

РЕФОРМИРОВАНИЕ УЧЕТА И ОТЧЕТНОСТИ

LEGAL REGULATION OF THE ORGANIZATION OF SINGLE-ENTRY AND DOUBLE-ENTRY ACCOUNTING IN LATVIA

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To ensure successful implementation of the accounting functions and to comply with the legal requirements, in every organization, it is necessary to establish the system, which is based on the corresponding legal requirements – the accounting and bookkeeping system. It will differ depending on the specialisation of the performer of economic activity; nevertheless the system will be based on the common requirements provided by the specific laws and regulations of Latvia (Table 1). Organization of accounting is regulated by the Law *On Accounting* stipulating that any company registered in Latvia, disregarding its business legal type and form, has to establish the accounting and bookkeeping system. There are peculiarities of the accounting and bookkeeping which is organized as a single entry system or a double-entry system.

Table 1 – Legislative and regulatory framework regulating the accounting organization for the system of single-entry bookkeeping and the system of double-entry bookkeeping

[Compiled by the authors]

Single-entry system	Double-entry system
Law On accounting, adopted on October 10, 1992, with amendments	
The Cabinet Regulations No 585, adopted on October 21, 2003 Regulations on the conduct and organization of accounting	
The Cabinet Regulations No.584, adopted on October 21, 2009 Regulations regarding accounting of cash-office operations	
The Cabinet Regulations No.282, adopted on May 02, 2007 Procedures for using electronic devices and equipment for registration of taxes and other payments	
The Cabinet Regulations No.183, adopted on May 08, 2007 Procedures for organization of single-entry accounting system for individual merchants, individual enterprises, farming and fishing enterprises, and other natural persons performing economic activities	
Guidance material on filling in The Journal of incomes and expenditures of the economic activities	International accounting standards
The Cabinet Regulations No.301, adopted on March 20, 2007 Regulations on the financial accounts of individual merchants	Annual Accounts Law with amendments to October 19, 2006
Methodical guidelines and letters by the State Revenue Service	
Other legal regulations on the accounting and annual reporting of the economic activities	

The information summarised in Table 1 allows concluding that the basic requirements for the organization of a single-entry and a double-entry accounting system are governed by the same legal regulations. Nonetheless, the difference of both accounting systems is fundamental: the cash-basis accounting is used in the single-entry system; the accrual-based accounting is used in double-entry system. The essential is the difference in preparation of annual reports: *The Annual Accounts Law* and accounting standards, which are not binding for the single-entry system, are used in the double-entry system.

When selecting the form of commercial activity, it is necessary to evaluate thoroughly the advantages and disadvantages of the future legal status of the merchant or enterprise. In addressing the question of the most appropriate form of entrepreneurship, the main points that should be considered are: the personal responsibility risk of the owners, complexity of the registration procedures and its price, simplicity and flexibility of the company's management, the difference in taxation and organization of accounting.

The Law "On Accounting", adopted in Latvia in 1992, sets up the requirement to organize and to conduct the accounting in accordance with the following basic methodological principles summarised in Table 2.

Table 2 – General methodological guidelines for organization and conduct of accounting
[Compiled by the authors]

Double-entry system	Single-entry system
1	2
Principle of measure of value	
Measure of value is EUR. Transactions that are carried out in foreign currencies are recalculated in accordance with the exchange rate of the Bank of Latvia on the day the operation was performed.	
Principle of independence of the business entity	
This principle refers to the assumption that the company has to be legally independent in relation to its owner.	This requirement is irrelevant for the individual merchants, since, in accordance with the Article 76 of the Commercial Law, the individual merchant is liable for his/her obligations with all his/her property.
Principle of sustainability of the company's operations	
It is assumed that the company, once established, will continue its activities in the future	
Actual costs evaluation principle	
In the Section 11 of the law "On Accounting", it is stipulated that evaluation of the company's property, including the claims and obligations, shall be made in accordance with the procedures laid down in laws and regulations. The objects of accounting shall be evaluated by the price of their acquisition, including purchase, transportation, instalment, assembling, and other related expenses. The actual costs evaluation principle is reinforced in the Chapter "Valuation Rules" of the Annual Accounts Law.	

End of the table 2

1	2
Principle of conservatism	
The principle suggests that, when applying the valuation rules, for instance, for the valuation of inventory, the method of the lowest value is used.	
Principle of significance	
The accounting provides the company's management with the necessary information at the moment when decisions are made.	Individual merchants and other self-employed persons perform economic activities in the competitive environment and use the accounting information for making justified commercial decisions.
Realization principle	
The transaction must be recognized in accordance with the legal aspect – at the moment the rights and liabilities have occurred. All amounts, irrespective whether received or not, are recognized as the taxpayer's revenue that has occurred along with the taxpayer's rights for this revenue at the certain taxation period.	Cash-register method recording the actual moment of cash inflow or expenditure.
Principle of proportionality of revenues and expenditures	
The principle suggests that revenues at the particular accounting period should be proportional to the expenditure that has occurred to generated his revenue.	In accordance with this method, all the sums the taxpayer has actually received during the particular period are recognized as revenues, and all the sums that are actually paid – as expenses.

In accordance with the above mentioned, it shall be assumed that the double-entry accounting system has more advantages rather than the single-entry system, as the first ensures:

- 1) Information on the company's assets and all their sources;
- 2) More detailed accounting information;
- 3) More precise information for the analysis of economic activities and future planning.

The single entry accounting system's task is to determine correctly the taxable income which is subject to the personal income tax in the particular taxation year. The single-entry accounting system does not provide the users with all the information necessary for decision making and planning the development of the economic activities.

In Article 9 of the Law on Accounting it is specified that the accounting registers shall be maintained using a double entry accounting system. Though, the articles

of the law envisage exemptions, hence they are not binding for the enterprises that are allowed to maintain the accounting using a single entry system. Those are:

- Individual merchants, individual enterprises, farming and fishing enterprises whose turnover (income) from the economic transactions during the previous accounting year does not exceed 300 000 euros, other natural persons who perform economic activities.

- Associations, foundations, trade unions and religious organisations whose turnover (income) from the economic transactions during both the current and previous accounting year does not exceed 40 000 euros.

The person responsible for the accounting at the company is the head of the enterprise who, in accordance with the legislation, organizes the accounting and bookkeeping in one of the following ways:

- Accounting is performed by owner himself/herself (individual enterprise or merchant, natural person, head of capital company as a single owner).
- Employment contract with an employee – accountant or outsourced accountant.
- Contract with another company on outsourcing of the accounting services.

The provision of the Cabinet regulations cannot be fulfilled by the companies providing accounting services and having two or more owners, where one of the owners – member of the board – manages accounting and bookkeeping. During thematic inspections, officers of the State Revenue Service admit that, in fact, it is a breach of the legal regulations, though, at the same time, they confess that there is no logical reason to employ an accountant from the outside.

The entrepreneur has to analyse the legal norms and the accounting requirements for enterprises and has to select the accounting system which is the most appropriate for the particular form of entrepreneurship – whether to employ a professional accountant, to buy outsourcing service, or to do it himself/ herself. Though, it has to be kept in mind that the aim of the selection is to have a correctly organized and maintained accounting and bookkeeping system.

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