

# Accounting policy needs updating 1/50/21

We have already informed our MindLink.lv subscribers that every company needs to update its accounting policy because the new Accounting Act effective from 1 January 2022 is replacing the old Accounting Act of 1993. This article explores what material changes the accounting policy needs to describe and what purposes it serves.

The Cabinet of Ministers' Rule No. 775, *Application of the Company and Consolidated Accounts Act*, requires a company to change its accounting policy following a change of law. We have written earlier that the new Act tidies up the terminology, widens the range of subjects and brings in changes relating to supporting documents, but mostly takes over the current rules.

A key difference the new Act makes is to the allocation of accounting competencies, detailing the CEO's rights and obligations in accounting. From 2022 the CEO's responsibility will be specified in several internal processes, for example:

- Organising the accounting function (stocktaking, retaining accounting documents, and preparing financial statements)
- Designing (implementing, maintaining and improving) the accounting control system, a set of specific controls aimed at ensuring the performance of accounting tasks
- Drawing up documents to organise the accounting function (keeping accounting records, preparing and circulating supporting documents, stocktaking, and preparing and retaining financial statements)

The set of documents the CEO will be responsible for includes the accounting policy because it relates to the preparation of financial statements. The accounting policy needs updating to describe the CEO's new responsibility.

The accounting policy is especially important when it comes to explaining the company's existing rules, and if the company intends to adopt new accounting principles for any of the following:

- The fixed asset value threshold (in euros) that helps the company recognise its fixed assets and low-value assets<sup>1</sup>
- Procedures for computing depreciation charges
- The fixed asset revaluation method<sup>2</sup>
- Making provisions<sup>3</sup>
- Methods for recording inventories (measuring the use of each type of inventory and the value of balances) and any material changes.<sup>4</sup>

Also, if a company:

- becomes a related company, then its accounting principles need to be aligned with the group's accounting principles;
- has borrowed funds, then it will need accounting principles to give information on interest and penalties;
- uses electronic documents, then it needs detailed procedures for how documents are circulated, approved, stored and accessed, because the new Act broadens the scope for storing electronic documents so they can be kept in Latvia and elsewhere in the EU;
- has received a grant to compensate for a drop in working capital due to Covid-19, then the accounting policy should describe the relevant accounting methodology.

Effective from 1 January 2022, neither the Accounting Act nor the Cabinet of Ministers' rules allow a period of transition for adapting the company's accounting organisation documents to meet the new statutory requirements.

Since the accounting policy has to describe the principles of accounting methodology, how the accounting function is organised, how the control system and organisational documents are designed, and for the CEO's other new areas of responsibility, the accounting policy should be updated as soon as possible.

During a thematic review (when certain accounting documents are reconciled with the accounting information of parties to the transaction<sup>5</sup>) or during an audit, the State Revenue Service, certified auditors and other persons may examine the company not only for the existence of these documents (including the accounting policy) but also for compliance with the procedures they prescribe.

If you need to prepare, revise or amend your accounting policy, we will be happy to help you bring your organisational documents into line with the new statutory requirements.

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<sup>1</sup> Paragraph 65 of the Cabinet of Ministers' Rule No. 775, *Application of the Company and Consolidated Accounts Act*

<sup>2</sup> Paragraph 88 of the Cabinet of Ministers' Rule No. 775, *Application of the Company and Consolidated Accounts Act*

<sup>3</sup> Paragraphs 154 and 161 of the Cabinet of Ministers' Rule No. 775, *Application of the Company and Consolidated Accounts Act*

<sup>4</sup> Paragraph 224 of the Cabinet of Ministers' Rule No. 775, *Application of the Company and Consolidated Accounts Act*

<sup>5</sup> *The Taxes and Duties Act*