LEBANESE AMERICAN UNIVERSITY

**Application of International Accounting
Standards In Lebanon**

By

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APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS
IN
LEBANON

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THE FOLLOWING PROFESSORS NOMINATED TO SERVE AS THE
ADVISORS OF THE ABOVE CANDIDATE HAVE APPROVED HER
RESEARCH WORK.

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To my parents
To my fiancé

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CHAPTER I

Introduction

I.1 Purpose of the research:

The purpose of the research is to reach a conclusion on whether Lebanon's Accounting Plan is in harmony with International Accounting Standards, and whether the Lebanese Generally Accepted Accounting Principles should be improved, clarified, and more fully developed.

I.2 Organization of the paper:

The paper is organized as follows:

- I. This chapter defines International Accounting standards and Generally Accepted Accounting Principles, and shows the process of their development.
- II. Chapter II describes the historical background of the accounting profession in Lebanon.
- III. Chapter III highlights the methodology used in conducting the research.
- IV. Chapter IV shows the conflict between the International Accounting

Standards and the Lebanese Accounting Standards. It also highlights other problems facing the accounting profession in Lebanon.

V. Chapter V presents the results, and offers recommendations that might help overcome the problems identified in the previous chapter.

I.3 The role of the International Accounting Standard Committee (IASC).

The IASC was set up in year 1973 to work for the improvement and harmonization of financial reporting primarily through the development and publication of International Accounting Standards.

IASC develops “International Accounting Standards” through an international due process that involves the world wide accounting profession, the preparers and users of financial statements, and national standard bodies. The IASC is now established as the only international due process for the development of International Accounting Standards.

The members of IASC are the professional accountancy bodies which are members of the International Federation of Accountants (IFAC). As of January 1995, there are 110 member bodies in 82 countries.

These member bodies represent over one million accountants in industry and commerce, public practice, academic institutions and government.

IFAC is funded by the professional accountancy bodies and other organizations on its board, and IFAC, and by contributions from multinational companies, financial institutions, accounting firms and other organizations.

The business of IASC is conducted by a Board which comprises representatives of accountancy bodies in thirteen countries and up to four other organizations with an interest in financial reporting, and representatives of the International Coordinating Committee of Financial Analysts' Associations.

The Board regularly meets an International Consultative Group that includes representatives of users and prepares of financial statements and

standard setting bodies as well as observers from Intergovernmental Organizations.

The Board of the International Accounting Standards Committee (IASC) has issued 31 International Accounting Standards as of December 31, 1994. Standards no 3 and 6 have been superseded by Standards no 28 and 15 respectively. IASC also revised 10 standards which became operative for financial statements covering periods beginning on or after Jan 1st, 1995. These standards deal with the substantial majority of topics that affect the financial statements of business enterprises.

I.4 Generally Accepted Accounting Principles

Accounting principles are guidelines for gathering and communicating accounting information. These principles are described as being developed from experience, custom, usage, practical necessity. These are the result of the historical development of financial accounting, the way in which the needs of users of financial accounting information are perceived, and the way accountants interact with the environment. Imagine what would happen if companies were free to choose whatever accounting principles they preferred.

One company might report its inventory at historical cost, while others might use replacement costs, current selling prices, or other measurements; or one company might publish only an income statement while another might report only a balance sheet. Such a situation could seriously reduce the ability of users to make valid comparisons between companies.

To help overcome this problem, the accounting profession has given some accounting principles the special status of being Generally Accepted Accounting Principles (GAAP).

Generally Accepted Accounting Principles are those that have substantial authoritative support. Specifically, they represent the consensus at any time as to which economic resources and obligations should be recorded as assets and liabilities, which changes in them should be recorded, how the recorded assets and liabilities and changes in them should be measured, and which financial statements should be prepared.

Accountants must have a thorough knowledge of generally accepted accounting principles in order to prepare and attest to financial statements.

Moreover, users should be familiar with these principles, so that they can understand the nature and limitations of the information presented in financial statements.

In some ways, Generally Accepted Accounting Principles are similar to laws in that generally accepted accounting principles are formulated by people, often in an atmosphere in which considerable political pressures exist.

These principles should and do change as conditions warrant change. Furthermore, they are often controversial.

At times, the various Legal Accounting Standard Setters (L.A.S.S.'s) need to change accounting principle because of such factors as changing business and economic circumstances, new informational needs of investors and creditors, advances in information technology, and abuses in the application of existing principles.

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In deciding whether to change an accounting principle, the LASS's usually consider four criteria:

- 1- Pervasiveness of the accounting issue
- 2- Availability of alternative solutions
- 3- Technical feasibility of deriving a solution to the accounting problem
- 4- Practical consequences.

When the LASS's tentatively decide to change accounting principles in a particular area, people are vitally interested because of the considerable impact that financial statements have on the allocation of wealth in our society. The LASS's therefore have an elaborated due process system that they follow diligently when developing new accounting principles.

The LASS's try to involve in their standard-setting process everyone who is interested in financial reporting and want to participate. These people include preparers, auditors, users and others.

The LASS's members may therefore have backgrounds in financial analysis, industry, government, and academia, as well as in public accounting. The FASB's meetings are open to the public, and the board keeps a public record.

I.4-1 Who Is Responsible for GAAP Implementation ?

Generally Accepted Accounting Principles impose an obligation on companies to apply GAAP in the preparation of their financial statements. Management responsibilities of companies in general include the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the entity. Thus, the responsibility of GAAP implementation lies with the management of companies.

The independent auditor's responsibility lies in forming an opinion on the financial statements whereby he would carry out procedures designed to obtain reasonable assurance that the financial statements give a true and fair view (or are presented fairly) in conformity with GAAP, or in accordance

with the relevant national standards in all material respects. The audit of financial statements does not relieve management of its responsibilities.

Therefore, since GAAP refers to primarily recommended principles by various professional or authoritative bodies and thus differing from country to country, IASC plays its role in improving and harmonizing financial reporting through its publication of International Accounting Standards.

CHAPTER II

Historical Background

II.1 The Accounting Profession in Lebanon

Decree No. 4665 of December 26, 1981 was a milestone and a distinguishing mark in the history of the accounting profession in Lebanon.

It set the accounting standards, rules and regulations that all business enterprises should apply in the preparation of their financial statements. It is Lebanon's Generally Accepted Accounting principles (GAAP) and a uniform prescribed system. It is the General Accounting Plan. This plan has impacted the accounting practices since its promulgation and adherence thereto is mandated by the Decree itself. It is believed that the plan was modeled and formatted to achieve targets similar to those required in France and as mandated by certain European Community's Directives purposefully designed for the preparation and representation of financial statements within the framework of uniformity and harmonization.

Another milestone in the profession's history is law decree No. 4683/94 that was issued on January 20, 1994 regularizing the Lebanese Association of Certified public Accountants (LACPA). The association is considering some changes in the accounting system and certain GAAPs in order to comply, as practicable , with International Accounting Standards (IASs). The European Community members countries comply in most circumstances with IASs in the preparation of their consolidated financial statements for transnational business enterprises.

The General Accounting Plan is a comprehensive set of principles, rules, and regulations that:

- Represents a basis of control for the preparation of financial statements.
- Unifies the accounting language and terminology
- Standardizes GAAP.

The plan shows how to record, classify, and extract data for the preparation of financial statements. It applies to all persons and legal entities,

required to keep accounting records by virtue of legal provisions and regulations.

Decree No. 4665 was further amplified on by directive No. 111/1 issued by the Ministry of Finance on February 22, 1982.

II.2 Chapters of the General Accounting Plan

The General Accounting Plan is divided into four chapters. The fourth chapter comprises six supplements.

Chapter No. 1: This chapter describes the principles and assumptions underlying the preparation of the financial statements.

Fundamental Accounting Assumptions. Certain fundamental accounting assumptions underly the preparation of financial statements. These are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed, together with the reasons.

The following are recognized as fundamental accounting assumptions.

- Going Concern Assumption:

The financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence it is assumed that the enterprise has neither the intention nor the necessity of liquidating or of curtailing materially the scale of its operations, and the level of its activity will be maintained in the foreseeable future.

Whenever this is not the case, the fact should be disclosed together with its effect on the financial statements, and the financial statement may have to be prepared on a different basis.

- Consistency assumption:

It is assumed that accounting policies adopted are consistent from one period to another. The methods of recording the transactions should be applied on a consistent basis in order to enhance the comparability of financial statements. A change is allowed only when it aims at a better presentation of the financial position and operating results of the concern. This change, together with its effect on the financial statements should be

disclosed, and the effect should be quantified except if it was found impracticable to do so.

Accrual basis assumption:

Revenues and costs are accrued, that is, recognized as they are earned or incurred, and recorded in the accounting records, and reported in the financial statements of the period to which they relate.

The principles underlying the preparation of financial statements are:

The nominal value principle:

Historical costs should be the basis for recording transactions. The reevaluation of fixed assets can be considered an exception to this principle.

The prudence principle:

Realized losses must be included in the financial statements of the entity and foreseeable unrealized losses must be provided for. The entity, should not include in its accounts any unrealized gains.

The materiality principle:

Information which affects the decision making of a third party interested in the financial statements of the entity must be presented.

II.3 Qualitative Characteristics of Financial Statements:

The attributes that make the information provided in the financial statements useful to users are:

- * Understandability
- * Relevance
- * Reliability
- * Comparability
- * Understandability: essential quality is to be readily understandable by users.
- * Relevance: information is relevant if it influences the economic decisions of users by helping them evaluate past, present or future events or confirming or correcting their past evaluations.
- * Reliability: information is free from material error and bias and can be dependent upon by users to represent faithfully that which it purports to represent.

* Comparability: users must be able to compare the financial statement through time in order to identify trends in the financial position and performance.

Chapter No. 2: Rules of Book keeping.

This chapter requires the following:

- The use of a double entry book keeping system, whereby entries must be supported by authorized documents that support their occurrence.

- The existence of a reliable internal control system designed to prevent or detect errors, and to minimize the possibility of fraud and irregularities; thus, safeguarding the assets of the enterprise.

- The preparation of an inventory of the enterprise's assets and liabilities at the end of each financial period.

The accounting plan specifies the accounting books that must be kept, and they are:

- 1) The General Ledger
- 2) The Commitments book
- 3) The Inventory book

4) The Daily Journal, in which records are entered daily or in summary form. The latter requires approval from the Tribunal de Commerce.

Directive No. 9 dated January 2, 1983 issued by the Ministry of Finance prescribed the following books which require authentication by the commercial court:

- 1) The Daily Journal
- 2) The Inventory Book
- 3) The Commitments Book.

Resolution no. 363/1 defines the contents of the commitments book as the details of all commitments, acceptances, and guarantees provided they are not recorded in the journal.

Chapter no. 3: Recording of Assets.

This chapter describes the way of recording assets in the enterprise's books and specifies the allowed basis for recording every single item.

This issue will not be elaborated on now, but its conflict with the International Accounting Standards will be elaborated on in chapter 4 of the paper.

Chapter No. 4: Financial Statements:

This chapter comprises six supplements:

Supplement No. 1: Balance Sheet

It specifies the way of presenting details of the assets and the liabilities of a concern, giving a specific code No. to its various items in order to show its correct financial positions at the end of that financial period and to evaluate the comparability of various financial statements.

Supplement No. 2 The profit and loss account:

It specifies the details of the income and expense accounts which must be maintained.

The decree also states that netting between credit and debit balances is not allowed either in the balance sheet or in the profit and loss account.

Supplement No. 3. Supplementary statements:

These statements are classified into eleven categories:

- 1- Statement of valuation methods adopted by the enterprise
- 2- Statement of permanent employees at the balance sheet date.
- 3- Statement of capital distribution
- 4- Statement of branches and subsidiaries
- 5- Statement of the enterprise's activities
- 6- Statement of the enterprise's production of goods and services
- 7- Statement of fixed assets
- 8- Statement of depreciation
- 9- Statement of provisions
- 10- Statement of contingent liabilities
- 11- Statement of profit and loss appropriation

Supplement No. 4: Source and Application of funds.

It includes:

- Source and application of funds statement
- Change in working capital statement

Supplement no. 5: relates to the abbreviated plan and consists of two statements:

- The balance sheet
- The profit and loss account

Supplement no. 6: It relates to enterprises adopting the cash basis system.

II.4 Financial statements to be submitted by various categories of organizations.

The directive requires from companies to prepare their reports according to the category to which they belong. Companies may be divided into three categories:

A. First category companies: those owned by shares and subject to auditors reports, together with other enterprises having a working capital in excess of ten million Lebanese pounds and which employ more than twenty five employees. These companies are required to present their statements in accordance with the “ full basic plan” which consists of supplements one to four as stated above.

B. Second category companies. Those subject to tax on the basis of net profit except those already included in the first category. They are required to present their statements in accordance with the “abbreviated basic plan”; that is, supplement no. 5 of the general plan, and to present all supplementary statements in supplement no. 3 except the statement of the enterprise’s activity. They are not required to submit statement no.4 which relates to the sources and application of funds.

C. Third category companies. Those subject to tax at a flat rate. They are required to present their statements in accordance with supplement no. 6. They should keep and maintain two journals; the first to record income and expenses and the second to register the fixed assets. These two journals were specified by resolution no. 111/1

II.5 The efforts of Lebanon to comply with the International

Accounting standards.

Lebanon is a founder member and a member of a number of regional and international unions and federations of accountants and auditors. One of these unions is the Union of Arab Accountants and Auditors.

One of these unions is working toward the development of accounting and auditing standards that would accommodate the economic needs of the Arab countries. This union is working toward the issuance of standards that will not be in conflict with the International Accounting Standards.

The union states that the importance of the latter point is due to its role in attracting funds from the business community. Such funding will not take place in the absence of reliable financial statements based on international standards, thus enhancing their reliability and comparability with other enterprises' financial statements.

This fact was elaborated on and discussed thoroughly in 1991 when the union held its 9th conference in Lebanon. The conference theme was: "The Role of Accounting in Developing the Arab World."

Lebanon is also a member of the International Accounting Standard Committee (IASC) and the International Federation of Accountants (IFAC).

The aim of IASC and IFAC is to set accounting standards. Lately, they worked on the harmonization of International accounting standards, whereby, they revised ten accounting standards issued in 1993 and became operative for financial statements covering periods beginning on or after January 1, 1995.

They are also working at present on the revision of other accounting standards and the issuance of new standards such as “financial instruments”. Neither the IASC nor the accounting profession has the power to enforce international agreement or to require compliance with International Accounting Standards. The success of IASC’s efforts is dependent upon the recognition and support for its work from many interested groups acting within the limits of their own jurisdictions.

As a result of this adoption the quality of financial statements will be improved and there will be an increasing degree of comparability. The credibility and consequently the usefulness of financial statements will be enhanced throughout the world.

We may confidently say that Lebanon is doing its best to improve and develop its accounting and auditing practices in order to harmonize them with regional and international standards.

II.6 The Auditor's Report on Financial Statements.

The auditor should review and assess the conclusions drawn from the audit evidence obtained as the bases for the expression of an opinion on the financial statements.

The auditor's report may be either

A. Unqualified , or ;

B. Modified

An auditor's report is considered to be modified in the following situations:

a- Matters that do not affect the auditor's opinion:

- emphasis of a matter

b- Matters that do affect the auditor's opinion.

- Qualified opinion;

- Disclaimer of opinion, or;
- Adverse opinion

A modification of the standard audit report can result from the following circumstances.

1. The auditor's opinion is based in part on the report of another auditor .
2. The auditor wishes to emphasize a matter included in the financial statements.
3. The financial statements are affected by a departure from GAAP.
4. Accounting principles have not been consistently applied.
5. The financial statements are affected by uncertainties concerning future events; the outcomes cannot be estimated at the date of the auditor's report.

II.6-1 When to issue each type of reports?

A. .An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly, in all material respects,) in accordance with the identified financial reporting framework.

An emphasis of a matter may be added by the auditor to highlight a matter affecting the financial statements which is included in a note to the financial statements that more extensively discusses the matter. The addition of such an emphasis of a matter paragraph does not affect the auditor's opinion.

B. A qualified opinion should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, limitation on scope, or uncertainty is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being "except for" the effects of the matters to which the qualification relates.

C. A disclaimer of opinion should be expressed when the possible effect of a limitation on scope or uncertainty is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements.

D. An adverse opinion should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor conclude that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

It is used when the financial statements taken as a whole, are not presented fairly in conformity with GAAP. It may result from the following:

- 1) Misapplication of GAAP
- 2) Departures from fact
- 3) Omissions of necessary information

Whenever the auditor expresses an opinion other than unqualified, a clear description of all substantive reasons should be included in the report and, unless impracticable, a quantification of the possible effects on the financial statements.

Summary of Audit Report Forms

Degree of Materiality	Auditing (Scope limitation)	Accounting -Misapplication of GAAP -Departure from fact omissions of necessary information	Uncertainty
Immaterial	Unqualified Opinion		
Material	Qualified "Except For"		
So Material	Disclaimer	Adverse	Disclaimer

II.7 The Banking Industry:

The banking industry may be viewed as a regulated industry which is under the control and supervision of the Central Bank and the Banking Control Commission.

The Central Bank and the Banking Control Commission issue periodically circulars that relate to the banks' operations, presentation of financial statements, liquidity, solvency, and other pertinent matters. Banks are required to comply with the contents of these circulars.

The Code of Money and Credit has given authority to the Central Bank and the Banking Control Commission to issue circulars to the banks and to the auditors on issues relating to banking and auditing practices. These circulars are enforceable at law and must be complied with by all concerned parties. These circulars may cover banks operating activities, accounting treatment of financial items, auditing practices and any other matters considered necessary and appropriate in the circumstances.

The control and supervision can be considered effective since:

- Banks are required to submit periodical statements to the Central

Bank.

- The Banking Control Commission usually examines the banks' activities, and accordingly issues a report showing its conclusions and opinion.

- The Central bank relies on the external auditor's reports. The latter is required to submit to the Central Bank reports showing the financial statements of the bank, the procedures applied by the auditor in auditing these financial statements, the non compliance with pertinent laws , regulations and circulars, the weakness in internal control, and an evaluation of the computer program, if any.

CHAPTER III

Methodology

III.1 Research design. The research conducted is descriptive in nature. Its objective is to describe the Lebanese Accounting System and consider whether it complies with International Accounting Standards. The research is also qualitative, since the data gathered is not quantifiable. It consists of facts to be presented rather than statistical data to be analyzed.

III.2 Data collection method: data was collected by means of:

Secondary data: to gather information about the Lebanese and international standards .

Personal Interviews: To check which standards are applied and the methods of their applications .

Secondary data: Secondary data are data gathered and recorded by someone else prior to the current needs of the researcher. Secondary data are usually historical, already assembled and do not require access to respondents or subjects.

The secondary data used in the research consists of books, articles, accounting journals, accounting literature and other pertinent materials.

They are reliable enough because:

- They are issued by standard setters and professionals.
- They describe the most recent practices

Personal interviews: personal interviews are direct communication wherein interviewers in face to face situations ask respondent questions. This versatile method is a two way conversation between an interviewer and a respondent.

Personal interviews were used due to the following:

- They give the opportunity for feedback where the respondent gets encouraged to express his ideas. The interviewer may also provide feedback in clarifying any question which the respondent did not understand.
- They give the opportunity for probing complex answers, where the interviewer may require more clarification of brief or unclear answers.
- They may be much longer than telephone interviews, and more preferable than lengthy questionnaires.
- They increase the likelihood of responding to all items on the questionnaire.
- They only require from respondents to talk, and this increases the percentage of people willing to complete the interview.

Personal interviews have also some negative aspects which may be explained as follows:

- The rephrasing of a question, the interviewer's tone of voice, and the interviewer's appearance may affect the respondent's answers.
- The interviewer may try to save time by eliminating some questions.
- Personal interviews are generally more expensive than mail and telephone interviews.

Therefore, personal interviews need to be very well controlled in order to assure that they are handled properly and that the results are reliable.

III.3 Sampling: The process of sampling involves any procedure using a small number of items or parts of the whole population to make conclusions regarding the whole population. The reasons for sampling are the budget and time constraints together with the fact that samples, when properly selected, provide fairly reliable results even though the results will not be as precise as those that would be obtained had the whole population been tested.

III.3-1Target population: the target population was professionals in the field of accounting and auditing all over Lebanon, since they are the most involved with the practical side of the research topic.

III.3-2Sampling Technique: Sampling was based on personal judgment. The sampling units were chosen to be professionals who are well known and have enough experience to provide us with reliable information and insight into the prevailing practice in Lebanon.

III.4 Interpretation of results: since the research is descriptive, and qualitative in nature, results were interpreted through:

- 1- Comparison of data gathered regarding the international accounting standards with those gathered regarding the Lebanese standards.
- 2- Comparison of data gathered from secondary sources with those gathered by means of the interviews .

CHAPTER IV

Results of the Research

Decree No. 4665 of Dec. 26, 1981 organized the profession in Lebanon and contributed to the uniformity and harmony of financial statements. However, the increase in the sophistication of enterprises operations made the General Accounting Plan in need for a more elaborated and global set of standards to guide enterprises in the preparation and presentation of their financial statements. Also, the fact that the financial statements of a large number of enterprises are nowadays used outside our domestic borders necessitates enterprises' compliance with International Accounting Standards (IAS).

While comparing standards set by the General Accounting Plan with the International Accounting Standards, we noticed that:

IV.1 Some Lebanese standards are in conflict with the

International Accounting Standards, as explained below.

- IAS No. 1, **Disclosure of Accounting Policies**, states that substance over form should govern the selection and application of accounting policies because it is necessary to be accounted for and presented in accordance with their substance and economic reality and not merely their legal form in order to represent faithfully the transactions and events that it purports to represent. For example, an enterprise may dispose of an asset to another party in such a way that the documentation purports to pass legal ownership to that party; nevertheless, agreements may exist that ensure that the enterprise continues to enjoy the future economic benefits embodied in the asset. In such circumstances, the reporting of a sale would not represent faithfully the transactions entered into (if indeed there was a transaction).

This is not the case in Lebanon since we find that transactions are accounted for and presented in accordance with their legal form, ignoring the premises embodied in the doctrine of “substance over form”. This may lead to the recognition of unrealized transactions, or to the non-recognition of realized transactions.

- IAS No. 2, Valuation and Presentation of Inventories. Inventories should be measured at the lower of cost and net reliable value.

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 cost.

The cost of inventories other than those mentioned above should be assigned by using the First-In-First-Out (FIFO) or weighted Average cost formulas.

The cost of inventories other than those mentioned above may be assigned by using the Last-In-First-Out (LIFO) formula as an allowed alternative treatment.

When the cost of inventories is determined by using the LIFO formula, the financial statements should disclose the difference between the amount of inventories as shown in the Balance Sheet and either:

1. The lower of the amount arrived at in accordance with FIFO or weighted average and net realizable value; or
2. The lower of current cost at the Balance Sheet date and net realizable value.

- The Financial Statements should disclose either:

1. The cost of inventories recognised as an expense during the period; or
2. The operating costs recognised as an expense during the period classified by their nature.

Lebanon does not permit the use of the LIFO method, even though it may result in a more appropriate presentation of the results of operations. The use of the LIFO method is appropriate when hyperinflation is devastating our economy, yet it distorts the value of inventory in the balance sheet.

IAS No.4, Depreciation Accounting, states that the depreciable amount of a depreciable asset should be allocated on a systematic and rational basis to each period during the useful life of the asset.

The depreciable amount takes into consideration the salvage value of the asset whenever the value of the asset is considerable and the salvage value is large enough to be considered.

In Lebanon, depreciation is computed on the basis of the asset's historical cost, thus, overstating depreciation charges all over the depreciable asset's useful life and understating the gains that might be realized in subsequent periods by means of disposal or permanent withdrawal from use.

- **IAS No. 7, Cash Flow Statements**, states that enterprises should prepare a cash flow statement and present it as an integral part of its financial statements for each period for which financial statements are presented.

This statement, when used in conjunction with the rest of the financial statements provides information that enables users to evaluate the changes in net assets of an enterprise, its financial structure, and its ability to affect the amounts and timing of cash flows in order to adopt to changing circumstances and opportunities.

Cash flow information is useful in assessing the ability of the enterprises to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different enterprises. It also enhances the comparability of the reporting of operating performance by different enterprises because it eliminates the effects of using different accounting treatments for the same transactions and events.

This statement is not required in Lebanon despite its importance. The cash flow statement should report cash flow during the period classified by operating, investing and financing activities.

- **IAS No. 8, Unusual and Prior Period Items and Changes in Accounting Policies**, states that the amount of fundamental error that relates to prior periods should be either:

- reported by adjusting the opening balance of retained earnings, and comparative information should be restated, unless it is impracticable to do so, or ;

- included in the determination of net profit or loss for the current period. Comparative information should be presented as reported in the financial statements of the prior period. Additional proforma information should be presented unless it is impracticable to do so.

Whenever comparative information is restated, proforma information is presented , or it is impracticable to do so, this fact should be disclosed.

In Lebanon, revenues and expenses recognized in a certain period include those realized in previous periods and which were either entered wrongly in the books or omitted by mistake, without distinguishing between fundamental and immaterial errors, or requesting a presentation of proforma information.

IAS No. 8 states also that a change in accounting policy should be accounted for **either:**

retrospectively unless the amount of any resulting adjustment that relates to prior period is not reasonably determinable. Any resulting adjustment should be:

- reported as an adjustment to the opening balance of retained earnings. Comparative information should be restated unless it is impracticable to do so (benchmark treatment).

- Included in the determination of the net profit or loss for the current period. Comparative information should be presented as reported in the financial statements of the prior period. Additional proforma comparative information should be presented unless it is impracticable to do so. (Allowed alternative treatment).

OR

Prospectively when the amount of the adjustment to the opening balance of retained earnings cannot be reasonably determined.

This standard should be applied in presenting Profit and Loss from ordinary activities and extraordinary items in the Income Statement and in accounting for changes in accounting estimates, fundamental errors and changes in accounting policies.

Whenever comparative information is restated, proforma information is presented, or it is impracticable to do so, this fact should be disclosed.

When a change in accounting policy has a material effect on the current period or any period presented, or may have a material effect in subsequent periods, an enterprise should disclose the following:

- 1) The reasons for the change,
- 2) The amount of the adjustment recognised in the net profit or loss in the current period, and
- 3) The amount of the adjustment included in cash period for which pro-forma information is presented and the amount of the adjustment relating to periods prior to those included in the financial statements .

The only thing required in Lebanon when changes in accounting policies take place is to disclose the fact together with the reason of changing the accounting policy and its effect on the financial statements whenever it is practicable to do so.

In this case, the financial information may not reflect the true financial position of the enterprise, since comparing the financial information in the period of change in accounting policy with the previous periods may be misleading, thus affecting the judgment of a reasonable person relying on such financial information.

- **IAS No. 9, Accounting for Research and Development Activities**, states that research costs should be recognized as expense in the period in which they are incurred and should not be recognized as an asset in a subsequent period.

Development costs should be recognized as an expense in the period in which they are incurred unless the following criteria are met:

- The product or process is clearly defined and the cost 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 process, or if it is to be used internally rather than sold, its usefulness to the enterprise can be demonstrated.

- adequate resources exist or their availability can be demonstrated to complete the project and market or use the product or process.

The Development Cost of a project recognized as an asset should not exceed the amount that is probable of being recovered from related future economic benefits, after deducting further development costs, related production costs, selling and administrative costs directly incurred in marketing the product.

In Lebanon, both research and development costs may be capitalized if they meet the above mentioned criteria, not only the development costs.

- **IAS No. 11, Accounting for Construction Contracts**, excludes the completed contract method from the acceptable methods of accounting for construction contracts.

In Lebanon, the completed contract method is acceptable. The principal disadvantage of this method is that periodic reported income does not reflect the level of activity on contracts during the period, where there is a continuous lag between the time when work is performed and the related revenue is recognized.

- IAS No. 14, Reporting Financial Information by Segments, requires of enterprises whose securities are publicly traded, and other economically significant enterprises to report financial information by segment. Industry segments and geographical segments are the usual bases for presenting financial information by segment.

In Lebanon, there is no such a requirement even though analysis by segment of the aggregated financial information of a diversified enterprise provides useful data that enables users to make a better assessment of the past performance and future prospects of the enterprise.

- IAS No. 21, Accounting for the Effects of Changes in Foreign Exchange Rates. At each Balance Sheet:

- 1) Foreign Currency monetary items should be reported using the closing rate;
- 2) Non-Monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of transaction, and non-monetary items which are carried at fair market value denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined.

This standard states that exchange differences, which result from severe devaluation or depreciation of a currency against which there is no practical means of hedging and that affects liabilities which cannot be settled and which arise directly on the recent acquisition of an asset invoiced in foreign currency, should be included 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.

In Lebanon, differences on exchange relating to liabilities in a foreign currency and arising on the acquisition of a fixed asset, should be included in

the carrying amount of the fixed asset despite the fact that our currency is no longer in a state of severe devaluation or depreciation.

IV-2 The Majority of the Lebanese standards lack elaboration and interpretation.

The majority of the Lebanese standards are set in the form of broad headlines. This may in certain situations bewilder the accountants and lead them to misunderstand and misinterpret the standards and consequently misapply them.

- IAS No.13, Presentation of Current Assets and Current Liabilities, shows how to distinguish current from non current accounts. It describes their characteristics, states the accounts that should be included in each category, the basis of their classification, and the circumstances that lead to the classification of certain current accounts as non current accounts and vice versa.

Such a guidance is not found in the general accounting plan.

- IAS no. 16, accounting for property, plant and equipment, states that subsequent expenditures relating to an item of property, plant, and equipment that has already been recognized should be added to the carrying amount of

the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise . All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

The useful life and the depreciation method of an item of property, plant and equipment should be reviewed periodically and, if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted. The charge should be accounted for as a change in accounting estimate.

The general accounting plan does not specify when to capitalize certain expenditures and when to consider them expenses in the period of their incidence. The majority of companies use the materiality of expenditures only as the basis for distinction between capital expenditures and expenses.

- IAS no. 16 also states that the increase in the asset's carrying amount as a result of its revaluation should be credited directly to equity (revaluation surplus). This increase should be recognized as income only when it reverses a revaluation decrease of the same asset previously recognized as an expense.

- The decrease in the asset's carrying amount as a result of its revaluation should be recognized as an expense. This decrease should be charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of the same asset.

The Lebanese system states that increases in the value of a fixed asset should be credited directly to equity (revaluation surplus) as a result of its revaluation, and decreases in the value of a fixed asset should be provided for:

- by establishing a provision when the impairment cannot be determined to be permanent,
- by writing down the fixed assets value when the impairment is permanent.

There is no amplification on the specific cases of increases in the value of fixed assets following a previous write down, and decreases in the value of fixed assets following a previous revaluation.

- IAS no. 18, revenue recognition, states that in order for an enterprise to recognize a revenue from the sale of goods, the following conditions must be satisfied:

a- The enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods

b- The enterprise does not retain either managerial involvement to the degree associated with ownership or effective control over the goods sold.

c- The amount of revenue can be measured reliably

d- It is probable that the economic benefits associated with the transaction will flow to the enterprise.

e- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

- IAS no. 18 states also that in order for an enterprise to recognize a revenue from the rendering of services, the following conditions must be satisfied.

a- The amount of revenue can be measured reliably.

b- It is probable that the economic benefits associated with the transaction will flow to the enterprise.

c- The stage of completion of the transaction at the balance sheet date can be measured reliably.

d- Cost incurred for the transaction, and cost to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized, and that are recoverable.

The general accounting plan does not elaborate on the revenue recognition conditions, but gives a brief definition of revenue, and states the revenue accounts to be used by the enterprises.

IV.3 The general accounting plan does not encompass certain topics which are fully standardized by the International Accounting standards, as explained below.

1- Accounting for Contingencies and Events Occurring after the Balance Sheet Date.

- IAS no. 10 requires the adjustment of assets and liabilities when events occur after the balance sheet date and provide additional evidence

concerning the estimation of amounts relating to conditions existing at the balance sheet date, or indicate that the going concern assumption in relation to the whole or a part of the enterprise is not appropriate.

Also, dividends stated to be 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 should be either adjusted for or disclosed .

When such subsequent events do not affect the condition of assets or liabilities at the balance sheet date, no adjustment is required, but disclosure is required when non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions.

2- The minimum level of disclosures needed:

Every single International Accounting standard requires certain disclosures. These disclosures form an integral part of the financial statements, and are necessary to make the financial statements clear and understandable , thus helping users to make reliable judgments.

3- Accounting for Leases.

-IAS No. 17 specifies the way of accounting for leases, which depends on whether the lease is a finance lease or an operating lease. The substance of the transaction rather than the form of the contract specifies whether a lease is a finance lease or an operating lease.

Whenever a finance lease takes place, an asset and a liability are recorded in the balance sheet of the lessee at amounts equal 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 depreciation policy for leased assets should be consistent with that for depreciable assets which are owned. If there is no reasonable certainty that the lessee will obtain ownership at the end of the lease term, the asset should be fully depreciated over the shorter of the lease term or its useful life.

Rentals should be apportioned between the finance charge and the reduction of the outstanding liability.

The asset should be depreciated in accordance with IAS no. 4 , depreciation accounting.

The finance lease should be recorded in the books of the lessor as a receivable at an amount equal to the net investment in the lease.

Whenever an operating lease takes place, the lessee should charge to income the rental expense for the accounting period. The leased asset should be considered as property, plant, and equipment in the balance sheet of the lessor.

Income should be recognized periodically, and depreciation should be charged in accordance with IAS No. 4, depreciation accounting.

The charge to income under an operating lease should be rental expense for the accounting period, recognized on a systematic basis that is representative of the time pattern of the user's benefit.

If a sale and leased back transaction results in a finance lease, any excess of sales proceeds over the carrying over amount should not be immediately recognized as income in the financial statement of the seller-lessee. If such an excess is recognized, it should be deferred and amortized over the lease term.

4. Accounting for revenues on royalties, dividends, and interests.

IAS no.18, revenue recognition, states that:

- 1) Interest should be recognized on a time proportion basis that takes into account the effective yield on the asset.
- 2) Royalties should be recognized on an accrual basis in accordance with substantive or relevant agreement.
- 3) Dividends should be recognized when the shareholder's right to receive payment is established.

5. Accounting for Business Combinations

- IAS No. 22 states that business combinations should be accounted for under the purchase method except when it is deemed to be a unity of interests. In this case, the pooling of interest method may be used.

6- Capitalization of Borrowing Costs

IAS no. 23 states that borrowing costs should be recognized as an expense in the period in which they are incurred . However, when they are directly attributable to the acquisition, construction, or production of a qualifying asset, they should be capitalized as part of the cost of that asset.

7- Consolidated Financial Statement and Accounting for Investment in Subsidiaries.

-IAS no. 27 requires of a parent company which issues consolidated financial statements to consolidate all subsidiaries foreign and domestic. A subsidiary must be excluded from consolidation when:

- Control is intended to be temporary due to the intent of disposal in the near future.
- It operates under severe long term restrictions which significantly impair its ability to transfer funds to the parent.

In a parent's separate financial statements investments in subsidiaries that are included in the consolidated financial statements should be either

accounted for using the equity method or carried at cost or revalued amount under the parent's accounting policy for long term investments.

However, investments in subsidiaries that are excluded from consolidation should be carried in the parent's separate financial statements :

- at Market value or lower of cost and market value if they are classified as current investments; or

- cost, revalued amount; or, in the case of marketable equity securities, at the lower of cost and market value if they are classified as long-term investments.

8- Accounting for Investments in associates

- IAS no. 28 requires that an investment in an associate be accounted for in consolidated financial statements under the equity method except when the investment is acquired and held exclusively with a view to its disposal in the near future. In this case the investment should be accounted for under the cost method.

When the parent issues consolidated financial statements an investment in an associate should be:

- accounted for by using the equity method or cost method which ever is used in the consolidated financial statements.
- Carried at cost or revalued amount.

When the parent does not issue consolidated financial statements, an investment in an associate should be:

- Accounted for using the equity method or cost method whichever would be appropriate for the associate if the investor issued consolidated financial statements.
- Carried at cost or revalued amount.

The investor should disclose what would have been the effect had the equity method been applied, if it is the appropriate method for the associate had consolidated financial statements been prepared.

9- Financial Reporting of Interests in Joint Ventures

IAS No. 31 shows the way of reporting interests in joint ventures. This depends on whether the joint venture involves a jointly controlled operation, jointly controlled asset, or jointly controlled entity.

Jointly controlled operation: the venturer should recognize in its separate financial statements and consequently in its consolidated financial statements the assets that it controls, and the liabilities that it incurs together with the expenses that it incurs and the revenues that it earns from the sale of goods or services by the joint venture.

Jointly controlled assets: the venturer should recognize in its separate financial statements and consequently in its consolidated financial statements its share of the jointly controlled assets; jointly incurred liabilities, income, and expense; together with any liabilities or expenses which it has incurred.

Jointly controlled entity: the venturer should report its interest in the consolidated financial statements using proportionate consolidation or the equity method.

Whenever the venturer ceases to have joint control over a jointly controlled entity, it should discontinue the use of the proportionate consolidation method.

Whenever the venturer ceases to have joint control over, or significant influence on a jointly controlled entity, it should discontinue the use of the equity method.

In addition to the above mentioned problems, the accounting profession is facing a very critical problem which is the lack of professional accountants. This may be the result of the way people view the accounting profession in Lebanon, where they view the accountant as if he were a bookkeeper. This affects the job requirements set for the accounting career, and accordingly affects the profession level in general. This view has a negative effect on people's incentive to become professionals, and on professionals incentive to work in Lebanon.

This lack of professional accountants make some critical accounting areas very difficult to understand such as:

- Those areas which are not encountered or elaborated on enough in the general accounting plan since their treatment is subject to the accountant's judgment.

- Those areas which are subject to fiscal restrictions since accountants rarely distinguish between fiscal reporting and financial reporting. e.g. we rarely encounter companies using other than the straight line method of depreciation, or other than the depreciation rates set by the taxation authorities, although such a treatment may not result in depreciation charges which are allocated on a systematic basis.

Also, we rarely find companies amortizing goodwill since goodwill amortization is not tax deductible, although there are circumstances which necessitate its amortization.

RESULTS OF THE INTERVIEWS

Personal interview were conducted in order to check whether IAS's are applied in Lebanon, and how professionals in auditing and accounting view the Lebanese accounting system.

The interviewees may be divided into the following categories.

1. Members of the Lebanese Accounting Standard Board (LASB)

The questions asked to these members were :

- a - How do you evaluate the Lebanese accounting system ?
- b - What are your current and future efforts concerning the application of IAS's in Lebanon ?
- c - What problems are you facing in your current efforts ?
- d - How optimistic you are concerning the future of the accounting profession in Lebanon ?

The answers to the above mentioned questions varied among the interviewees.

MR. MOUAFAC YAFI, a partner of an audit firm , was interviewed on the 29th of May.

In his opinion , the Lebanese accounting system is in need for updating and amplification. The LASB is now trying to set standards. That would be in harmony with the IAS's. The LASB is facing some resistance from the taxation authorities since the proposed standards do not always meet their objectives.

Accordingly ,the future of the accounting profession in lebanon is dependent on this resistance and on its future effect on the standard setting process.

- MR. AHMAD SAFA , Internal Audit Manager at saudi lebanese bank was interviewed on the 13th of July.

MR. SAFA also admitted that the lebanese accounting system does not form a comprehensive set of standards and principles . He informed us that the LASB is working now on setting standards that would comply with the

IAS's whereby it revised two standards , and it is working on the revision of the other standards . The revised standards are now under study by the governmental authorities for approval. The LASB is trying to meet in its standard setting process both the needs of the financial and taxation authorities in order to avoid any conflict with the latter .

These efforts together with the LACPA efforts to organize the profession make MR. SAFA optimistic concerning the accounting profession in Lebanon.

2. Professionals in the accounting and auditing professions

The questions asked to these interviewees were:

a-How do you evaluate the Lebanese accounting system?

b-Do you apply the International Accounting Standards?

c-How optimistic you are concernig the future of the accounting profession in Lebanon?

All of the interviewees said that they apply the IAS's as long as they do not override the legal requirements .the answers to the other questions varied among the interviewees.

-MR. EDGAR JOJO ,manager at Ernist and Young,was interviewed on the 27th of May.

In his opinion , the main weakness in the lebanese accounting system lies in the non separation between fiscal and financial reporting. Accordingly, the future of the accounting profession would be encouraging only if a separation takes place between financial and fiscal reporting .

-MR GHASSAN BSHARA , Manager at KPMG was interviewed on the 29thof May.

MR BSHARA does not see any conflict between the IAS,s and the lebanese standards. Also , he is against the concept of harmonization since in his opinion , it limits the accountants' creativity.

- MR. MOUHAMMAD NAOURA , Senior Internal Auditor at MGS, was interviewed on the 11th July .

MR. NAOURA said that the lebanese accounting system needs lots of amplification and is , in some areas, in conflict with IAS's , whereby the majority of the IAS's are not applied in Lebanon .

In his opinion the future of the accounting profession is dependent on the LASB's ability to set the required standards.

- MR AHMAD MROUEH , Deputy General Manager at MGS, was interviewed on the 11th of July.

MR MROUEH said that we are in need for a totally new accounting system. He is not at all optimistic concerning the future of the accounting profession in Lebanon ,since in his opinion all of the professionals in lebanon work for their self esteem and not to serve the accounting profession.

- MR. MOUNIR JOUDY, Financial Controller at Hariri Group Services, was interviewed on the 13th of July.

- MR. JOUDY said that the lebanese system does not meet our needs ; thus, it needs revision .This revision may take into consideration not only the IAS's but also other standards such as the american ones , since the LASB would have a variety of standards from which to choose the right ones that suit our needs . This is what Saudi Arabia did in its standard setting process whenever such a set of standards is established the accounting profession would become more organized in Lebanon.

- MR TONY ASSAL, Manager at Touch Ross was interviewed on the 13th of July. He said that he is not familiar with the lebanese accounting system to evaluate it . In his opinion all of the professionals are working for their self esteem, and not to serve the accounting profession in Lebanon .

3- professionals in the banking industry

- MR AHMAD RADI , Manager in the Banking Control Committee, was interviewed on the 24th of July .

The questions asked to MR AHMAD RADI were :

- a- How do you evaluate the Lebanese accounting system in Lebanon?
- b- Do you take into consideration the IAS's whenever you propose a decree ?
- c- How do you evaluate the banking industry in lebanon ?

He said that the banking industry is very well controlled and supervised but other industries are in need for a full set of standards since the lebanese accounting system is in need for elaboration and updating. Whenever the LASB modifies the standards in lebanon , we would have an organized accounting profession . Concerning the application of IAS's , BDL takes always these standards into consideration and tries to make the decrees in harmony with the IAS's .

4- Professionals in accounting

MR MARWAN ABDEL MALAK , financial manager in PESI COLA was interviewed on the 2nd of June .

The questions asked to MR ABDEL MALAK where :

- a- How do you evaluate the Lebanese accounting system?
- b- Which standards do you apply ?

MR ABDEL MALAK said that the Lebanese accounting system is vague and in need for more amplification since lots of accounting issues are not encountered . The company applies the IAS's as long as they do not override the Lebanese accounting standards.

IN CONCLUSION, we may say that the lebanese accounting system does not meet the needs of our economy .The LASB is working now on modifying the system and the future of the accounting profession is dependent on their ability to issue the needed standards that would meet both the objectives and needs of financial and taxation authorities. This modification is not needed for the banking industry since it is very well controlled and supervised.

CHAPTER V

Conclusions and Recommendations

V.1 Conclusions: we may conclude that although the general accounting plan has contributed to the organization of the accounting profession in Lebanon, the following observations have been noticed:

- It does not constitute a comprehensive set of rules, regulations, and standards, since it is not elaborated enough to provide guidance to accountants.

- It does not comply, in some aspects, with the International Accounting standards; thus, it may inhibit the development of international business, as investors and managers must deal with a broad range of uncertainties and unfamiliarities.

V.2 Recommendations. In order to overcome the above mentioned problems we recommend the following:

* The LASB must be authorized to issue statements of Financial Accounting Standards (SFAS) to establish new or amend existing Generally Accepted Accounting Principles.

The process system of formulating an SFAS should involve the following major steps:

- The identification of an accounting problem
- The appointment of a task force of technical experts to conduct extensive research on the problem.
- The issuance of a Discussion Memorandum, summarizing the major issues and possible solutions, and serving as the basis for public comments.
- The conduct of a public hearing where interested parties would be invited to present their views.
- The issuance of an exposure draft, which is a proposed SFAS that is distributed for public comment.
- The analysis of public responses to the exposure draft
- The issuance of an SFAS.

These SFAS's must be in harmony with International Accounting Standards. Such a harmony requires from the LASB to use its best endeavors:

- To persuade governments that published financial statements should comply with International Accounting Standards.

- To persuade the industrial and business community that published financial statements should comply with International Standards in all material aspects and disclose the fact of such compliance.

- * The LASB must issue Interpretations. These clarify, explain, or elaborate on SFASs, and on other earlier pronouncements. The interpretations are themselves a part of Generally Accepted Accounting Principles.

- * In addition, the LASB shall have to issue technical Bulletins that are designed to provide guidance on certain financial accounting and reporting problems on a timely basis. Technical Bulletins generally deal with questions about how to implement existing standards in practice. Interested parties are invited to comment on proposed Technical Bulletins, and all Technical Bulletins are considered by the LASB at a public meeting.

- * The LASB must appoint a committee to issue statements of positions that are intended to influence:

- The development of accounting principles in specialized areas not covered by the LASB pronouncements.

- The revision of accounting principles in specialized areas which are in conflict with International Accounting Standards.

Appendix I

Glossary of Terms

A

- **Associate-An:** An enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture.

B

- **Borrowing costs:** Interest costs incurred by an enterprise in connection with the borrowing of funds.
- Business combination-A.** The result of the acquiring of control of one or more enterprises by another enterprise or the uniting of interests of two or more enterprises.

C

-Cash Equivalent: Short term, highly liquid investments that are readily convertible to known amounts and which are subject to an insignificant risk of changes in value.

-Completed contract method: Method of accounting which recognizes revenue in the income statement only when the sale of goods or the rendering of services under a contract is completed or substantially completed.

-Cost method: Method of Accounting whereby the investment is recorded at cost. The income statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

D

-Depreciable Amount: Historical cost or other amount substituted for historical cost in the financial statements less the estimated residual value.

-Development: Application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services prior to the commencement of commercial production or use.

E

-Equity Method: Method of accounting whereby investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The income statement reflects the investor's share of the results of operations of the investee.

F

-Fair Value: The amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable willing seller in an arm's length transaction.

-Fundamental Errors: Errors discovered in the current period that are of such significance that the financial statement of one or more prior periods can no longer be considered to have been reliable at the date of their issue.

H

-Historical cost: Cash equivalent payment actually made to acquire an asset and put the asset to its intended use.

C

-Cash Equivalent: Short term, highly liquid investments that are readily convertible to known amounts and which are subject to an insignificant risk of changes in value.

-Completed contract method: Method of accounting which recognizes revenue in the income statement only when the sale of goods or the rendering of services under a contract is completed or substantially completed.

-Cost method: Method of Accounting whereby the investment is recorded at cost. The income statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

D

-Depreciable Amount: Historical cost or other amount substituted for historical cost in the financial statements less the estimated residual value.

-Development: Application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems, or services prior to the commencement of commercial production or use.

J

-Joint venture: Contractual agreement whereby two or more parties undertake an economic activity which is subject to joint control.

L

-Lease: Agreement whereby the lessor conveys to the lessee in return for rent the right to use an asset for an agreed period of time.

Finance Lease: a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not be transferred .

Operating Lease: a lease other than a finance lease.

M

-Market value: Amount obtainable from the sale of an asset in an active market.

N

-Net Realizable value: Estimated selling price in the ordinary course of business less costs of completion and less costs necessary to be incurred in order to make the sale.

P

-Parent: Enterprise that has one or more subsidiaries.

R

-Research: original and planned investigation undertaken with the prospect of giving new scientific or technical knowledge and understanding.

S

-Segment: Component of an entity whose activities represent a separate major line of business or class of customer.

Geographical segment: Distinguishable components of an enterprise engaged in operations in individual countries or groups of countries within particular geographical areas as may be determined to be appropriate in an enterprise's particular circumstances.

Industry segments: distinguishable components of an enterprise engaged in providing a different product or service, or a different group of related products or services, primarily to customers outside the enterprise

-Subsidiary: An enterprise that is controlled by another enterprise (known as the parent).

U

-Uniting of interest: when the shareholders of two or more enterprises combine in one entity the whole, or effectively the whole, of the net assets and operations of the enterprises in such a way as to achieve a continuing mutual sharing in the risks and benefits of the combined entity.

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