

Guidelines on Accounting During the Transitional Period from Lats to Euros



Information for entrepreneurs to whom instructions regarding the dual display period of prices are not applicable by the euro changeover!

During the dual display period, in invoices between legal persons one shall not compulsorily indicate the total amount of transactions in lats and in euros! According to Section 13, Paragraph two of the Law on the Procedure for the Introduction of the *Euro*, it shall be compulsorily indicated only in invoices of private persons. These requirements are not applicable to invoices in foreign currency.

Within the frame of the euro project, we recommend also to legal persons to indicate in invoices the total amount of transactions in lats and in euros.

From 9 July to 30 September 2013 lats and euros may not be indicated in invoices, however, if it is done – the official euro conversion rate shall be used.



Information for the public sector (including local governments) - which actions are not necessary by the euro changeover!

For the public sector that prepares annual reports according to Section 30, Paragraph one of the Law on Budget and Financial Management and according to Cabinet Regulations No 777 of 17 August 2010 “Procedure for the Preparation of Annual Report”, in the first annual report that is prepared in euros the conversion of comparative indicators in e-reports by the beginning of the year 2014 will be provided by the Treasury.

More detailed information about accounting and the process of preparation of reports during the transitional period from lats to euros is available in the presentation prepared by the Treasury “Accounting During the Transitional Period from Lats to Euros”, which is published on the home page of the Treasury at the Internet address: <http://www.kase.gov.lv/l/uzskaite/1643>.

1. General Principles

Guidelines are worked out in order to provide additional explanation to the Law on the Procedure for the Introduction of the *Euro* (hereinafter – the LPIE) and Latvia’s National Euro Changeover Plan (hereinafter – the LNECP) that was approved in the final edition on 4 April 2013 by the order No 136 “On Latvia’s National *Euro* Changeover Plan”.

In compliance with Section 6 of the LPIE, the conversion of lats will be performed according to the exchange rate established by the European Union Council (hereinafter – the official exchange rate) by rounding-off to whole cents:

- if the third digit after a comma is from 0 to 4, the value of the cent does not change;
- if the third digit after a comma is from 5 to 9, the cent is rounded up by one value.

Additional requirements in relation to the use of the official exchange rate are specified in Section 4 of Council Regulation No 1103/97 (17 June 1997) on several rules regarding the introduction of the euro, including:

- by conversion, the official exchange rate shall not be rounded-off or shortened;
- the official exchange rate is used for bilateral conversion among a unit of the euro and a unit of the lat. Reverse rate that is derived from exchange rates, shall not be used;
- amount of money that should be converted from one state currency into another (for example, an inhabitant wishes to purchase dollars for lats), at first is converted in monetary units expressed in euros, this sum is rounded-off, leaving not less than three digits after a comma, and then is converted to the units of other state currency.

The dual display period of prices of goods and services begins three months before the euro changeover day, i.e. **from 1 October 2013**, and lasts for six months after the euro changeover day, i.e. **until 30 June 2014**.

The parallel circulation period of lats and euros lasts for two weeks beginning from the euro changeover day, i.e. from **1 January 2014 until 14 January 2014**.

Enterprises and local government institutions shall ensure the continuity of data and the traceability of the conversion process.

2.1. Source Documents and Accounting Registers

2.1.1. The Euro Changeover Day

General Principles

By the euro changeover day, in accounting registers the balance of each account shall be recalculated from lats to the equivalent of this balance in euros according to the official exchange rate and the principles of rounding-off prescribed by the LPIE.

By the euro changeover day, in accounting registers the value of each accounting unit shall be recalculated from lats to the equivalent in euros according to the official exchange rate and the principles of rounding-off prescribed by the LPIE.

** The value of accounting unit is the registered value of a separately registered object (unit) in lats up to the santim in accountancy and the amount in euros up to the euro cent.*

For example, the balance of each debt of debtors or creditors, each registered unit of fixed assets or stocks in the analytical registration of accounts.

If due to conversion from lats to euros, a difference between the total amount of account's balance and its component parts (registered units) occurs, differences shall be included in the profit and loss account (consolidated funds statement) accordingly as revenue or costs (expenditure) in the reporting year of the introduction of the euro (enterprise, a reporting year of which does not correspond to a calendar year – in the profit and loss account of an annual report that is submitted in the year of the introduction of the euro).

** profit and loss account – for the private sector that prepares annual reports according to the Law on Annual Report;*

*** consolidated funds statement – for the public sector that prepares annual reports according to Section 30, Paragraph one of the Law on Budget and Financial Management and according to Cabinet Regulations No 777 of 17 August 2010 “Procedure for the Preparation of Annual Report”*

Example:

Creditor's balance of account 31.12.2013 – 2501.20 LVL

Component parts of a creditor's accounts:

Creditor A – 500.50

Creditor B – 900.45

Creditor C – 1100.25

By 01.01.2014 the value of a creditor's account is recalculated to the equivalent in euros according to the official exchange rate 0,702804 (calculation is done dividing the amount in lats by the official exchange rate) and the principles of rounding-off prescribed by the LPIE:

Total amount of the balance of a creditor's account:

$2501.20 : 0.702804 = \mathbf{3558.89 \text{ EUR}}$

Component parts of a creditor's accounts:

$500.50 : 0.702804 = 712.15 \text{ EUR}$

$900.45 : 0.702804 = 1281.22 \text{ EUR}$

$1100.25 : 0.702804 = 1565.51 \text{ EUR}$

So, the total amount of all registered units of a creditor is **3558,88 EUR** (thus, difference between the total amount of a creditor's balance of account and its component parts occurs).

Creditor's balance of account by 01.01.2014 – 3558.88 EUR (basis – the total amount of creditor's registered units).

However, 0.01 EUR is included in the profit and loss account as revenue in the reporting year of the introduction of the euro – in the year 2014.

D Creditors 0.01 EUR

K Revenue 0.01 EUR

Continuity of Legal Instruments (Section 4 of the LPIE)

Beginning from the euro changeover day, the total amount of started but not finished legal instruments expressed in lats shall be converted to euros in compliance with the

official exchange rate and the principles of rounding-off prescribed by the LPIE. The total amount of an unfinished (non-completed) legal instrument consists of convertible component parts. The total amount of an unfinished (non-completed) legal instrument does not exceed the initial total amount of a legal instrument in lats which is converted to euros in compliance with the official exchange rate and the principles of rounding-off prescribed by the LPIE.

For example, if the total amount of a legal instrument (agreement) consists of the payments of the planned payment schedule of a legal instrument (agreement), these payment schedule payments shall be considered as components of a legal instrument.

However, for example, penal sanctions (late payment money), resulting from a legal instrument, cannot be included in the total amount of a legal instrument when performing conversion according to the requirements of Section 4 of the LPIE, if only late payment money is not included in the total amount of an initial legal instrument in compliance with legal conditions of an agreement. The above-mentioned penal sanctions (late payment money) shall be converted separately from the basic amount of a legal instrument (agreement).

The LPIE does not prescribe specific requirements exactly which component parts of unfinished part of a legal instrument shall be corrected. Therefore, an enterprise can choose to correct any of unpaid component parts so as not to exceed the total amount of a legal instrument. It is advisable to attribute a correction to a component part that is chronologically nearer to the euro changeover day.

Recalculation of Balances

If in a source document a balance of a debtor and a creditor by 31.12.2013 is in a foreign currency, for example, in USD dollars, recalculation is done according to a condition at the beginning of the euro changeover day (or at the end of the previous period, i.e. 31.12.2013). At this moment each balance of a debtor and a creditor is already recalculated to lats according to the corresponding exchange rate which was effective at the end of a period, i.e. 31.12.2013. On the euro changeover day this amount in lats shall be recalculated to euros according to the official exchange rate and the principles of rounding-off prescribed by the LPIE.

For source documents a recalculation to euros is not necessary (according to Section 4, Paragraph three of the LPIE).

So, if a transaction has been started before the euro changeover day but is not finished before the euro changeover day, and commitments between the parties of a transaction have been in euros, the amount of a transaction shall not be converted. Thus, the balances of accounting units and accounts shall not be converted to euros.

Example:

Invoice issued in the year 2013 in euros – 100 EUR;

– on the day of a business transaction the amount of a transaction is revaluated in lats according to the exchange rate officially established by the Bank of Latvia on the corresponding day of the conduct of a transaction, i.e. exchange rate of the Bank of Latvia 0.702804 = LVL 70.28;

- amount of a transaction of 100 EUR is recalculated to lats on the last day of a reporting year according the exchange rate established by the Bank of Latvia, which in this case is identical to the exchange rate which is established by the Bank of Latvia for each day
0.702804 = LVL 70.28;
- during the transitional period from lats to euros the official exchange rate is not applied in such cases, but the amount of a transaction that is indicated in the invoice for the year 2013 in euros, i.e. 100 EUR, shall be indicated in the balance of an account.

Keeping of Accounting Entries in Lats

Entries in accounting registers about the values of accounting units in lats before the euro changeover day shall be kept in electronic form or in the form of a paper document for the term prescribed by regulatory enactments.

Wage

For a long time after the introduction of the euro the calculation of average earnings will be composed of amount in lats and in euros. Calculation of average monthly earnings in lats shall be recalculated to euros and rounded-off as follows:

Example:

10.2013 Σ LVL : exchange rate = Σ EUR (*wage in lats for a corresponding month shall be recalculated to euros according to the official exchange rate and the principles of rounding-off prescribed by the LPIE*)

11.2013 Σ LVL : exchange rate = Σ EUR (shall be rounded-off)

12.2013 Σ LVL: exchange rate = Σ EUR (shall be rounded-off)

01.2014 Σ EUR

02.2014 Σ EUR

03.2014 Σ EUR

Total Σ EUR

Average earnings EUR = Σ EUR : 6

Recalculations of wage relating to a period before the introduction of the euro shall be done in lats and shall be recalculated to euros.

The amount of vacation pay accruals of each individual employee can be considered as an accounting unit.

2.1.2. Dual Display Period of Prices

During the dual display period of prices *three months before the euro changeover day*:

- in source documents lats are used as a measure of value,
- in accounting registers and entries lats are used as a measure of value.

During the dual display period of prices *six months after the euro changeover day*:

- in source documents euros are used as a measure of value,
- in accounting registers and entries euros are used as a measure of value.

During the dual display period of prices the requirements prescribed by Section 13, Paragraph two of the LPIE are applicable to the accounting documents issued to the final consumer (natural person) – invoices and documents certifying the payment received for

a transaction – cashier’s checks, numbered receipts and receipts registered in the State Revenue Service (SRS).

** According to Clause 54 of Cabinet Regulations No 282 of 2 May 2007 “Procedure for the Use of Electronic Devices and Equipment for the Registration of Taxes and Other Payments”, tax payers certify the payment received for a transaction by a document certifying a transaction – by a cashier’s check or a numbered receipt registered in the State Revenue Service.*

On the basis of the requirements prescribed by Section 13 Paragraph two of the LPIE, during the dual display period of prices when preparing a source document – accounting document for the final consumer to a natural person – an enterprise (in the meaning of the Law “On Accounting”) shall indicate the total amount of a transaction both in lats, and in euros.

** For example, when issuing an invoice to inhabitants for utility charges or for mobile connections services – the total amount of transactions shall be indicated in lats and in euros.*

During the dual display period of prices in all other source documents, the recipient of which is other enterprise (in the meaning of the Law “On Accounting”), the total amount of transactions can be indicated in lats and in euros.

2.1.3. Period After the Introduction of the Euro

Beginning from the euro changeover day, in accounting registers and records the euro is used as a measure of value.

From the euro changeover day, the euro is a measure of value in source documents

Source documents which have the lat, euro or other currency as a measure of value and which before the euro changeover day will not be used for entries in accounting registers, if these are related to the period after the euro changeover, shall be entered in accounting registers using the euro as a measure of value:

1. Source documents shall be entered in lats according to the official exchange rate and the principles of rounding-off prescribed by the LPIE.
2. For source documents a recalculation to euros is not necessary.
3. Source documents in a foreign currency shall be entered according to the exchange rate that is effective on the day of a business transaction.

If after the euro changeover day in source documents a measure of value is a foreign currency, the sums indicated therein for entry in the accounts shall be recalculated to euros according to the exchange rate on the day of a business transaction in compliance with the procedure prescribed by regulatory enactments.

By the conduct after 01.01.2014 of an unfinished transaction in a foreign currency (for example, USD) until 31.12.2013, profit and losses obtained due to fluctuations of the corresponding foreign exchange rate (by conversion from EUR to the respective foreign currency), shall be entered in the profit and loss account for the reporting year of the introduction of the euro (consolidated funds statement).

If a source document is drawn after the euro changeover day for the previous periods (for example, in a balance it is indicated in the corresponding item *Accrued commitments/Accrued revenue*), a measure of value is the euro. But in order to obtain a measure of value in lats for presentation in a reporting period before the euro changeover day, the official exchange rate and the principles of rounding-off prescribed by the LPIE are used.

When keeping accounting registers electronically, before the euro changeover day accounting information shall be provided in lats in an accounting program, however, after the euro changeover day – in euros.

2.2. Preparation of Annual Reports and Financial Statements

Annual reports shall be prepared in the units of a currency that is in official circulation in the state at the end of a reporting year.

In annual reports for a reporting year that ends before the euro changeover day, the included amounts in financial terms shall be indicated in lats.

In annual reports for a reporting year that ends on the euro changeover day or after that, the included amounts in financial terms shall be indicated in euros.

In the first annual report which is prepared in euros as comparative indicators there shall be indicators for the previous reporting year presented, which are recalculated to euros according to the official exchange rate.

In the first annual report which is prepared in euros, comparative indicators by the beginning of the year 2014 shall correspond to balance of account presented in accounting registers by the beginning of the year 2014. Thus, in the first annual report which is prepared in euros, there is non-compliance of the comparative indicators by the beginning of the year 2014 with the final indicators for the previous reporting year permissible, which are recalculated to euros according to the official exchange rate.

For the public sector that prepares annual reports in compliance with Section 30, Paragraph one of the Law “On Budget and Financial Management” and according to Cabinet Regulations No 777 of 17 August 2010 “Procedure for the Preparation of Annual Report”, in the first annual report that is prepared in euros:

- 1) the conversion of comparative indicators by the beginning of the year 2014 in e-reports will be provided by the Treasury. Institutions provide the entry of comparative indicators by the beginning of the year 2014 into e-reports only if they do not have data in e-reports at the end of the year 2013 in cases specified by regulatory enactments;
- 2) in case of discrepancy of comparative indicators by the beginning of the year 2014 converted in e-reports with the balances of accounting registers by the beginning of the year 2014, difference shall be shown in a corresponding column of the respective annex to an annual report in compliance with regulatory enactments, and this difference shall be explained.

On the basis of a practice on the preparation of existing annual reports and on the basis of regulatory enactments regulating the preparation of annual reports, in an annual report the numbers shall be rounded-off to whole numbers.

If a reporting year ends after the euro changeover day (for example, on 30 June 2014), the amount included in an annual report shall be indicated in euros. Recalculation, observing the previously defined special principles, shall be made according to a condition on the euro changeover day (1 January 2014) – accordingly recalculating to euros the balances of each accounting register and the value of each accounting unit in compliance with the official exchange rate and the principles of rounding-off prescribed by the LPIE. After the euro changeover day, all transactions shall be presented in euros.

Public sector that prepares interim reports according to:

- 1) Section 30, Paragraph six and eight of the Law “On Budget and Financial Management”, shall observe the norms prescribed by Cabinet Regulations No 776 of 17 August 2010 “Procedure for the Preparation and Submission of Monthly Reports”;
- 2) Section 30, Paragraph seven and eight of the Law “On Budget and Financial Management”, shall observe the norms prescribed by Cabinet Regulations No 498 of 1 June 2010 “Procedure for the Preparation and Submission of Quarterly Financial Statements”.