

Legislation on annual accounts and group accounts to be amended (2/34/17)

Given the long-term development plan arising from the National Tax Policy Framework for 2018–2021 and the short-term strategy for 2017–2019 drawn up by the Ministry of Finance, a set of proposals have been drafted for amending the Annual Financial Statements and Consolidated Financial Statements Act. The proposals aim to promote a positive investment climate and to make Latvia's business environment more competitive internationally. This article explores the aims and ideas underpinning the current rules and the proposed amendments.

A range of companies

Under section 13(4) of the Act the international accounting standards can be applied to certain items as long as this gives a true and fair view. Also, the Act allows state companies to prepare their annual accounts according to the international accounting standards. The proposals widen the range of companies eligible for preparing their annual accounts according to the international accounting standards by substituting the word "company" for the words "state company" in section 3(7) of the Act.

Currency in group accounts

Article 2(10) of Council Directive 2013/34/EU of 26 June 2013 defines a subsidiary as a company that is controlled by its parent, including all subsidiaries of the ultimate holding company. Yet the current version of the Act gives a narrower definition: a subsidiary is a Latvian-registered entity or cooperative society, Latvian-registered European group of economic interests, European cooperative society or European entity that is controlled by its parent in accordance with the Act.

Section 75 of the Act provides that in order to include a foreign-registered subsidiary in the group accounts, the subsidiary's accounts prepared in foreign currency should be restated in euros. However, the definition of a subsidiary does not imply that this should be done by a Latvian subsidiary of an EU or non-EU registered entity. The proposals add "or any other foreign-registered entity" after the words "European entity" in this definition to minimise the scope for interpretation.

Disclosure requirements

The Act lays down certain financial reporting requirements depending on the class of company. The proposals clarify the financial reporting requirements where the criterion of "two consecutive financial years" cannot be used in determining a company's class because its business figures vary from year to year, putting it into a different class each year. The proposals explain that such a company should compare its business figures for the current and the preceding financial year and prepare its annual accounts (group accounts) according to the requirements for the higher class. This approach will allow better comparisons of information year on year.

Revaluation

The Act has so far allowed interpretations where a company changes its accounting policy and applies the new policy retrospectively to a revaluation reserve in the case of annual depreciation charges. The proposals state that reducing a revaluation reserve because of depreciation charges will be an option, meaning the company will be allowed to reduce the revaluation reserve also when charging depreciation on a revalued asset for the year. A reduction in the revaluation reserve should be taken to the profit and

loss account as revenue in the financial year the reduction is made.

The form for filing annual accounts

When the form for filing annual accounts was changed in 2016, the business community and auditors noticed a number of shortcomings in the new form and recognised that it is very difficult and time-consuming to complete and review an electronic copy of the notes to the accounts on the structured form available from the Electronic Declaration System. To prevent any delay in filing this copy, the proposals make it possible to file an electronic copy of annual accounts by adding the words “or an electronic copy” after the word “copy” and by deleting the words “at the general meeting of shareholders” in section 97(1) of the Act.

In general the proposed amendments improve the comparability of financial information and clarify the wording in certain areas to create a uniform understanding and minimise the scope for interpretation.

¹<http://tap.mk.gov.lv/lv/mk/tap/?pid=40432576>