

Have you updated your accounting policy yet? (1/29/21)

Every company must have an accounting policy in place that specifies its accounting principles, as well as laying down rules for how its financial statements should be prepared and how its internal documents should move around. The accounting policy must fit the nature of the company's business.

The legal framework

An accounting policy describes the principles, methods and rules for recording business transactions, facts and events, and for valuing and disclosing items in the financial statements (e.g. methods for valuing fixed assets and computing depreciation, methods for valuing receivables and inventory balances, principles for recording and disclosing loan interest and penalties, conditions for making provisions, and methods used for disclosing a profit or loss or cash flows in the financial statements). The accounting policy explains the company's policy for recording its assets, liabilities, shareholders' equity, revenue and expense items in its books, split into groups of synthetic accounts matching specific balance-sheet items.

An accounting policy must be adopted in line with the Accounting Act, the Company and Consolidated Accounts Act, the Cabinet of Ministers' Rule No. 775 of 22 December 2015, *Application of the Company and Consolidated Accounts Act*, the Cabinet of Ministers' Rule No. 585 of 21 October 2003, *Accounting and Bookkeeping*, and other relevant pieces of Latvian legislation.

On 25 May 2021, Parliament adopted the new Accounting Act in its final reading effective from 1 January 2022, but neither the Act nor the relevant rules give companies a period of transition for adjusting their accounting documents to the new statutory requirements.

This means that every accounting policy must be updated from 1 January 2022. This step could be especially relevant to companies expecting audits from regulators, for instance, companies affected by the Covid-19 crisis and awarded state aid in the form of a grant to compensate for the reduction in working capital.

Using this aid is not considered a business transaction that is constantly repeated over the entire period of the company's business because the aid must be used by 31 July 2021, so the inclusion of internal rules for using the grant in the company's accounting policy is optional. Yet the State Revenue Service recommends preparing such rules to help a third party follow how the aid was obtained and used.

Latvian law offers many opportunities to process electronic documents by excluding the processing of physical paper invoices, contracts, and other internal documents. If you are considering a transition from processing paper documents to electronic documents, then remember that your accounting policy should include a detailed description of how your documents should move around and be stored, approved and accessed under Latvian law.

If your company needs any help in renewing, revising or preparing your accounting policy, we will be happy to help you update your internal documentation according to the new legislation.