

Rödl & Partner

NEWSLETTER LATVIA

SETTING ACCENTS

Issue:
March 2023

A guide to preparing an effective annual report

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→ Foreword

The annual report is a name card of every company as it contains information about the company's financial and business performance in comparison to the preceding year. For the Accounting Law, a company is obliged to prepare the statement for every reporting year. The main objective of this statement is to provide information about the company's financial position, operation results and changes in the financial position, which is useful for its user in adopting economic decisions.

A modern annual report is increasingly often used also as a marketing tool supplementing the company image this is a trend characteristic for large and international companies.

Thus, to create and maintain good reputation in the business environment, it is important to prepare a true, convincing, and good name card of the company or the annual report. Sometimes there is a wrong impression that the annual report is only needed for state authorities, however, the range of users of this information is much broader and more important. The annual report of a company is available to shareholders, employees, financial analysts, investors, and suppliers. Therefore, it is important to prepare necessary data in conformity with the composition of the annual report.

→ Composition of the annual report

The annual report consists of the financial statement and the management report, The composition of the financial statement may change depending on the size of the company.

Micro companies

According to the law micro companies are allowed to prepare the report without the management report if they provide certain information about the shareholding in the annex to the financial statement. Such a company may also prepare a short version of the annex to the financial statement. If a micro company does not exceed two of the defined threshold values on the Balance Sheet date, it is allowed to prepare the report without preparing an annex to the financial statement. In this case certain information and data about the mean number of employees in the report year is provided at the end of the Balance Sheet by numbers, in a text or table format.

Threshold values for micro companies:

1. Balance Sheet value – 50,000 euro;
2. Net turnover – 100,000 euro;
3. Mean number of employees during the report year – 5.

Small companies

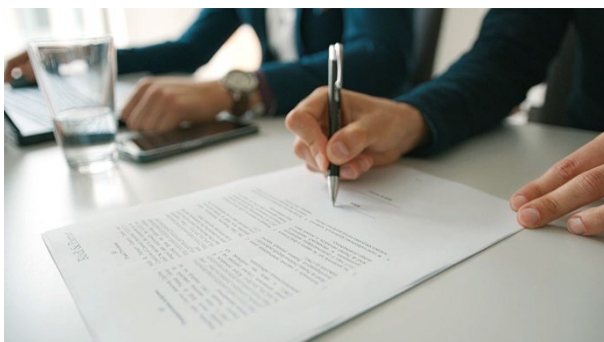
Such companies must prepare the management report and their financial statement consists of the Balance Sheet, the Profit or Loss Statement and the annex to the Financial Statement as minimum.

Threshold values for small companies:

1. Balance Sheet value – 4,000,000 euro;
2. Net turnover – 8,000,000 euro;
3. Mean number of employees during the report year – 50.

Medium and large companies

The annual report of medium companies consists of the management report and the financial statement comprising the Balance Sheet, Profit or Loss Statement, the Cash Flow Statement, the Statement of Changes in Equity, and the annex to the Financial Statement.



Threshold values for medium companies:

1. Balance Sheet value – 20,000,000 euro;
2. Net turnover – 40,000,000 euro;
3. Mean number of employees during the report year – 250.

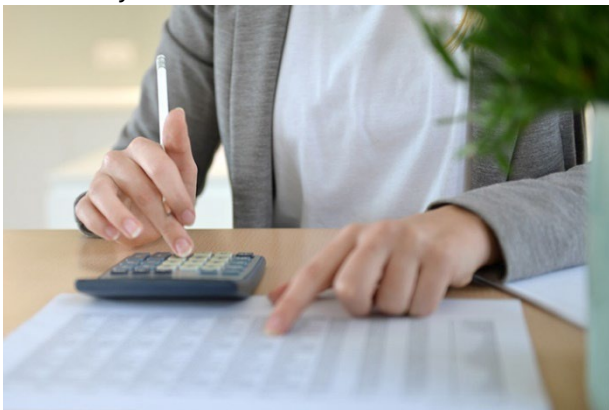
A company exceeding minimum two of the three threshold values for medium companies on the Balance Sheet date is a large company.

Although some parts are not mandatory depending on the size of the company, still they can be important for providing more comprehensive information about the company operations.

Therefore, it is worthwhile for a company to identify the major users of the annual report to assess whether these parts need to be prepared. Also, for the purpose of assuring that the annual report is prepared in conformity with the legislation of the Republic of Latvia, we advise to consult with a relevant field professional. There is a reliable accountant, lawyer, and auditor at Rödl & Partner, and they will be able to help a company to prepare excellent statements and reports. Rödl & Partner performs audit of financial statements, accounting services, tax, and business consultations, therefore we advise to apply for needed services well in advance.

→ Audit

Audit of the annual report is mandatory for parent companies of a group, for companies whose securities are listed and for companies who assess their assets in compliance with the International Financial Reporting Standards. However, audit can be performed also if it is not mandatory, and the management would like to benefit from an independent professional viewpoint to assure the accounting is carried out correctly. We have collected a few typical mistakes in annual reports as seen by an auditor.



Auditors' recommendations based on the mistakes found in annual reports:

- Attention should be paid to correct presentation of inventory data;
- Explanations of major items of the Balance Sheet or the Profit or Loss Statement, comparisons to the preceding period, details, and substantiations in relation to the data contained by other parts of the financial statement, as well as additional information needed for providing a true and clear

perception should be provided in the annex to the Financial Statement.

- Information about the company development plans in future is important for users. For ensuring better understanding the management report should contain explanation of the financial results of the company and comprehensive analysis of the financial position. Information should be provided in comparison to the indices of the preceding year and factors affecting major change. Auditors advise that the management report should be prepared by the management instead of delegating this to the accountant because the management viewpoint is also very important.
- Inventory of fixed assets should also be performed during the year closing inventory, as it affects the Profit or Loss Statements. Accounting organization documents approved by the management should also comprise the rates of depreciation of fixed assets.
- The management should introduce relevant internal control for accounting for low value assets and their inventory.
- A chart of accounts compliant with the requirements of preparation of the financial statement should be developed.
- The accounting policy should be developed or updated summarizing the guidelines of maintaining accounting, as many companies have outdated accounting policies or don't have any policy at all.
- If major errors of the preceding years have been revealed or the accounting policy has changed during the reporting year, the relevant number of the preceding year should be adjusted. Explanations should be provided in the annex to the Financial Statement regarding every case when numbers cannot be compared or

adjustments of the numbers of the preceding reporting years have been made.

Our recommendations:

- Documents should be delivered to the accounting in due time and resolution of issues should not be postponed not to delay the process of preparation of the annual report or audit because it is a time-consuming activity.
- Auditors should be contacted well in advance if audit or restricted examination is needed because auditors must schedule relevant time and, if this is postponed to the last moment, there can be a situation when preferred auditors have full schedule and audit must be performed after the date of submission of the annual report.
- Managers should schedule signing of annual reports in advance because it is quite often that during the finalization process persons holding signatory powers are not accessible for signing the annual report in due time and submission of the annual report to the State Revenue Service is delayed.
- The annual report should be correct also from the grammar point of view, as wrong sentence structures may make it difficult for the reader to perceive information, make it confusing or unclear.
- Preparation of the annual report and related procedures should be planned to be able to prepare a good and considered annual report.

→ Submission

For the time being the government has extended the term of submission of the annual report for small companies by one month and this extension applies to the annual reports prepared for year 2022 and beyond for the purpose of reducing the

administrative burden. All the other companies must submit their reports according to the usual procedure defined by the Law on the Annual Financial Statements and Consolidated Financial Statements.

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