

Accounting Bill 1/41/20

On 29 September the Cabinet of Ministers met to debate the Accounting Bill drafted in collaboration with professional organisations and academia. The Bill is to replace the Accounting Act adopted in the early 90s and embrace the latest developments and economic digitalisation. This article explores the proposed amendments and expected changes.

The present situation and the need for amendments

The Bill has been drafted to improve the provisions of the Accounting Act and meet the legal drafting requirements by explaining the terms used and the purpose and scope of the legislation, as well as providing for revisions to the Cabinet of Ministers' rules issued in accordance with the Accounting Act, thereby making it easier to meet the accounting requirements.

The Accounting Act was adopted in 1992, came into force on 1 January 1993, and has since been amended 19 times. The post-adoption period has seen significant changes due to the development of information technology and the increasing use of accounting software in business accounting. The ways of preparing, circulating and storing supporting documents, keeping accounting records and preparing financial statements have also changed.

The Act fails to explain certain accounting terms so their content is not sufficiently clear, and a number of important rules governing the CEO's rights and obligations in accounting are included in the Cabinet of Ministers' rules issued according to the Act, rather than being included in the Act itself.

The proposed changes

The Bill defines requirements for stocktaking and preparing financial statements, and lays down the CEO's rights and obligations. The Bill includes amendments proposing the adoption of rules for licensing external accountants and creating a public register of external accountants.

The Bill improves and expands the provisions for electronic preparation of supporting documents, bookkeeping and storage to prioritise this over preparation and storage in paper form.

Under Regulation (EU) 2018/1807 of the European Parliament and of the Council of 14 November 2018 on a framework for the free flow of non-personal data in the European Union, there are different storage location requirements for accounting documents in electronic and paper form.

More persons subject to accounting legislation

The Act does not list all persons mentioned by legislation that carry on a business and are required to keep books, so the Bill defines the range of persons subject to it. In addition to the persons currently mentioned in the Act, the Bill lists some new persons, such as agencies of religious organisations, other public persons and institutions, associations of individuals, and European economic interest groups registered in Latvia.

Changes to stocktaking, opening balance sheet and supporting documents

For clarity the Bill defines the purpose of stocktaking and lists cases in which it must be carried out, as well

as providing that stocktaking results must be entered into accounting records before the date of signing the annual report.

The Bill does not include the requirement of the Act¹ that the company must prepare its opening balance sheet when it starts trading, which is governed by the same rules as the balance sheet in the annual report. This requirement has been removed, as none of the laws governing company operations provides for preparing or filing a document named “opening balance sheet” and nothing in the law stipulates what the opening balance sheet (as a separate document) is required for and how long it must be stored. And the term “opening balance sheet” is not sufficiently clear, as the Financial and Capital Market Commission’s rules on the preparation of annual accounts use the term “opening balance sheet” to denote balances of items of the balance sheet (as part of the financial statements) at the beginning of the financial year.

The Bill provides that supporting documents must be recorded within 20 (not 15) days after the end of the month, no longer requires that a supporting document should state the registered office and the basis for a business transaction, and defines cases where a signature is no longer required.

The Accounting Bill is to be enacted on 1 January 2021.

To obtain more information you are welcome to attend PwC’s Academy seminars:

- Circulation of paper and electronic accounting documents, an online seminar on 23 October. We will explain how to evaluate your company’s paper and electronic documentation processing cycle, and we will help you figure out how to handle prior-year documents, properly archive documents, observe storage periods, and duly destroy documents. For more details and to register click here.
- Changes brought by the Accounting Bill, an online seminar on 19 November. We will describe changes brought by the Accounting Bill, key differences from the Accounting Act, and provisions to be included in the Cabinet of Ministers’ rules. The seminar is intended for accountants and employees involved in recording and processing accounting-related documents. For more details and to register click here.

¹ The first sentence of section 13(1) of the Accounting Act