ACCOUNTING POLICY OF INVESTMENT PROPERTY – THE CASE OF LATVIA

Inga Bûmane* Maiga Kasale†

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Abstract

A separate section "Investment Property" was included into the long-term investment part of the balance sheet item scheme of Latvian enterprises relatively recently, namely, since the year of account of 2006. After the studies of requirements set in Latvia concerning the recognition and accounting of investment property it was established that it is permitted to carry out the evaluation and accounting of these assets, after their initial recognition, according to several methods. Thus in Latvia, as well as at the international level the problem is – which accounting policy should be chosen for the evaluation and accounting of investment property. The aim of the research is to perform the comparative analysis of accounting policy adopted in Latvia and internationally regarding the investment property and to develop suggestions for its improvement. The research methodology is based on the comparative analysis of the requirements set in the

*University Latvia, Aspazijas Blvd. 5-434, Riga, Latvia, LV – 1050, Phone: (371) 67034633 Fax: (371) 67034773, E-mail address: inga.bumane@lu.lv

†University of Latvia, Aspazijas Blvd. 5-429, Riga, Latvia, LV – 1050, Phone: (371) 67034771 Fax: (371) 67034773, E-mail address: Mkassale@lanet.lv

documents regulating accounting in Latvia, the European Union Directives regulating accounting and the International Accounting Standards. The paper covers also the analysis of authors' conclusions, publications in the periodicals, the results of the survey of the members of the Accountants' Association of the Republic of Latvia, and other bibliographic sources. The authors of the research draw a conclusion that there had been several requirements set in the documents regulating accounting in Latvia, which only partially comply with the regulations adopted internationally regarding the recognition, evaluation and accounting of investment property. At the end of research, the authors have developed suggestions for the improvement of investment property accounting policy in Latvia.

1 INTRODUCTION

The accounting policy is still being aligned in the Republic of Latvia in compliance with the requirements provided by the European Union Directives and Regulations, regulating accounting, and the recommendations given in the International Accounting Standards and International Financial Reporting Standards. Thus the requirements set for the accounting in Latvia are more and more aligned with the internationally adopted provisions, and as a result the financial statements of Latvian companies are prepared according to the principles adopted globally, and thus it would be possible to compare the indications of the financial statements of companies from different countries and the information disclosed in such financial statements would be clearly understandable to all interested persons.

Within this context it should be noted that since 2006 there had been a new requirement provided by the documents regulating accounting in the Republic of Latvia – the long-term investments, disclosed in the balance sheet, shall comprise also a separate section “Investment Property”. Having studied the requirements set in Latvia regarding the recognition and accounting of investment property, the authors find that it is permitted to assess these assets after their initial recognition and to perform their accounting in compliancy with three different methods: acquisition cost method, revaluation method, fair value method (fair value model). Therefore it is important to evaluate the validity and suitability of the policy of investment property accounting under the changing economic conditions in Latvia. The aim of the research is to perform the comparative analysis of accounting policy adopted in Latvia and internationally regarding the investment property and to develop suggestions for its improvement. The research methodology is based on the comparative analysis of the requirements set in the documents regulating accounting in Latvia, the European Union Directives regulating accounting and the International Accounting Standards. The paper covers also the analysis of authors' conclusions, publications in the periodicals, the results of the survey of the members of the Accountants' Association of the Republic of Latvia, and other bibliographic sources.

2 IDENTIFICATION, STRUCTURE AND EVALUATION OF INVESTMENT PROPERTY AT THE MOMENT OF ITS INITIAL RECOGNITION

2.1 THE COMPARATIVE ANALYSIS OF THE IDENTIFICATION AND STRUCTURE OF INVESTMENT PROPERTY

In Latvia the general regulations on the investment property accounting are provided by the law of the Republic of Latvia "Annual Accounts Law", but more detailed requirements regarding the accounting of investment property are included into the Latvian Accounting Standard No.9 "Investment Properties" (hereinafter – LAS 9 "Investment Properties") that is developed on the basis of the recommendations of International Accounting Standard No.40 "Investment Property" (hereinafter – IAS 40 "Investment Property").

In conformity with the documents, regulating accounting in Latvia, as the investment property are recognized land plots, buildings, constructions or the parts of these objects, owned by an enterprise or the lessee under a final lease and held for lease out or value appreciation, but not to be used for the production of goods, provision of services, administrative purposes or selling according to the procedure of common economic activities. When comparing the above provided explanation of investment property with the definition from IAS 40 "Investment Property", it was established that they are identical according to their content – there are only insignificant differences regarding the formulation. It follows from the explanation on the essence of investment property that these are separate conventional objects of fixed assets – land, buildings, constructions or the parts of these objects that exist in enterprises for the implementation of above mentioned specific purposes. When classifying real estate as a category of fixed assets or a category of investment property, it is important to take into account the type or types of activities of a particular enterprise. For example, if the enterprise's basic activity is long-term investments in real estate and renting of this property in operating lease, the real estate shall be classified as the enterprise's fixed assets, because it serves for ensuring of enterprise's basic activity – provision of leasing services. But, if the production enterprise owns real estate with the purpose to rent it in operating lease or to await the increase of its value, then it shall be recognized as an investment property.

In order to make it easier to identify the properties of enterprises as the objects of investment property, Latvian Accounting Standard, as well as the International Accounting Standard provide several examples of their recognition. Table 1 shows the comparative analysis of such examples, performed by authors.

TABLE 1 The Comparative Analysis of the Policy of Investment Property Recognition

Latvian Accounting Standard and International Accounting Standard		
Recognize as the investment property	Differences	Do not recognize as the investment property
✓ Land that is held for the long-term capital value appreciation, instead of selling as a result of common economic activities, or that held for presently undetermined utilization in future	In Latvian Accounting Standard is not recognized as the investment property, whereas in the International Accounting Standard is recognized as the investment property: ✓ a property that is being constructed or transformed for the utilization as an investment property in future	✓ A property that is envisaged for selling as a result of common economic activities
✓ A building or its part, owned by the enterprise or held under the provisions of financial lease, which is granted on a lease or not used, but is held for lease out according to one or several operating lease		✓ A property, the construction or improvement of which the enterprise carries out according to the order of the third party
✓ Already existing, recognized investment property, which is being transformed or improved for its further utilization as an investment property		✓ A property, used at the enterprise itself ✓ A property, granted on a financial lease to another enterprise

Source: Authors calcualtion

On the whole, the table shows that the policy of investment property, as regulated by the International Accounting Standard and Latvian Accounting, is almost identical.

It is emphasized in both standards that, if an enterprise owns land plots with undetermined purpose of utilization, they are recognized as investment property. In these cases it is considered that the enterprise keeps the land to increase the value of the capital. Whereas, the structure of investment property does not comprise properties, which are planned to be sold within the framework of economic activities, for example, properties that had been acquired with but one purpose to sell them in the nearest future or it is planned to improve them and resell. It should be noted that a property, which is not classified as an investment property, is considered as used at the enterprise itself, if it is already used at the enterprise, but it is planned to alienate.

The only difference – in Latvia it is not envisaged to recognize in this category the property, which is being constructed or transformed for its further use as an investment property, whereas the recognition of such properties as investment properties is provided by the International Accounting Standard. This situation can be explained by the fact that, since the year 2009 the amendments to the International Accounting Standard came into force, providing the recognition of such objects as investment property, whereas Latvian Accounting Standard was developed and adopted before these amendments. Thus Latvian Accounting Standard, in relation to the above mentioned real estates, provides for the accounting policy that was provided by the previous version of IAS 40 "Property Investment", namely, they are recognized as fixed assets, but after the completion of construction and transformation process they are reclassified as investments properties (LAS 9). It should be pointed out that the accounting policy, provided by both standards, does not differ in relation to the investment properties already recognized at the enterprise in relation to which the transformation or improvement activities are carried out with the aim to continue their utilization as investment properties, i.e., these objects are not reclassified as fixed assets, but they are continued to be recognized as investment properties.

Having studied the requirements set for the identification and structure of investment property by LAS 9 "Investment Properties" and IAS 40 "Investment Property", the authors found out one more difference that concerns the classification of these assets. The international standard provides that a real estate, granted on the conditions of operating lease, may be also classified and considered as an investment property providing that the rest of indications correspond to the definition of investment property (it is granted on lease in the operating lease or held for value appreciation). It should be taken into account that, when choosing the above mentioned classification alternative, the enterprises must apply the fair value model and the classification of the object of investment property must be evaluated for each property separately; besides, in this case the accounting of the rest of owned properties or the properties being granted under the conditions of financial lease shall be performed according to the fair value model (IAS 40). Of course, it should be taken into account that the property itself, granted in the operating lease, is not evaluated according to the fair value, because the respective property would be disclosed as its owner's asset, but the profit gained from the leasehold shall be evaluated and disclosed according to the fair value.

When developing LAS 9 "Investment Properties", it was decided not to include into the standard such possibility, because it contradicts with the present provisions of the law of the Republic of Latvia "Annual Accounts Law". It was also taken into account that such a necessity would likely not occur often in Latvia and it would be difficult to apply. (Zorgenfreija, 2007).

It should be taken into account that the inclusion of investment properties into the enterprise's assets is possible only if they meet the conventional criteria for the recognition of an economic transaction element as an asset, namely,:

1. it is probable that any future economic benefit associated with the item (authors – including also the investment property) will flow to or from the entity, and
2. the item (authors – including also the investment property) has a cost or value that can be measured with reliability.

These criteria are provided by the Latvian Accounting Standard that regulates the policy of investment property accounting.

It is necessary to provide more detailed explanation for the words "probable" and "reliability", used in the formulations of asset recognition criteria. According to A. Melville, a British specialist, the use of the word "probable" in these recognition criteria is an acceptance of the fact that the future is uncertain. If recognition required certainty, it would be impossible to draw up meaningful financial statements at all. For example, no-one can say for sure whether or not an amount owed to an entity will ever be received. However, if it is probable (on the basis of the evidence available) that the amount will be received in due course, then recognition of this amount as an asset is justifiable. The use of the word "reliability" in the recognition criteria does not mean that cists or values must be capable of precise measurement before they can be recognized (Melville, 2008, 25).

2.2 EVALUATION OF INVESTMENT PROPERTY AT THE MOMENT OF ITS INITIAL RECOGNITION

When the criteria for the recognition of assets and the provisions, included into the definition of investment properties, are met, the objects of real estate are recognized as investment properties. Latvian accounting Standard, like IAS 40 "Investment Property" provides that at the moment of the recognition of investment properties their accounting in the registry of accounting is performed according to the acquisition value. Both standards, regulating the accounting of investment properties, that in the acquisition value of a purchased investment property shall be included its acquisition price and costs directly related to the purchase (payment for the legal services, state taxes).

However, having studied the provisions of LAS 9 "Investment Properties" and IAS 40 "Investment Property" for the initial evaluation of real estates that the enterprise constructs or transforms itself for their utilization as investment property in future, the authors found differences that follow from the classification of the property itself. As it is mentioned earlier (see also Table 1) the last version of the International Accounting Standard provides for the immediate recognition of such real estates at the stage of construction, therefore at the moment of initial recognition they may be evaluated in two ways, namely, according to their fair value or according to their construction prime cost. Besides, the provisions of the International Accounting Standard prove that the evaluation according to the fair value is preferred, because it is envisaged to evaluate the investment properties under construction according to the construction prime costs only if it is impossible to determine their fair value credibly, as well as it is provided that the enterprise shall turn to the evaluation of this property according to the fair value as soon as it is possible to determine the fair value

credibly (IAS 40). If the enterprise is forced to evaluate the investment property under construction according to the prime cost, the rest of enterprise's investment properties, including also other investment properties under construction, may be evaluated according to the fair value (IAS 40).
Whereas Table 1 shows that it is provided by Latvian Accounting Standard that the real estates, constructed or transformed for their utilization as investment property in future, are recognized as fixed assets and thus the acquisition cost of self-created investment property is its developmental prime cost on the date, when its construction or development is complete (LAS 9).

3 THE POLICY OF INVESTMENT PROPERTY ACCOUNTING AFTER THEIR INITIAL RECOGNITION

After the recognition of real estate as the investment property and its initial evaluation, the choice of methods for their further accounting becomes topical. Table 2, prepared by the authors, shows the comparison of methods applied for the accounting of investment properties, provided by Latvian Accounting Standard and International Accounting Standard.
As we can see from the comparative table, Latvian Accounting Standard permits to perform the accounting of these assets according to three methods: acquisition cost method, fair value model and revaluation method, whereas the International Accounting Standard provides only for the two first methods.
TABLE 2 The Comparison of the Methods of Investment Property Accounting

Latvian Accounting Standards	International Accounting Standard
Cost model	Cost model
Fair value model	Fair value model
Revaluation model	

Source: Authors calcualtion

The acquisition cost method envisages that the investment properties, after their initial recognition, are disclosed in the balance sheet according to their acquisition value, namely, their acquisition cost or creation prime cost, subtracting the accumulated depreciation (for the buildings, constructions) and any accumulated decrease of value (for the land, buildings and constructions). It is a conventional method for the accounting of fixed assets, adopted by both Latvian Accounting Standard and the International Accounting Standard as appropriate also for the accounting of investment property.

According to the fair value model, the depreciation of investment properties, after their initial recognition, is not being calculated, but they are evaluated and disclosed in the balance sheet according to the fair value, and the changes of this value are immediately attributed to the profit and loss account. According to the definitions, provided by the law of the Republic of Latvia "Annual Accounts Law" and IAS 40 "Investment Property", fair value is the amount in respect of which it is possible to exchange assets or fulfil obligations in a transaction between well informed, interested and financially independent persons. Besides, it has been emphasized in both Latvian Accounting Standard and the International Accounting Standard that more precise information about the fair value of investment property is provided by actual prices of an active market, paid for similar objects of investment properties at the same location and position or in conformity with similar lease contracts, or other contracts (LAS 9, IAS 40).

It should be taken into account that Latvian enterprises are permitted to perform the evaluation and accounting of these assets according to the fair value model, if one of the following conditions is met (the law of the Republic of Latvia "Annual Accounts Law"):

1. all the objects have constantly available prices in an active market (authors – as it is emphasized by the standards); or

2. the fair value of all investment properties is determined by a certified real estate evaluator, evaluating each plot of land, building, construction or its part separately.

It should be pointed out that, unlike the position provided by IAS 40 "Investment Property", Latvian Accounting Standard does not provide for the opportunity to evaluate the fair value of investment properties by the enterprise itself, discounting from it the expected cash flow in the future.

Having analyzed the provisions, adopted in Latvia, for the application of fair value model for the accounting of investment property, the authors agree to the opinion of certified auditor M. Zorgenfreija (Zorgenfreija, 2007) that Latvian enterprises will mainly use the services of certified evaluators to determine the fair value of these assets, because in Latvia it is possible to speak about the active market of real estate only in relation to the serial type apartments that usually would not be the objects of investment property.

When choosing to perform the accounting of investment properties according to the fair value model, the enterprises should take into account that this accounting policy shall be applied consistently in relation to all objects of investment property, except for the case, if it is impossible to determine the fair value for a particular property at the moment of its recognition. As well as it should be taken into account that, if the object of investment property has been initially evaluated according to the fair value, this type of evaluation should be applied until the particular property is being alienated or the type of utilization is changed.

As we can see from Table 2, Latvian Accounting Standard permits the accounting of investment properties also according to the revaluation method. This method envisages the disclosure of investment properties, after their initial recognition, in the balance sheet according to the revaluated sum, which equals to their fair value on the date of revaluation, subtracting from it the accumulated depreciation (for the buildings, constructions) and the decrease of accumulated value (for the land, buildings and constructions). The increase of the value of investment property, which is due to the revaluation, shall be recognized in the equity item "Revaluation Reserve of Investment Property", but the established decrease of value shall be attributed to the costs of the profit and loss account. However, if the result of revaluation is the increase of value that partially or fully compensates the decrease of the value of the same investment property during the previous periods, where it had been recognized as the costs of the enterprise, then the increase of value that does not exceed the above mentioned costs, shall be included into the income of the profit an loss account in the period, when it is established. Besides, it should be taken into account that, according to the revaluation method, the depreciation is continued to be calculated for the investment property from its new revaluated or fair value, obtained on the date of revaluation.

Having compared the provisions of investment property accounting according to the fair value model and revaluation method, the authors draw a conclusion that there are no radical differences between the evaluation and disclosure of these assets in the balance sheet, because, irrespective of the method applied, the investment properties are disclosed in the assets of Latvian enterprises according to the fair value. The only difference is that, according to the fair value model, the evaluation of fair value shall be performed on each date of balance sheet, but, according to the revaluation method, it is performed, if the property value has significantly changed in comparison to the previous evaluation. As a significant difference between the above mentioned methods of investment property accounting we should point out the way, how the fluctuations of fair value are recognized in the financial statements. According to the fair value model, these fluctuations are attributed to the profit and loss account, namely, they immediately affect the results of activities carried out during the respective period, but, according to the revaluation method, the increase of fair value is recognized in the balance sheet as the reserve of equity capital, namely, it has no immediate influence on the result of enterprise's performance.

Thus it is possible to conclude that, if the Latvian enterprise has chosen to perform the evaluation and accounting of investment properties according to the fair value, then, irrespective of the fact, whether the revaluation method or fair value model is applied for the accounting of these assets, they are disclosed in the balance sheet according to the fair value, but the increase of the fair value of these properties is recognized in the revaluation reserve (according to the revaluation method) or included into the profit and loss account (according to the fair value model). Therefore the authors agree to the point of view of certified auditor M. Zorgenfreija (Zorgenfreija, 2007) that it is impossible to define the objective criteria in order to determine, whether the revaluation method or fair value model is the most suitable method for the accounting of investment property, and what are the criteria, enabling to change these methods (the type of property use is not being changed). Besides, having studied the present version of IAS 40 "Investment Property" and the conclusions of specialists (Quagli and Avallone, 2010; Melville, 2008; Stolowy, Lebas, 2006; Jones, 2006), the authors draw a conclusion that these sources do not provide for the accounting of investment property according to the revaluation method, and the probable use of it is not even considered or discussed.

On the basis of the above mentioned, the authors admit that revaluation as the third possible method of investment property accounting cause considerable quandary, uncertainty and the problems of statement comparability.

In Latvia, the approval of revaluation method for the accounting of investment property is substantiated by the fact that there had been provisions included into one of the basic laws, regulating the accounting system of the Republic of Latvia, the law of the Republic of Latvia "Annual Accounts Law" that are based on the obsolete EU directives, namely, Latvian Accounting Standard cannot prohibit to apply the approach provided by the law. If the investment properties are the long-term investments, and the long-term investments may be revaluated (recognizing the increase in the revaluation reserve of long-term investments as a part of equity capital), then the same method should be permitted to be applied in relation to the investment properties (Zorgenfreija, 2007).

In this context it should be pointed out that the Fourth Council Directive "On the Annual Accounts of Certain Types of Companies" (hereinafter – Fourth Council Directive) does not provide for the criteria of investment property recognition, or regulate the policy of their accounting, besides, even in the scheme of balance sheet items, provided by the Fourth Council Directive, such enterprise assets are not indicated among the assets. As it is already mentioned, the balance sheet scheme, provided by the law of Republic of Latvia "Annual Accounts Law", it is envisaged that since the year 2006 the investment properties shall be also disclosed as the assets of long-term investment, because the Fourth Council Directive provides that the EU Member States may include new items into the balance sheet scheme of the Fourth Council Directive on condition that they structure is not included into any of already existing items (Fourth Council Directive).

Of course, the above mentioned Fourth Council Directive does not cover the general regulations for the evaluation of long-term investments (in conformity with the balance sheet scheme, comprised by the Directive, they are intangible assets, fixed assets and financial assets) that, among other provisions, envisages that the EU Member States may permit or determine as mandatory the revaluation of long-term investments (Fourth Council Directive). If the EU Member States use these rights, as it was done by Latvia, then the increase of value due to the revaluation is disclosed in the revaluation reserve of liabilities (Fourth Council Directive). It should be pointed out that the articles of the Fourth Council Directive providing for the structure of the assets of balance sheet scheme and the revaluation of long-term investments have not been reviewed and defined more precisely since this document came into effect on July 25, 1978. Thus an assumption may be expressed that the revaluation reserve of the balance sheet liabilities is formed only for the long-term investments, provided by the Directive, namely, for the intangible assets, fixed assets and financial assets. Whereas, when choosing the accounting policy for investment properties, Articles 42.e and 42.f of Part 7a of the Fourth Council Directive may be applied. They came into force on June 18, 2003 and provide that the EU Member States may permit or determine as mandatory the evaluation of specific categories of assets that are no financial instruments according to the fair value and the attribution of the changes of the fair value of these assets to the profit and loss account.

4 THE INFLUENCE OF THE CHOSEN POLICY FOR THE ACCOUNTING OF INVESTMENT PROPERTY ON THE INDICATIONS OF FINANCIAL STATEMENTS AND THE ENTERPRICE INCOME TAX

When choosing the method of investment property accounting to be used for the purposes of financial accounting, the enterprises should take into account that the financial statement shall be prepared in a way it provides the users of this statement with the true and clear insight into the means, financial position, profit or loss and cash flow of the enterprise.

The analysis of IAS 40 "Investment Property" formulation enables to draw a conclusion that, although the standard permits the accounting of these assets according to both acquisition cost method and the fair value model, on the whole the provisions of the standard show that the fair value model is preferred for the accounting of investment property. It proved by the fact that the standard does not provide for an opportunity for enterprises to change their accounting policy from the fair value model to the acquisition cost method and by the fact that the standard provides for the disclosure of assets in the financial statement according to their fair value, although an enterprise would have chosen to apply the acquisition cost method for accounting of these assets. Such standard provisions could be substantiated by the fact that, when the fair value model is applied for the accounting of investment properties, the users of financial statements are provided with important information to give clear and true insight about the means, liabilities and financial position of the enterprises that carry out activities with the investment properties.

The authors also find that the fair value model would be more appropriate for the accounting of investment properties, because thus they are disclosed in the financial statement according to their fair value and the fluctuations of this value immediately influence the enterprise's profit or loss in the respective period. Of course, it should be taken into account that the fluctuations of the fair value of real estates could differ, namely the fluctuations may increase or decrease the enterprise's equity capital. But in the cases, when the value of real estates increases in an active market, the enterprise would have a higher indicator of equity capital in the liabilities disclosed in the balance sheet than this indicator would be, if the acquisition cost method would be applied for the accounting of these properties. This affect on the indications of financial statement could be explained by the fact that this information in not disclosed in the balance sheet according to the acquisition cost method also, when the fair value of above mentioned properties would show increase in the real estate market. Thus the users of financial statements are not provided with the true insight into the real value of such enterprises' assets and equity capital.

At the same time it should be admitted that, when determining the method for the accounting of investment properties, it is also important to find out the consequences that the enterprise would have to face in the meaning taxes, when choosing the method appropriate for the enterprise. In Latvia the procedure of property investment accounting affects the income liable to the enterprise income tax. In conformity with the law of the Republic of Latvia "On Enterprise Income Tax", if an enterprise has chosen to evaluate the investment properties according to the fair value, namely, it has decided to perform their accounting according to the revaluation method or according to the fair value model, then the depreciation of these real estate objects is not calculated for the purposes of enterprise income tax. It should be added that in the financial accounting the depreciation is being calculated for the investment properties accounted according to the revaluation method, but, according to the fair value model, it is not done. Besides, when determining the income liable to the above mentioned tax, profit or loss due to the changes of fair value is not taken into account. Even if an enterprise, due to the changes in the utilization of investment properties, reclassifies them as fixed assets, then the depreciation of these investment properties for the purposes of this tax is calculated from their initial cost, namely, without taking into account the revaluation of these assets according to the fair value. Whereas in conformity with the law of the Republic of Latvia "On Enterprise Income Tax", if an enterprise, after the accounting of investment property according to its initial cost, continues the evaluation according to the acquisition cost method, then, in order to calculate the depreciation for the purposes of taxation, such an investment property is being equated to the fixed asset, and the depreciation, for the purposes of taxation, is being calculated for this investment property as an asset (a building, a construction).

Thus the those Latvian enterprises that choose to evaluate the investment properties according to the fair value would have higher enterprise income tax during the utilization of these real estates than those enterprises that apply the acquisition cost method for the accounting of such properties. Thus it is possible to conclude that the application of fair value for the evaluation of investment properties is disadvantageous from the enterprise income tax aspect. It is proved also by the results of survey carried out by the authors among the members of the Accountants' Association of the eRepublic of Latvia on the choice of policy for evaluating and accounting of investment properties. The survey showed that 87% out of the respondents who gave a positive answer to the question "Do you perform the accounting of investment properties?" indicated that they carry out the accounting of such real estates according to the acquisition cost method, substantiating their answers with the provisions of Latvian taxation legislation. Of course, the authors admit that present economic situation in Latvia, when the real estate market cannot be considered as being active, also considerably limits the application of fair value for the evaluation of investment properties.

5 CONCLUSION

As a result of research, the authors drew a conclusion that the documents, regulating accounting in Latvia, provide for several requirements that only partially are in compliance with the internationally adopted regulations concerning recognition, evaluation and accounting of investment properties. As the most significant of them we should emphasize that in Latvia, alongside with the internationally generally adopted investment property accounting methods – the acquisition cost method and the fair value model, it is allowed to apply the inadequate method for accounting these assets, namely, the revaluation method. Having studied the provisions of the International Accounting Standards and the conclusions drawn by foreign specialists, the authors found that the possibility to apply the revaluation method for the accounting of these assets has not been even considered or discussed. Besides, on the basis of the analysis of IAS 40 "Investment Property" formulation, the authors draw a conclusion that on the whole the provisions of the standard show that the fair value model is preferred for the accounting of investment property.

On the basis of the survey carried out among the members of the Accountants' Association of the Republic of Latvia on the choice of policy for evaluating and accounting of investment properties, the authors conclude that in Latvia the choice of the accounting policy regarding these assets is considerably limited by the provisions of national taxation legislation, provided by the law "On Enterprise Income Tax". Since the amount of enterprise income tax is influenced only the investment property, accounted according to the acquisition cost method, this method is chosen in accounting practice in Latvia, but the evaluation and accounting of investment property according to the fair value are partially ignored.

It is authors' point of view that in the process of the improvement of documents, regulating the accounting in Latvia, the fair value model should be determined as the priority accounting method regarding the investment property, because thus the users of financial statements are provided clear and true information about the means, liabilities and financial position of the enterprises that carry out activities with the investment properties. At present, the evaluation of investment properties according to the fair value is considerably limited by the provisions of national taxation legislation and the present situation in the real estate market of Latvia, where the level of activities is low. Therefore it is advisable to make amendments to the provisions of the law of the Republic of Latvia "On Enterprise Income Tax", envisaging that the fluctuations of the fair value of investment properties also influence the value liable to this tax.

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