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Text consolidated by Tulkošanas un terminoloģijas centrs (Translation and Terminology Centre) with amending laws of:

15 December 1994;  
5 October 1995;  
6 November 1996;  
8 July 1999;  
6 April 2000;  
15 May 2003;  
26 February 2004;  
6 April 2006.

If a whole or part of a section has been amended, the date of the amending law appears in square brackets at the end of the section. If a whole section, paragraph or clause has been deleted, the date of the deletion appears in square brackets beside the deleted section, paragraph or clause.

The Supreme Council has  
adopted the following Law:

## **On Accounting**

### **Chapter I General Provisions**

#### **Section 1.**

This Law applies to merchants, co-operative societies, foreign merchant branches and non-resident (foreign merchant) permanent representations, associations and foundations, political organisations (parties) and the associations thereof, religious organisations, trade unions, institutions, which are financed from the State budget or local government budgets, State or local government agencies, and to legal persons and natural persons who perform economic activities (hereinafter – undertaking).

*[6 November 1996; 15 May 2003; 6 April 2006]*

#### **Section 2.**

An undertaking has a duty to organise the accounting thereof. The accounting shall clearly reflect all economic transactions of the undertaking, as well as each fact or event, which causes changes in the state of the property of the undertaking (hereinafter – economic transactions). Accounting shall be conducted so that a third person qualified in the area of accounting may obtain a true and clear representation of the financial position of the undertaking at the date of the balance sheet, the results of the activities thereof, cash flow for a specific time period, as well as be able to determine the beginning of each economic transaction and trace its course.

The accounting information provided shall be truthful, comparable, timely, significant, understandable and complete. The accounting shall ensure allocation of income and expenditures by accounting periods.

The person liable for the organising of the accounting and the preservation of all the originals, copies or representation of data of all documents substantiating economic transactions shall be the manager of an undertaking.

A manager of an undertaking is:

1) for a partnership or business partnership – all the members of such partnerships or those members of the partnership who have been specially authorised to represent the partnership;

2) for a capital company – the board of directors;

3) for a co-operative society – the board of directors or the person who fulfils the functions thereof according to the procedures specified in the articles of association of the society;

4) for an individual undertaking, farms and fishing undertakings – the relevant owner of the undertaking or farm or fishing undertaking;

5) for foreign merchant branches and non-resident (foreign merchant) permanent representations – the person who is authorised to represent the foreign merchant (non-resident) in activities, which are associated with the branch or the permanent representation;

6) for an institution, which is financed from the State budget or local government budgets, State or local government agency – the manager thereof;

7) for associations, foundations, political organisations (parties), political organisation (party) associations and trade unions – the executive body (governing body);

8) for religious organisations – the management (governing body); and

9) an individual merchant and other natural person who performs economic activities.

*[6 November 1996; 15 May 2003; 6 April 2006]*

### **Section 3.**

A manager of an undertaking shall organise the accounting procedures in conformity with the requirements of this Law.

*[5 October 1995; 15 May 2003; 6 April 2006]*

### **Section 4.**

For accounting purposes, information and data, which in accordance with the existing regulatory enactments is required to be included in the reports of an undertaking, shall not be deemed to be commercial secrets.

All other accounting information of an undertaking shall be deemed to be commercial secrets and shall be accessible only for audits, to the tax administration for verification of the correctness of tax calculations, and to other State institutions in cases provided for by legislative enactments.

*[6 November 1996]*

### **Section 5.**

The measure of value to be used in accounting shall be the currency of the Republic of Latvia.

## **Chapter II Maintaining of Accounting Registers**

## **Section 6.**

Accounting registers shall be maintained in the Latvian language and kept together with source documents in the territory of Latvia. If a foreign legal or natural person participates in the economic transactions, another language, by agreement of the parties, acceptable to such person and auditors, may be used. If codes, abbreviations, single letters or symbols are used in the records, explanations shall be provided thereof.

*[6 November 1996]*

## **Section 7.**

Entries, which are not supported by source documents, shall not be made in accounting registers. It shall be mandatory for a source document to include the following requisites (identification data): the name of the undertaking (merchant firm name) and its registration number in the registry institutions of the Ministry of Justice (for transactions with a natural person – personal identity number), legal address (for external source documents), title, number and date of the document, description and basis of the transaction, quantifiers (volumes, amounts), participants (persons directly engaged in the transaction) and signatures of the persons responsible for the performance of the economic transaction and the correctness of information provided in the source document. For specific types of source documents, additional requisites (seal and others), as provided for by relevant regulatory enactments, may be mandatory.

If there is an external source document regarding an economic transaction, it shall be given priority in comparison with any internal source document.

A document drawn up at another undertaking, not that of the undertaking itself, shall be considered to be an external source document. All other source documents shall be deemed to be internal source documents of the undertaking.

If source documents are prepared with electronic computing machines (computers), the signatures of persons responsible for the performance of the economic transactions and correctness of information may be replaced by their electronic confirmation (authorisation). The manager of the undertaking shall determine the procedures for electronic confirmation (authorisation) at an undertaking. Electronic confirmation (authorisation) of external documents may be utilised only if the parties to the transaction have mutually agreed, upon the procedures by which an electronic exchange of source documents shall be performed and upon the procedures for electronic confirmation (authorisation).

Entries in the accounting registers shall be timely, complete, precise and systematically arranged. Entries, the content or quantifiers of which differ from source documents, shall not be allowed.

If entries in the accounting registers or documents are amended, their initial content shall be visible, and each correction shall be justified and confirmed with a signature. Corrections may not be made in such a manner that it is not comprehensible when and why such have been made.

Maintaining of accounting registers by electronic computing machines (computers) only, shall be allowed only where the requirements of this Law are not violated. Furthermore, representation of the data in a form legible to third persons, and provision of their printout, if necessary, shall be ensured.

*[8 July 1999; 15 May 2003]*

## **Section 8.**

Recording of cash operations shall be done in such a manner that each payment received, and disbursed, is recorded daily. The cash balance at the beginning of the day shall be stated, the income and expenditures of the day shall be totalled, and the cash balance at the end of the day shall be calculated, every day.

Undertakings in which the average daily cash income does not exceed 100 lats may calculate the cash balance on a weekly basis.

Undertakings, which use cash registers or similar data registration equipment, may record the income by one entry for the whole day. Other source documents received, regarding the economic transactions of the undertaking, shall be recorded in the accounting registers as soon as possible but not later than within 15 days after the end of the month, in which the document was received by the undertaking, and their recording at the end of the accounting period is mandatory. *[5 October 1995; 6 November 1996; 8 July 1999]*

## **Section 9.**

Accounting registers shall be maintained using a double entry accounting system.

Provisions of this Section are not applicable to:

1) individual merchants, individual undertakings, farms and fishing undertakings the turnover (income) of which from economic transactions during the previous accounting year does not exceed 200 000 lats, other natural persons who perform economic activities. The referred to persons may organise their accounting by the simple entry system according to the procedures specified by the Cabinet; and

2) religious organisations the turnover (income) of which from economic transactions during the accounting year does not exceed 25 000 lats. They may organise their accounting by the simple entry system.

*[6 November 1996; 6 April 2000; 15 May 2003; 6 April 2006]*

## **Section 10.**

In every undertaking, all source documents, accounting registers, inventory lists, annual accounts and their annexes, as well as accounting organisation documents (form of accounts, codes etc.), shall be systematically arranged and kept in the archives of the undertaking.

The time period for keeping the documents shall be as follows:

for annual accounts and their appendixes, and for the general ledger – 10 years. After that they shall be submitted to the State Archives;

for inventory lists, accounting registers and accounting organisation documents – 10 years;

for source documents regarding monthly salaries (remuneration) calculated for employees, arranged by years and months – 75 years; and

for other source documents – 5 years.

If accounting is conducted by electronic computing machines, the period for keeping data as specified in Paragraph two of this Section shall be ensured.

If an undertaking ceases activities, the liquidation commission, co-ordinating with the Office of the Director General of the State Archives, shall determine the procedures for the subsequent storage of the archives of the undertaking.

The manager of the undertaking shall be responsible for maintenance of the archives of the undertaking.  
*[15 May 2003]*

### **Chapter III Inventory and Reports**

#### **Section 11.**

An undertaking, which commences activities, shall perform an inventory, in which all the property owned and for the use thereof of the undertaking on site, as well as compare amounts of undertaking and debtor and creditor claims and obligations. The results of the inventory shall be reflected in inventory lists. The valuation of property, also claims and obligations shall be made according to the procedures specified in regulatory enactments. In the future, such inventory shall be performed at the end of each accounting year, as well as in ceasing the activities of the undertaking or reorganisation of the undertaking or if a matter has been initiated for the declaring of the undertaking as insolvent.

The Cabinet shall issue regulations regarding the property of undertakings, also the valuation of claims and obligations in accounting and reflection in the financial reports of an undertaking or the structural units thereof in the case of ceasing activities.

Individual undertakings, farms and fishing undertakings, as well as individual merchants and other natural persons who perform economic activities, the provisions of Paragraph one of this Section shall be applied to property, which is intended or which is utilised for the performance of economic activities.

*[6 November 1996; 15 May 2003; 6 April 2006]*

#### **Section 12.**

Inventory of identical objects may be also performed by sampling, using mathematical statistics methods for the evaluation of data. The value of material resources established in such manner shall not differ significantly from the results of a general inventory.

It is not mandatory for the closing inventory of the accounting year to be performed on the last day of the accounting year, if it is possible, on the basis of the accounting data, to determine the true form and amounts of material values, and their evaluation in monetary units, without performing an inventory on site.

The closing inventory of the accounting year may be performed within three months prior to the final day of the accounting year, or within a month after it, by recalculating the balances established on the day of the inventory in accordance with the accounting data on the final day of the accounting year.

#### **Section 13.**

Upon commencing the activities of an undertaking, on the basis of the inventory data specified in Section 11 of this Law, an opening balance sheet shall be drawn up. All the same provisions shall apply to the opening balance sheet as apply to the annual account balance sheet.

If it is not specified otherwise in regulatory enactments, in the reorganisation or the ceasing of the activities of an undertaking, a closing financial statement of the activities of an undertaking shall be drawn up (hereinafter – closing financial statement). The closing financial statement shall be prepared, examined and published in accordance with the provisions provided

for in the annual account preparation, examination, submission and publication regulations. In addition to these, the closing financial statement shall provide detailed information regarding losses, which have occurred due to the reduction of the value of the assets in the reorganisation or ceasing of activities of an undertaking, indicating the basis for the calculation of the amount of losses and the impact of such losses on the valuation of component items of the financial statement.

For each accounting year annual accounts shall be drawn up, the procedures for the structure, volume and content of which, as well as the preparation, examination and submission thereof, are specified in the Law On Annual Accounts of Undertakings, the regulating laws on the activities of participants in the financial and capital market and the regulatory regulations or orders of the Finance and Capital Market Commission and in accordance with the adopted regulatory enactments of the Law On Budget and Financial Management.

The provisions of Paragraph three of this Section do not apply to:

- 1) [15 May 2003]
- 2) associations, foundations, religious organisations and trade unions. The procedures for the structure, volume, content, preparation, examination and submission of annual accounts for such persons shall be determined by the Cabinet; and
- 3) [6 April 2006]
- 4) political organisations (parties) and associations thereof. The structure, volume and contents of annual accounts and the procedures for the preparation, examination and submission thereof shall be determined by the Cabinet.

The provisions of Paragraphs one, two and three of this Section shall not apply to individual undertakings, farms and fishing undertakings, the turnover (income) of which from economic transactions during the previous accounting year does not exceed 200 000 lats, and individual merchants and other natural persons who perform economic activities. Such undertakings shall account for the income and expenditures of economic activities and fill out declarations and forms in conformity with the specified requirements of tax laws or regulatory enactments adopted in accordance with such.

Individual merchants, the turnover (income) of which from economic transactions during the previous accounting year exceeds 200 000 lats, shall prepare also a balance sheet and an income and expenditure statement, the procedures for the content, preparation and submission of which shall be determined by the Cabinet.

*[6 November 1996; 8 July 1999; 6 April 2000; 15 May 2003; 26 February 2004; 6 April 2006]*

## **Section 14.**

The accounting year shall cover 12 months, and it shall usually coincide with the calendar year. A different beginning and end for the accounting year may be only if such is determined by the articles of association of the relevant undertaking (company), by-laws or constitution or by a partnership agreement.

The accounting year may be changed. A change of the accounting year shall be substantiated and relevant explanations therefor shall be provided in the appendix to the annual account.

The first accounting year of a newly established undertaking may cover a shorter or a longer time period, but not longer than 18 months.

If the beginning of the accounting year of an existing undertaking is changed, the accounting year shall not exceed 12 months.

An accounting year in which an undertaking is reorganised or terminates its operation, as well as in which the beginning has been changed, may be shorter than 12 months.

The provisions of this Section are not applicable to institutions, which are financed from the State budget or local government budgets, and State or local government agencies, the duration, beginning and end of the economic year of which are prescribed by laws applicable thereto.

*[6 November 1996; 6 April 2000; 15 May 2003; 6 April 2006]*

#### **Chapter IV** **Division of Competence in Accounting**

*[8 July 1999; 15 May 2003]*

##### **Section 15.**

Regulations regarding the conducting and organisation of accounting, as well as the recording of cash-office operations shall be issued by the Cabinet. The Cabinet shall determine mandatory Latvian accounting standards to be applied and range of subjects who have to apply such standards.

Latvian accounting standards are the recognition and evaluation of general and frequently applied instructions in respect of financial statement items and the submitting of explanation regarding them, which have been co-ordinated with the regulatory enactments regulating accounting, European Community law and International Accounting Standards.

*[8 July 1999; 15 May 2003]*

##### **Section 15.<sup>1</sup>**

State policy in respect of accounting issues shall be developed and implemented by the Ministry of Finance.

The Cabinet shall establish an Accounting Board (hereinafter – Board) the operational purpose of which is to promote the raising of the quality of financial statements and the co-ordination of the standards and regulations regulating the preparation of financial statements with international accounting standards. The Board shall be funded from the State budget.

The Board shall comprise two Representatives of the Ministry of Finance, two representatives of the Latvian Association of Sworn Auditors, two representatives of Latvian institutions of higher education and one representative each from the Finance and Capital Market Commission, the Bank of Latvia, State Revenue Service, Treasury, State Auditor and Latvian Accountants Association. The Cabinet shall, on the basis of a proposal from the Minister for Finance, approve the composition of the Board.

*[15 May 2003; 6 April 2006]*

##### **Section 15.<sup>2</sup>**

The Board shall operate in accordance with by-laws approved by the Cabinet. The Ministry of Finance shall ensure the work of the Board.

The Board shall organise and manage the development, discussion and co-ordination of draft Latvian accounting standards and amendments thereto, issue and up-date Latvian accounting standards and provide explanations regarding them, as well as provide the Minister for Finance with proposals for the improvement of the regulatory enactments regulating accounting.

The Board may establish working groups or technical committees for the development of draft Latvian accounting standards and amendments thereto, prepare and submit draft regulatory

enactments to the Minister for Finance regarding mandatory Latvian accounting standards to be applied, as well as examine sector accounting and other accounting methodological issues of a general nature and publish its opinions, recommendations and explanations.

[15 May 2003]

## Chapter V

### Liability for Violations of the Law of the Republic of Latvia On Accounting

#### Section 16.

Managers of undertakings who have allowed violation of the Law On Accounting and of other regulatory enactments in force regarding accounting, misrepresentation of accounting data in bad faith, failure to submit reports which are officially required, or loss of accounting documents, shall be held liable in accordance with the procedures provided for by law.

#### Section 17.

A manager of an undertaking shall be liable for losses occasioned to the undertaking, the State (local government), or a third person through violations of the provisions of this Law due to the fault of the manager. Natural persons and legal persons occasioned such loss have the right to claim compensation therefor in accordance with the procedures prescribed in regulatory enactments.

### Transitional Provisions

1. The amendment to Section 13, Paragraph three of this Law shall apply to annual accounts for periods commencing from and after 1999.

[8 July 1999]

2. Section 9, Paragraph two, Clause three of this Law shall come into force on 1 January 2001.

[6 April 2001]

3. Until the day of the coming into force of the relevant Cabinet regulations, but not later than up to 1 November 2003, the following Cabinet regulations shall be applicable:

1) Cabinet Regulation No. 243 of 25 July 2000, Regulations on the Conduct and Organisation of Accounting (*Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 2000, No. 15); and

2) Cabinet Regulation No. 244 of 25 July 2000, Regulations regarding Cash-office Operations Accounting (*Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 2000, No. 15).

[15 May 2003]

4. Section 15.<sup>1</sup>, Paragraphs two and three and Section 15.<sup>2</sup> of this Law shall come into force simultaneously with the relevant amendments to the Law On the State Budget 2003.

[15 May 2003]

5. The amendments to Section 9 and Section 13, Paragraphs five and six of this Law shall come into force on 1 January 2007.

[6 April 2006]

6. On the day of the coming into force of the Cabinet regulations referred to in Section 13, Paragraph four, Clause 2 of this Law, but not later than by 1 January 2007, the following Cabinet regulations shall be applied:

1) Cabinet Regulation No. 251 of 1 August 2000, Regulations regarding Public Organisation, the Associations thereof and Trade Union Annual Accounts (*Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 2000, No. 16); and

2) Cabinet Regulation No. 252 of 1 August 2000, Regulations regarding Religious Organisation Annual Accounts (*Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 2000, No. 16; 2004, No. 11)

[6 April 2006]

Chairperson of the Supreme Council of the Republic of Latvia

A.Gorbunovs

Secretary of the Supreme Council of the Republic of Latvia

I.Daudišs

Rīga, 14 October 1992