

# Rödl & Partner

NEWSLETTER LATVIA

SETTING ACCENTS

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Optimization of company's operations due to  
timely document delivery to accounting

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## → Optimization options by fast accounting document delivery

The Accounting Law lays down that accounting information must be reliable, comparable, timely, relevant, understandable and complete. Income and expenses must be cut off properly. In this article, we shall explain why it is important to provide information to accountants in a timely manner and how the provisions of the law should be understood in practice. Below we will list five most important reasons why it is in the interests of an undertaking's management to submit documents to accountants in a timely manner and in the correct form.

### ENSURING OF STATUTORY COMPLIANCE

First of all, statutory compliance can be achieved if supporting documents are submitted to accountants within the prescribed period. In addition, an undertaking can thus ensure effective financial data control, prepare required information and submit it to qualified third parties, such as the State Revenue Service (the SRS) and undertaking's auditors.

In Latvia, the accounting function is organised on the basis of, inter alia, the Accounting Law, the Law on Annual Reports and Consolidated Annual Reports, Cabinet Regulation No 775 of 22 December 2015 on the Application of the Law on Annual Reports and Consolidated Annual Reports and Cabinet Regulation No 585 of 21 October 2003 on the Keeping of Accounts and Accounting Management.

According to Article 8 of the Accounting Law, external and internal supporting documents concerning economic transactions of an undertaking must be entered into the undertaking's accounting registers as soon as possible, but not later than within 15 days after the last day of the month in which the supporting documents are received or issued, or, at the latest, by the date of signing of the financial statements that are prepared for the respective reporting period.

### PREVENTING OF EXTRA COSTS

It is essential that supporting documents are provided to accountants in a timely manner to ensure that the statutory requirement concerning the timely recording of transactions is complied with, the undertaking will not face any adverse consequences of non-compliance and all current tax statements and other reports to be submitted to the SRS and other authorities are drawn up by due dates. The handling of documents and their entry into the accounting system require certain time, which is not limited merely to the manual

entry of invoices into the system by the accountant.

It should be noted in this respect that supporting documents cannot often be accepted and recorded by accountants because of insufficient information supplied. Most frequently, supporting documents lack some of mandatory details prescribed by law.

What details a supporting document must have to be recognised by accountants as fully conforming? Minimum statutory requirements are listed below, and a tax invoice must contain the following details and information:

- date of issuance;
- order number of one or several series, which is a unique identifier of the tax invoice;
- name (for natural persons – name and surname) and registered office (for natural persons – declared address) of the supplier of goods or services;
- registration number of the supplier of goods or services in the SRS's VAT payer register;
- name (for natural persons – name and surname) and registered office (for natural persons – declared address) of the recipient of goods or services;
- registration number of the recipient of goods or services in the SRS's VAT payer register or another Member State's taxpayer register if the taxpayer has been granted a registration number in the SRS's VAT payer register or another Member State's taxpayer register;
- date of supply of goods or services (if different from the date of issuance of the tax invoice) or the date of receipt of advance consideration if it is known and different from the date of issuance of the tax invoice;
- name, quantity and unit of measurement of goods or services;
- price of goods or services (price per unit, without tax);
- discounts applied unless they have been deducted from the price per unit;

- tax rate applied;
- tax amount calculated;
- total transaction amount without tax (subject to tax or exemption from tax);
- if the tax invoice is issued by the recipient of goods or services, "self-billing" must be indicated;
- if the supply of goods or services is zero-rated or exempt, it is necessary to provide a reference to the article of the law according to which the zero rate or the exemption is applied or to a relevant article of Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax or another reference providing the legal justification for the zero rate or the exemption;
- if the recipient of goods or services is liable for the tax payment, "reverse charge" must be indicated;
- additional conditions that are applicable in situations when new vehicles are supplied, or a special procedure for paying tax and deducting input tax or a special tax arrangement is applied, or a specific person is liable for the tax payment.

When the transaction amount without tax is less than EUR 150, a simplified tax invoice may be drawn up. An invoice must contain the following details and information:

- date of issuance of the tax invoice;
- name (for natural persons – name and surname) and registered office (for natural persons – declared address) of the supplier of goods or services and person's registration number in the SRS's VAT payer register;
- name (for natural persons – name and surname) and registered office (for natural persons – declared address) of the recipient of goods or services and person's registration number in the SRS's VAT payer register or another Member State's taxpayer register;
- name of goods or type of services and quantity;
- price of goods or services (with or without tax) and total transaction amount (with or without tax);
- tax rate and tax amount calculated.

A cash register receipt or another document may be used as a simplified tax invoice, in which case supporting documents for an amount of less than EUR 30 are subject to simplified minimum requirements; otherwise, supporting documents must contain the details listed above.

Should sufficient and timely information be presented, an accountant would not waste time looking for missing information and communicating with persons concerned. Time saving may also mean lower accounting expenses

incurred by undertakings outsourcing their accounting function.

Last but not least, compliant undertakings may avoid extra costs, such as late payment charges and penalties that can be imposed by the SRS for failure to enter invoices into the accounting programme within the prescribed timeframe, late reporting in the electronic declaration system and deficiencies identified as a result of thematic inspections.

## FACILITATION OF FINANCIAL SUPERVISION AND DECISION-MAKING BY THE UNDERTAKING

The timely submission of supporting documents to accountants makes it possible to ensure timely monthly, quarterly or annual management financial reporting, which is an essential corporate tool. Accurate and timely financial reporting provides basic data that are useful for financial supervision and, accordingly, the timely detection and elimination of any potential errors, budget planning, decision-making and the attraction of potential investors.

Management must be aware of the movements of receivables and payables to be in a position to track undertaking's cash flows and plan future payments, but it would be impossible without all documents and data about cash inflows and outflows entered into the accounting system in a timely manner. Relevant and complete information about an undertaking's financial position may be crucial in various situations, including when it is necessary to obtain additional funds, such as loans, for the acquisition of production equipment or ensuring the sufficiency of current assets and sound liquidity position.

## ENSURING OF IMMEDIATE RESPONSE IN UNFORESEEABLE SITUATIONS

Awareness of the cash flow situation is needed both for projected transactions and in emergency situations, such as the COVID-19 outbreak we are wrestling with today. COVID-19 has caught enterprises by surprise, and they are forced to adapt to restrictions introduced both at national and global level.

Where possible, employees are working remotely from home, with the result that access to documents that are only available in paper format is limited and problematic. Meanwhile, undertakings storing their documents also in electronic format are in a more advantageous situation because access to documents and running of their business processes are not affected by remote work. In the face of a crisis, enterprises need to promptly assess their financial situation to be able to respond to the extraordinary situation and plan

steps to be taken, including an assessment of whether they will be able to pay salaries to their employees or, alternatively, whether they should consider obtaining support from the government. To apply for state benefits, enterprises must be able to submit required information within the prescribed timeframe (for example, at present idle-time benefits may be applied for only for a specific month during that respective month). Accordingly, the timely keeping of accounts will provide access to financial data whenever they are urgently needed.

## PREPARATION OF ANNUAL REPORTS IS FACILITATED

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In Latvia, most of companies must prepare their annual reports for the previous reporting period and submit them through the SRS's electronic declaration system by 30 April 2020. Accounts kept accurately through the year and timely information and documents submitted by management to accountants – all these factors are essential for the preparation and audit of annual reports.

Our practice has shown that timely reporting during the year can facilitate the completion of annual reports by due dates and the progress of the audit. In particular, the availability of documents in electronic format is essential for prompt data processing. Therefore, enterprises which have postponed the drawing-up or

submission to accountants of their documents may face delays in the audit process and, accordingly, the preparation of their annual reports. It has become particularly evident during the current COVID-19 crisis, when employees of many companies, including audit firms, are working remotely. The preparation and submission of information requested by auditors have become time-consuming, thereby causing difficulties to companies.

Hence, the predominant reason for timely reporting to accountants cannot be highlighted; it is rather that all factors together contribute to the success of the undertaking, ensuring both statutory compliance and transparency of financial data for strategic decision-making.

It is important to note that as of 1 July 2020 liability for accounting violations will be borne by undertaking's management, which is the board in the case of limited liability companies. In addition, the maximum monetary penalty will be revised upwards and reach EUR 2,000 for every violation (instead of EUR 430 applied previously). This means that we are undergoing a transitional period, when all issues that occurred during previous reporting periods can be settled with a lower risk of monetary penalties.

We would like to stress once again that, in order to be well equipped to face internal or external challenges, it is important to follow recommendations provided by your accountants and keep registers according to requirements of laws

## CONTACT FOR FURTHER INFORMATION

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