidated plant's financial statements should be consolidated for reporting by the GENCO. This would include the non-utility related operations which are owned and operated by the generating plants, such as the concrete companies, the asphalt companies, the sanitoriums, the farms and other auxiliary enterprises.

In order to avoid overstating revenues and expenses of the combined operations of the generating plants and the GENCO's, consolidation of these auxiliary enterprises in the financial statements of the generating plants should include elimination of certain transactions including inter-company sales and cost allocations and inter-company profits. Consolidating worksheets should be prepared which total the results of operations of all auxiliary enterprises and the generating plant, and then the inter-company transactions would be eliminated to avoid double counting revenues and expenses accumulated by the generating plants and similarly by the auxiliary enterprises in their income statements.

An example of the presentation of financial reports corresponding with IAS 29

	Beginning of Year	As of, and for the year ended	Ratio	According to the report	Difference
ASSETS					
Fixed assets at historic cost	200,000	230,000	2.2	506,000	276,000
Accumulated depreciation	(50,000)	(70,000)	2.2	(154,000)	(84,000)
Accounts Receivable	30,000	80,000	1.0	80,000	- - -
Cash	10,000	15,000	1.0	15,000	- - -
	190,000	255,000		447,000	
LIABILITIES					
Common stock	(20,000)	(20,000)	2.2	(44,000)	(24,000)
Retained earnings, previous years	(60,000)	(60,000)	1.0	(60,000)	- - -
Retained earnings, current year	- - -	(20,000)	N/A	(188,000)	
Long-term liabilities	(75,000)	(85,000)	1.0	(85,000)	- - -
Accounts payable	(35,000)	(70,000)	1.0	(70,000)	- - -
	(190,000)	(255,000)		(447,000)	
PROFIT AND LOSS					
Revenues		(500,000)	1.6	(800,000)	(300,000)
Cost of electricity production		300,000	1.6	480,000	180,000
Depreciation		20,000	1.6	32,000	12,000
Operational costs		40,000	1.6	64,000	24,000
Interest expense		12,000	1.6	19,200	7,200
Taxes		100,000	1.6	160,000	60,000
Profit/(loss) from monetary gains and losses		- - -	N/A	(151,200)	
Net income		(28,000)		(196,000)	
Dividends		8,000	1.0	8,000	- - -
					151,200
Retained earnings (losses) from current year		(20,000)		(188,000)	

Assumed general price index, beginning of year	100.0
Assumed general price index, end of year	220.0
General price index ratio	2.2
Based on assumption of even level of sales throughout year, general price index ratio for P&L transactions	1.6