



A Study of the Accounting System and Standards in Bulgaria

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Abstract

This paper is focused on the analysis of Bulgarian accounting system and practices. More specifically, it is aimed at investigating the main environmental factors, which led to the development of such system. The approach is therefore both descriptive and causal. The findings suggest that the changes in the socio-economic and the cultural tradition mainly affect accounting systems and practices, as well as the status of the accounting profession.

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1. Objectives and methods of the research project

Country-specific factors, such as the historical-political dynamics, the tradition, the economic environment and the cultural background (Gray, 1983; Miller, 1994; Salter and Niswander; 1995) entail the development of unique country-specific accounting systems.

In order to know the reasons behind some certain accounting practices, it is necessary to investigate thoroughly the accounting system of a country, which shall be considered as a combination of multiple interconnected aspects that sometimes go beyond the strictly accounting rules (Gray, 1983).

Scholars and practitioners often consider accounting as the language of business. Academically, accounting is considered as a special-purpose tool for communicating about financial state and performance (Bloomfield, 2008). Professionally, accounting is viewed as an international business language that plays an infrastructural role in business activities (Deloitte, 2017). Accounting standards are essential parts of the accounting language. Using the International Financial Reporting Standards (IFRS) as an example, up to 156 jurisdictions consider the IFRS as the global financial reporting language, and 144 of them require IFRS.

The aim of the present research is a historical investigation (Grew R. 1980; Weetman and Gray, 1991; Mora A. 1997; Zeff S. 1998; Flower J. 1999; Carnegie and Napier, 2002, 2012; Zan L. 2005; Nobes and Parker, 2008) on accounting system and standards of Bulgaria, in order to prove how the evolution of this system is connected to changes in the socio-economic context and in the cultural tradition².

As Zambon (1996: 33) observes, the investigation method in the field of international accounting consists of three levels: the object analysis mode, the time dimension and the method for deriving data. We agree with Nobes and Parker when they say: “there are at least three reasons why a comparative approach is appropriate. First, it serves as a reminder that the US and other Anglo-Saxon countries are not the only contributors to accounting as it is practised today. Secondly, it demonstrates that the preparers, users and regulators of financial reports in different countries can learn from each others’ ideas and experiences. Thirdly, it explains why the international harmonization of accounting has been deemed desirable but has proved difficult to achieve” (Nobes and Parker, 2008:15). Then it is dynamic, as it tries to grasp the historical evolution of the object.

In particular this paper is “parallel” because takes a given time period (which could be anything from a few years to several centuries) and studies accounting phenomena of that period at different locations. Finally it is purely deductive because the results come from contextual data or clauses³.

We think that the object of this paper can be interesting for an important consideration. The variety of papers featured at the conference (in Ballarat, 2015) have enabled to broaden our understanding of the important social, institutional and organisational role played by accounting. This should motivate researchers to extend their research into a variety of

¹ See also Nobes and Parker (2008: 8): “The comparative reason for study is perhaps the most important of all. It is possible for a country to improve its own accounting by observing how other countries have reacted and are reacting to problems that, especially in industrial nations, may not differ markedly from those of the observer’s home country. It is also possible to examine whether, where accounting methods differ, the differences are justified by differences in the economic, legal and social environment and are not mere accidents of history”.

³ For a study of the documents used in this paper see Appendix.

“unusual locations and settings and apply various methodological and theoretical approaches to ensure this narrative continues” (Lai and Samkin, 2017:272).

Indeed the field of investigation of the present research has been narrowed down to a EU country: Bulgaria. The choice fell on Bulgaria for an important reason: this country has recently moved towards a market economy and it is currently part of the European Union (McGee 2008; Bailey 1995). The Bulgarian economic system has a limited number of listed companies and a huge number of small and medium-sized enterprises – even micro-enterprises. On the other hand, the accounting rules in force are very different. As it will be shown later, it differs drastically in historical backgrounds, in accounting traditions and in choices about the adoption of IAS/IFRS⁴.

Before entering the core of the research, a clarification in terminology seems to be necessary. “Comparability” is a very difficult notion to understand even within a country, let alone globally. We have not really had much literature that helps us understand what is meant by comparability—when we have it, and when we do not” (Zeff, 2007, p.290). In Italy the term “sistema contabile” was first codified by Fabio Besta to indicate an ordered set of entries related to a complex object (Besta 1920). While translating this term into English, the proper meaning inevitably fades. Indeed as repeatedly pointed out, the mere literal translation does not convey exactly the concept in the original language.

There are two English terms for “sistema contabile”: “bookkeeping system” and “accounting system” (American Institute of Certified Public Accountants 1977). The first term indicates the pure accounting technique and – as its etymology shows- the keeping of the accounts. The second term has a more complex meaning, including the processing and the analysis of the transactions in conformity with the provisions of the legislation on accounting, on the distribution of profits, on taxation, on the content of annual and consolidated financial statements, and on all aspects related to measurements and disclosure. Since the proper meaning of the Italian term “sistema contabile” cannot be relegated to a mere accounting technique, in the present paper it has been translated as “accounting system”, to refer both to the ordered set of entries related to a complex object and to the accounting practices adopted in financial reports.

This paper is divided into two steps. In the first step we analyze accounting system as tools for representing and interpreting the complex phenomenon under investigation and we will try to understand to which category the Bulgarian accounting system belong and historical origins (Zan L., 2005). Then we trace the evolution of accounting system, the logic behind the choices made in the country and consequently how the accounts work.

According to part of the economic literature (Nobes, 1998) the concept of accounting system is not necessarily linked to some basic unit logic, but to different detectable (and indeed detected) administrative practices. In such a perspective accounting systems are analyzed as a set of practices adopted by different countries. The aim of this analysis is the understanding of the environmental factors which influence the choice to adopt certain accounting practices rather than others. Therefore in the second part of the paper we examine the investigated accounting processes in the light of what has been stated in literature, by isolating those elements that have affected the dynamics more than others.

⁴ See, among the others: Epstein B.J., Mirza A. (2004), IAS 2004, *Interpretation and application on International Accounting and Financial Reporting Standards*, Wiley, Usa.

The whole is presented with the awareness of agreeing with the consideration that the strength of accounting quality is principally influenced by critical environmental factors such as economic forces, social forces, legal system, culture and political system (Briston 1978; Nobes 1983; Doupnik and Salter 1995; Nobes 1998).

The present study belongs to comparative international accounting, taking into consideration the accounting standards currently in force and the context characterized by an increasing importance of the accounting harmonization concept (Hopwood AG, 1983; Auyeung, PK, 2002; Carmona et al., 2010).

In most studies on accounting systems the "first definition" explained below is not taken into account, since the research is mainly focused on what we will later refer to as the "second definition" of accounting systems. For this reason the present survey represents an attempt to explore a new field of studies, which has not been investigated yet by the economic literature. We tried indeed to analyze the system currently in force in this country by emphasizing the historical origins.

2. Accounting system in a first “definition”

An accounting system can be first regarded as a set of linked accounts in a whole aimed at one or more common ends. It thus appears as a sort of “central thread” which directs all accounting records to a common cognitive purpose.

All accounting systems are based on the dual aspect concept. Under this principle each business transaction affects at least two sets of accounts, debit and credit. The term “system” stands for the following fact: once identified the content of the first type of accounts, i.e. the "originating" one, the consequent one is determined as a variation in the previous kind of accounts.

Depend on the specific complex object of all accounting records, all systems are mainly based either on a capital-based approach or on an income-based approach.

The first theory is based on the quantitative determination and the analysis of the proprietor's net worth while the second one is focused on the amount of income and -only indirectly- on the determination of net worth. Nevertheless not all accounting systems are based on the two theories above, since an accounting system can exist if only there is some underlying logic behind all accounting reasoning. In addition to these two approaches there are “systems” that cannot be defined as such because of the lack of a unitary key of interpretation (Gabrovec Mei 1999). A striking example is the Anglo-American accounting, which is based on the mere application of some empirical case studies: its methodology cannot be considered as “systematic” at all (Fiume, 2011).

After these preliminary remarks, we will try to transfer these concepts to this country, the subject of our work.

2.1 The Bulgarian accounting system

The first steps in the origins of Bulgarian accounting date back to the period when the Ottoman Empire began to decline. Accounting started to develop in the first manufacturing companies set up in the cities where the Ottoman power allowed greater economic freedom. In 1850 the brothers Karaminkovy, Stoian and Khristo, published a very detailed Bulgarian business manual under the title *Diplografiia ili kak s dr'zhiat turgovskiy knigy* (which means: “Diplography or how commercial books shall be kept”) in Constantinople.

This represents the very beginning of contemporary accounting in Bulgaria from a theoretical-scientific point of view, although the double-entry method was already known and applied long before. A major advance in the development of accounting as an autonomous science took place in 1920-1921 together with the growth of structured teaching of accounting and professional accounting education.

All accounting reforms were based on the experience of democratic countries with a market economy. The reference point of Bulgarian accounting was the French accounting theory known as *Comptabilité générale et analytique*. There were various reasons for this according to Trifonov. First, between 1900 and 1950, in the search for scientific basis for the new Bulgarian accounting under a market economy there was a strong influence of the French accounting theory. Later, between 1950 and 1990, under centralized rules, Bulgarian accounting developed mainly in line with the Soviet system, though maintaining its theoretical construct in conformity with the European accounting doctrine, especially the French one.

Since the seventies accounting scholars have had the opportunity to study in French universities, thus laying down the foundations for integration between the respective national authorities. In this way French ideas and methods had been strongly integrated to the emerging accounting system. This integration process was followed by the implementation of typical practices of the *Comptabilité générale et analytique*.

The Bulgarian accounting system follows a capital-based logic. Costs represent decreases in assets or increases in liabilities due to economic transactions and other events which reduce the economic benefits of a period. On the other hand, revenues involve an increase in assets or a decrease in liabilities.

The core of this system (Stefanov, 2003; Stoyanov and Savova, 2008; Basheva, Milanova, Jonkova, Petrova and Pojarevska, 2009) is based on the following basic accounting equation:

Assets = Liabilities + Owner's Equity

This equation requires the two sides to balance; in fact, assets and liabilities are two different aspects of the same object. This method allows a bilateral representation of the capital structure of a company. On one side there are the economic resources, or the uses of funds, while on the other side there are the sources of funds.

In the course of management activities the economic transactions cause constant changes in the elements which make up the capital structure. Although transactions are numerous and very different both in their economic content and in their representation, they can be classified into homogeneous groups, depending on the way they affect the capital structure in assets and/or in liabilities and owner's equity.

In order to abide by the basic accounting equation, every change shall be recorded so that the total amount of debits equals the total amount of credits.

The main feature of the system in question lies in the fact that all costs are initially classified by nature and then grouped under a main account, generally entitled to elementary components.

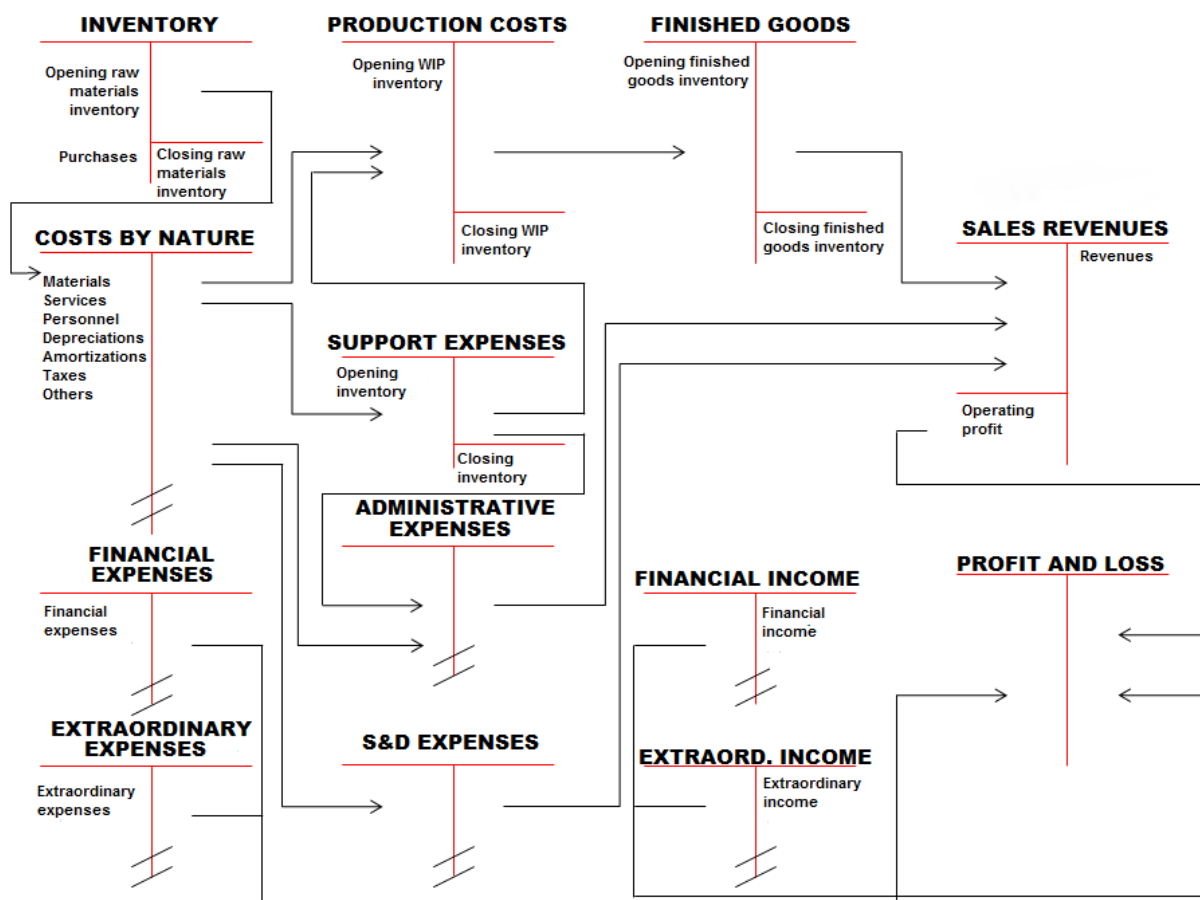
These costs are then subdivided into production costs, administration costs, selling and distribution costs and support activity costs. Production costs relate to the consumption of goods and services.

There is also an account entitled “Product sales revenues”, where manufacturing costs of goods sold, administration costs and selling and distribution costs are debited, while sales revenues are credited.

The balance of this account corresponds to the operating profit. Finally, this value is credited to the profit and loss account, where also financial and extraordinary costs and gains have been previously debited or credited.

The balance of the profit and loss account represents the net income, which flows directly into the equity accounts.

The scheme below shows what has just been explained:



3. Accounting system in a second “definition” and the framework of this paper

The second meaning of accounting system has been the subject of numerous international studies. Different authors have tried to classify the accounting systems widespread in the countries, trying to group them according to the affinities found⁵.

Initially, the studies were purely deductive, classifying countries according to personal considerations (Seidler, 1967); subsequently the research turned to the empirical observation of accounting practices in order to elaborate at a later time some synthesis considerations (Da Costa et al., 1978). Finally, the focus was on the study of environmental factors that characterize the development of an accounting system in a country.

Crossing these studies with Bulgaria we can try to include this country in some classifications.

As stated above an accounting system can be regarded in the second instance as a set of practices to draft the financial statements subject to publication. Nobes and Parker (2008:55) say: “the expression ‘accounting system’ would be used to mean the financial reporting practices used by a company”.

As Capalbo (2004:18) states, there are various strong cause-effect relationships between the accounting system and the socio-economic and cultural context where every company establishes and develops. In order to grasp the evolution of one particular accounting system rather than another it is therefore necessary to analyze its context and the temporal evolution of some key factors.

Many scholars have been committed to understanding the environmental factors which caused the differences in the accounting systems of different countries. Most of them tried to create a classification model highlighting similarities and differences between groups of accounting systems. The various approaches to the classification of accounting systems can be divided into deductive and inductive approaches, based on the applied method. Under deductive (or top-down) approaches (Hatfield 1966; Seidler 1967; Mueller 1967; Nobes 1998) the determining environmental factors are first identified on the basis of personal considerations and subsequently similar countries are analyzed, together with their possible evolutionary paths which may affect accounting systems. On the other hand, under inductive (or bottom-up) methods (Da Costa, Burgeois and Lawson 1978; Frank 1979) the different accounting practices applied in different countries are first analyzed and only at a later stage similar countries are grouped on the basis of the detected accounting systems.

The trend in the latest developments in terms of classification of accounting systems and research of their differentiation causes is represented by the analysis of the environmental factors determining these differences⁶ (Baydoun and Willett 1995). Indeed a thorough study of accounting systems cannot be separated from the knowledge of the political and institutional situations and the systems of socio-cultural values, which affected every country’s policies and the basic choices that have historically been made.

Determining environmental factors can be classified in different ways. For example Onesti (1999) divides them into differentiation elements of the first and of the second type. The first-type elements represent the necessary conditions to adapt accounting systems to the geopolitical and institutional situation, to the system of socio-cultural values, to the economy and to the legal system. On the other hand the second-type elements are more specific characteristics assumed by the different accounting systems, such as the type of most common

⁵ For a study of this object you can see also: Semprini L., *I sistemi contabili come base per l'adozione dei principi di bilancio: l'esperienza italiana, croata e bulgara*, RIREA, Roma, 2014.

⁶ See also Saudaragan (2004: 3): “As a social science, accounting is the product of its environment. However, accounting also influences the social environment. Thus, there is an interdependence between accounting and the environment in which it exists. A country’s accounting regulations and practices are the product of a complex interaction of social, economic, and institutional factors”.

enterprises, the choices for raising venture capital, the way funding is granted, the influence of tax legislation, the importance of the accounting profession and the accounting theory.

Ball (1995) and Nobes (1998) posit that accounting systems and the level of market transparency are functions of the characteristics of the legal systems and financing methods prevalent in a country.

Therefore there are various environmental factors which affect the development of a certain accounting system.

The main factors are definitely the financial, legal and tax systems, the relationships with other countries, the status of the accounting profession and the quality in accounting education.

According to the economic doctrine, one of the major environmental factors which affect accounting practices is the country's financial system. This term often includes different aspects, such as how companies find the financial resources they need, the degree of development of the capital market and the degree of globalization in it. (Saudagaran 2004: 3-7).

As far as the first aspect is concerned, financial systems can be divided depending on the prevalence of equity or debt. As for the legal system⁷ countries can be divided into civil law countries and common law countries. Civil law countries are based on the Roman law and their core principles are codified into a referable system, which serves as the primary source of law. In these countries "rules are linked to ideas of justice and morality; they become doctrine. The word 'codified' may be associated with such a system. This difference has the important effect that company law or commercial codes need to establish rules for accounting and financial reporting" (Nobes and Parker, 2008:28). On the other hand, common law countries are characterized by case law and binding precedents, where law is developed by judges through decisions of courts and tribunals (Doupnik and Salter 1995).

As a consequence, the relationship between net income and taxable income is very different. Generally, in common law countries, net income is completely separated from taxable income, while in civil law countries taxable income is derived from the net income shown in financial statements, though sometimes with significant differences (Fritz and Lammler 2003).

Finally the status of accounting profession and the quality in accounting education are very important. The "accounting profession is an important facet of our society" (Wyatt, 2004, p 53). Accounting has emerged from society and can be said to be socially constructed and socially constructing (Hines 1988) and can be taken to mean that accounting influences society as well as accounting is influenced by society. Richardson (1989) also considered the accounting profession in the context of economic markets, not just the State and the community. Indeed, he described the accounting profession as facilitating and being facilitated by a nexus between the State, economic markets and community forces (Richardson, 1989). This facilitation is also consistent with accounting being described as socially constructed and socially constructing (Hines 1988).

The accounting profession, as Richardson (1989) argued, continues to play a pivotal role in the interrelationship between the State and capital markets, issuing and setting accounting principles and assessing candidates on the basis of their achieved skills. In such countries accounting information is of a higher quality and financial reports are more independent and real. By contrast, in countries where there is a medium-low status of the accounting

⁷ See also Jaggi and Pek Yee Low (2000: 499): "Even though laws of no two nations are alike, there are similarities in certain critical aspects between LSs of some countries. Legal experts have used these similarities to classify national LSs into two major families of law. On the basis of a number of criteria, LSs of different countries have been broadly classified into civil and common law systems".

profession⁸, the law establishes accounting principles and the reporting system is consequently underdeveloped, uniform and of a lower quality.

One consequent factor is certainly the quality of accounting education. Indeed in countries where accounting profession is considered to be a sort of mechanical recording of documents, accounting education is of a lower quality and this generally leads to low-skilled and inadequate professionals.

3. 1 The Bulgarian accounting system

Bulgaria is “formally” a people’s republic since 1946, when he entered the Soviet sphere of influence after the Second World War. Prior to the World war 2, it had been effectively abandoned and replaced for “nearly half a century by a soviet-style social central decision-making” (Gradev, T. and Keremidchiev, 2008). Prior 1989, Bulgaria was a state-dominated country with majority public ownership of the productive assets (Petkov, 2012). As the process of liberalization took ever after 1990, this introduced the creation of corporate relationship leading to a critical mass of privatizations and a comprehensive shift. In 1990, after the dissolution of the URSS, it became an effectively independent republic with a new Constitution. At the same time, a new process towards democracy and market economy began.

The change in the economic system started in late 1989 and, as already mentioned, was based on the transition from a centralized model towards a market economy model. This process required a new accounting legislation at a national scale. This process started in 1991 with the enactment of a “Law on Accounting” and the endorsement of a “National Chart of Accounts” This law regulated the organization of accounting in a mixed economic system, due to the still dominant number of state-owned enterprises. It contained not only rules on the content of financial statements, its structure and assets assessment, but also provisions about bookkeeping for private companies. This feature is still present in the current version of the law. After the endorsement of this Law on Accounting, the first steps were made towards some legislation suitable for a market economy model. The attention was directed to the adoption and the adaptation of International Accounting Standards and the provisions contained in some European directives. Nevertheless, it is important to point out that these reforms were mainly based on European directives rather than IAS⁹. This situation was easily predictable because since the early 50s accounting and commercial laws were in line with the legislation processes occurring in Continental Europe, especially in Germany. For this reason the accounting standards contained in the Law on Accounting are similar to those contained in the Fourth Directive, taking of course into account the particular Bulgarian tradition and its accounting cultural context. The year after the enactment of the Law on Accounting the Council of Ministers endorsed the first national accounting principles, amended on several occasions in 1996, in 1998, in 2002 and in 2008.

Since 1998 Bulgaria has undertaken substantial changes in the national accounting legislation, mainly based on the fundamental principles underlying the IAS. Consequently there has been a process towards the international accounting standards as opposed to the principles contained in European directives. Therefore a new transition process started in Bulgaria, from the Continental European model to the Anglo-Saxon model, entirely based on the application of IAS/IFRS (Stefanov, 2003).

⁸ In order to study the role of accounting profession see, among the others, this provocative paper: Kaidonis M., (2008), The Accounting profession: Serving the Public Interest or Capital Interest?, *Australasian Accounting, Business and Finance Journal* Vol.2, N°4, pp.1-5.

⁹ See also Stefanov (2003): “From the start of the accounting reform Bulgarian laws were closer to the European directives in relation to the accounting problems than to the International Accounting Standards (IAS). And that is natural having in mind that until the beginning of the 1950s the Bulgarian accounting and commercial laws were in unison with the processes in Europe and Germany. For that reason the accounting principles in the Law of Accounting were defined in the same way as they were in the fourth directive of the European Union taking into consideration, of course, Bulgarian experience and traditions in the organization of accounting”.

In January 2002 the new Law on Accounting entered in force and is still applicable today, while in June of the same year a new model of National Chart of Accounts was introduced, which was recommended by law, though not mandatory. That chart, which was repealed in 2005, is not considered today as a legal source; nevertheless it is widely applied by companies and professionals.

A fundamental step in Bulgarian history was definitely its entry into the European Union on the 1st January 2007. This resulted in the transposition of EU directives also in accounting and the mandatory adoption of IAS/IFRS provided for by EU Regulations.

Under the article 22a of the Law on Accounting, international accounting standards are currently applicable for all companies except for public companies and small and medium sized enterprises. A recent study of financial systems in Bulgaria, Czech Republic, Hungary, Romania and Slovakia (Wheat and al., 2008) 40% of Bulgarian firms use international accounting standards.

According to the current regulatory framework, Bulgarian companies are required to follow the international financial reporting standards (IFRS), National Financial Reporting standards (NFR) for Small and Medium enterprises (SME) and/or the rules and regulation set by the Bulgarian Accounting Act, as a basis for reporting and presentation of their financial operations (Bulgarian Accounting Act 2007) (Moneva and Grozeva, 2009).

Firms in Bulgaria were more likely to have overdue tax bills than firms in the other countries. Bulgarian firms were more likely to owe money to employees than were firms in the other countries. Bulgarian firms owed more overdue payments to suppliers than firms in the other countries. Exploring the laws and penalties in country to country differences may explain the avenues firms take when they are in a financial bind. Bulgarian firms¹⁰ are less likely to receive national government subsidies, borrow less working capital from foreign banks, pay higher interest rates on bank loans, and have larger overdue payments for taxes and to material input suppliers.

The Council of Minister endorsed thirty-one new financial reporting standards for small and medium-sized enterprises with the decree No. 46 of the 21st March 2005, which entered into force retroactively since 1st January 2005, and then amended in 2008¹¹.

All this information was obtained from the study of the documents in the appendix. For a clearer reading of the work, please refer to it. Like affirmed in the introduction, indeed, results come from contextual data or clauses.

4. Implications

In Bulgaria, the risk capital market is underdeveloped, enterprises are mainly small and medium-sized and the main source of funding is represented by bank credits. Small medium enterprises are critical for the development of the Bulgarian economy (Petkov, 2012). The legal system is strictly based on written laws, including an accounting law, too; moreover, the recommended standardized national chart of accounts is still widely applied today, though it is not mandatory anymore. This situation is in contrast with the widespread application of international accounting standards, which reflect a common law legal system, based on case

¹⁰ There is an interesting paper that reports the regression results for the subsample. The independent variables explain between 26% and 72% of the variation in the strength of auditing and reporting standards in Bulgaria. All the variables are highly statistically significant. These results confirm that institutional infrastructure, higher education and training and financial market development explain significantly a middle-income country's strength of auditing and reporting standards (see Boolaky et al., 2013).

¹¹ See also Mihaylova M., "Le piccole e medie imprese in Bulgaria hanno bisogno di International Financial Reporting Standards?" in Capodaglio G., (a cura di), *L'ipotesi di espansione in Europa degli IAS/IFRS*, Roma, RIREA, 2011.

law developed by judges through decisions. The tax system plays a key role in accounting choices made by companies, because the income shown in financial statements does not differ significantly from the tax base, compromising the “neutrality” of financial statements. Accounting professionals do not influence the development of accounting principles, because of the presence of a strongly centralized government until the 90s.

The main problem is basically the way it came to the adoption of IAS/IFRS: in Bulgaria national accounting standards were first issued, and then replaced by international standards.

It is now possible to draw the first conclusions resulting from the study on Bulgarian accounting system.

In accordance with the first definition of accounting system, in Bulgaria there are not any proper accounting “systems” as such. In fact, two sets of logically connected accounts are lacking, but instead numerical increases and decreases in one account relate to the single object of the account itself: assets, liabilities or owner’s equity. However, both the Bulgarian accounting system are based on a capital-based logic, as costs and revenues are always considered as variations in assets, liabilities and equity ¹².

The second definition points out the significant environmental factors. It becomes immediately clear that, besides the traditional factors analyzed by the economic literature, there are other determining factors affecting accounting practices as, for example, some historical events.

In Bulgaria the main sources of funding are banks; it is a civil law country where the tax legislation strongly influences financial accounting.

As we have already pointed out, in Bulgaria the most significant events have been the transition from a collectivist economy to a free market economy and the desire to join the European Union.

Moreover in Bulgaria there is a “Law on Accounting” (as well as on financial statements), thus following the tradition of Continental Europe, especially the French and the German ones.

The law of this country evidently originated, to some extent, from some contrasting impulse during the transition process: on the one hand, the strive for connection to Continental Europe and on the other hand the indiscriminate adoption of Anglo-Saxon accounting standards, which are not generally based on written laws.

Such factors led this country to align itself with the provisions of international accounting standards and to catch up with the more developed economies, to the detriment of their Continental Europe tradition.

On the other hand the process towards international standards in Bulgaria was more structured. At this stage, however, this country is undergoing some, though not radical, changes due to functional requirements and to the alignment with the European legislation. This is even more apparent from 2015, when the new EU directive on financial statements was transposed.

According to the scheme elaborated by Nobes (1983) Bulgaria is characterized by an ex-planned economy, with high influence of the legal system, which can be inserted in the Macro-uniform class-Continental European Model, law based. With regard, instead, to the Berry scheme (1987) Bulgaria is in the Macro uniform-Communist-USSR influence, characterized by centralized control and a national accounts plan¹³. According to the cultural model of Gray

¹² This is the difference with Besta's theory, under which increases and decreases relate to the effects caused by the administrative facts on the net fund. Under the capital-based logic, the net fund is represented by the net worth; under the income-based system, it is represented by net income.

¹³ In that scheme Berry did a combination of Nobes’s tables of Capitalist and Communist Countries (1987), cit., p.91.

(1983), we can affirm that Bulgaria is dominated by state control rather than by professionals, with a preference for the uniformity of practices with respect to flexibility, also evidenced by the wide use of the standardized chart of accounts. Conservatism favors the maintenance of traditionally used practices, to the detriment of innovative ways. On the transparency side, the provisions concerning the disclosure of financial information must be intensified, as the climate of secrecy still prevails, despite the attempts of the two countries to align with the Community provisions.

At this point it seems appropriate to look at a final table proving summarize the situation of Bulgarian accounting system used the framework presented above. We present a table (table 1) drawn from Nobes' 1983 work. It is worth pointing out that Bulgaria was not included in Nobes's classification of 1983, because that scheme was drawn up only for developed Western countries. However we have tried to classify also Bulgaria on the basis of that scheme.

ELEMENTS OF COMPARISON	BULGARIA
<i>Classification of accounting systems</i>	
Nobes's classification	Macro Uniform-Continental: law-based
Berry's classification	Macro Uniform - USSR influence: mandatory state directions, national chart of accounts
Gray's classification	Statutory control, secrecy, uniformity, conservatism
<i>Environmental factors</i>	
Economic and political system	Republic
Legal system	Civil law
Tax system	Absolutely significant
Financing system	Credit/insiders
Professional role	Low consideration
Accounting education	Still developing
Most common entities	SMEs
Transition to market economy	Relevant
Involvement in the European Union	EU member since 2007
<i>Regulations on accounting</i>	

Laws on Accounting	Present
National chart of accounts	Not present, though still widely adopted
Accounting principles	IAS/IFRS and national financial reporting standards
Publication of financial statements	Mandatory

Table 1. The main features of Bulgarian accounting system

Source: adaptation from Semprini (2014).

5. Conclusions

In conclusion, it can be noted that the differences in international accounting practices continue to exist (Zeff, 2007), even if standards are then used to all companies. In fact, the financial, fiscal and legal system play a fundamental role in the country, causing inertia to use still the practices prior to the adoption of IFRS. Therefore, a complete harmonization has not yet been reached (Goeltz, 1991) and for this reason we can only agree with Nobes in affirming that there is still space to research in this issue.

We can refer to the words of Nobes: “It is suggested that, like rumours of the death of history, those of the death of international accounting have been greatly exaggerated. Researchers are encouraged to critique the hypothesis and, if they seem plausible to test them. Major changes to accounting rules and practices, such as the arrival of IFRS, will also have created other new opportunities for research. The implications for users of IFRS financial statements are that international comparability may have increased but that large differences are likely to remain” (Nobes, 2006: 243-244).

As Nobes (1994) points out, harmonisation is the process of increasing the consistency and comparability of accounts in order to remove the barriers to the international movement of capital and exchange of information by reducing the differences in accounting and taxation law. And like affirmed by Hoarau (1995) international accounting harmonization is predominantly harmonization with the Anglo-Saxon accounting model and [disregards] the economic, social and cultural environment of other accounting systems.

Moreover the purpose of IFRS development is to eliminate differences in financial reporting through adaption or adoption of its financial reporting requirements (Edeigba and Amenkhienan, 2017). However, different versions of IFRS exist around the world. The variation in IFRS is a result of contextualisation to meet local accounting information for businesses. It implies a lack of harmony between national and international accounting standards (Boolaky et al., 2012).

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Appendix

Accountancy Act

Promulgated, State Gazette No. 98/16.11.2001, effective 1.01.2002, amended and supplemented, SG No. 91/25.09.2002, SG No. 96/29.10.2004, effective 1.01.2005, SG No. 102/20.12.2005, effective 20.12.2005, amended, SG No. 105/29.12.2005, effective 1.01.2006, SG No. 33/21.04.2006, amended and supplemented, SG No. 63/4.08.2006, effective 4.08.2006, SG No. 105/22.12.2006, effective 1.01.2007, SG No. 108/29.12.2006, effective 29.12.2006

Text in Bulgarian: Закон за счетоводството

GENERAL PROVISIONS

Article 1

(1) This Act shall regulate:

- 1. The requirements for exhaustiveness and truthfulness in accounting systems (accounting offices) with enterprises;*
 - 2. (Amended, SG No. 105/2006) The contents, drawing up and publication of financial statements of enterprises;*
 - 3. (Amended, SG No. 105/2006) The requirements applicable to persons producing financial statements.*
- (2) (Amended and supplemented, SG No. 105/2006) Enterprises shall include: any merchants, in the meaning of the Commerce Act ; any legal persons that are not merchants; any budget-funded enterprises and non-corporations, any foreign persons conducting business operations on the territory of this country through a permanent establishment, and trade representative offices.*

Article 2

Enterprises shall keep account of their business transactions in a chronological order corresponding to the order in which they occur.

Article 3

(1) (Amended SG No. 91/2002) Primary accounting documents of enterprises shall be kept in the Bulgarian language, in Arabic digits and in Bulgarian levs. Accounting documents may also be drawn up in the respective foreign language and in foreign exchange in cases of deals negotiated in foreign exchange with foreign contractors.

(2) Accounting documents received by the enterprise written in a foreign language shall be accompanied by a translation into the Bulgarian language of the contents of any business transactions reflected therein.

Article 4

(1) Accountancy shall be executed, and financial statements shall be produced, in compliance with the requirements of this Act while observing the following general principles of accounting:

- 1. Accrual basis: income and expenses resulting from deals and events are to be accounted for as of such time when they arise regardless of the time of receipt or payment of cash or its equivalent and are to be shown in the financial statements for the period to which they relate;*
- 2. Going concern: it is assumed that the enterprise is a going concern and will remain one in the foreseeable future; the enterprise does not have either the intention or the need to liquidate or significantly reduce the size of its operation; if not, a liquidation or other such accounting basis shall be applied in producing its financial statements.*
- 3. (New, SG No. 105/2006) Prudence: evaluation and consideration of risk assumptions and estimated potential loss in the accounting treatment of business transactions to ensure that an actual financial result is obtained;*
- 4. (New, SG No. 105/2006) Matching income and expenses: any expenses incurred in relation to a given deal or operation should be reflected in the financial result for the period in which the enterprise draws benefit from those expenses, while income should be recorded for the period in which any expenses attached to generating such income have been recorded;*
- 5. (New, SG No. 105/2006) Priority of content over form: deals and events are to be accounted for in accordance with their economic content, essence and financial reality, and not formally, as per their legal (contractual) form;*
- 6. (New, SG No. 105/2006) Retention, where possible, of the accounting policy from the preceding reporting period: ensuring comparability of accounting data and ratios across different reporting periods.*
- 7. (New, SG No. 105/2006) Independence of the individual reporting periods and the value link between starting balance and closing balance: each reporting period should be treated, in accounting terms, in and of itself, independent of its objective relation to the previous and to the following reporting period, while data in the financial statements at the beginning of the current reporting period must match the data at the end of the previous reporting period.*

(2) (Repealed, SG No. 105/2006)

(3) Enterprises shall keep their accounts on the basis of documentary justification of business transactions and facts while observing the requirements for drawing up documents as provided by the respective effective legislation.

Article 5

(1) On-going accounting operations shall be set up following the procedure specified in this Act and following an individual chart of accounts endorsed by the enterprise's management.

(2) (Repealed, SG No. 96/2004)

Article 5a

(New, SG No. 96/2004)

(1) For budget funded enterprises, the Minister of Finance shall approve accounting standards and a chart of accounts that comply with:

1. EU requirements for public sector reporting, statistics and budgeting;
2. the accounting framework, principles and concepts of the Guidebook on Methods for Public Financial Statistics issued by the International Monetary Fund;
3. public sector International Accounting Standards of the International Federation of Accountants;
4. requirements of Bulgarian law concerning budgeting, reporting implementation of the consolidated fiscal program and management and control of funds and expenditure in budget funded enterprises.

(2) The standards and chart of accounts referred to in paragraph (1), and the methodology guidance for their application shall be developed and updated by the Ministry of Finance. In case of updates, budget funded enterprises shall be notified within reasonable time.

(3) On any matter not dealt with the standards and chart of accounts referred to in paragraph (1), budget funded enterprises may apply the provisions of standards applicable to other enterprises, following a procedure to be determined by the Minister of Finance.

(4) The standards and chart of accounts referred to in paragraph (1) shall be published in the State Gazette.

Article 5b

(New, SG No. 96/2004, repealed, SG No. 105/2006)

ACCOUNTING DOCUMENTS AND FORM OF ACCOUNTING

Article 6

(1) An accounting document shall be any paper or technical carrier of accounting information and shall be classified as primary, secondary and a ledger:

1. A primary document shall carry information about a business transaction recorded for the first time;
2. A secondary document shall carry processed (summarised or differentiated) information derived from primary accounting documents;
3. Ledgers shall carry chronologically systematised information about business transactions derived from primary and/or secondary accounting documents.

(2) The accounting document may be an electronic document provided the requirements of this Act and those of the Electronic Document and Electronic Signature Act have been met.

Article 7

(1) (Amended, SG No. 96/2004) A primary accounting document addressed to another enterprise or an individual shall contain, as a minimum, the following information:

1. name and number made up of Arabic numerals only;
2. date of issue;
3. (amended, SG No. 63/2006, supplemented, SG No. 105/2006) name, address and identification number under Article 84 of the Tax and Social Insurance Procedure Code for the issuer and recipient;
4. subject and value expression of the business transaction;
5. first and last name and signature of the individual drawing up the document.

(2) (Amended, SG No. 96/2004) Any primary accounting document which pertains only to the enterprise's operations shall contain, at a minimum, the following information:

1. name and number made up of Arabic numerals only;
2. date of issue;
3. subject and value expression of the business transaction,
4. first and last name and signature of the individual drawing up the document.

(3) (New, SG No. 105/2006) It shall be deemed that there is documentary support also in case some of the information required under paragraphs (1) and (2) is missing from the primary accounting document, provided such missing information is supported by documents evidencing it.

(4) (New, SG No. 105/2006) Outside cases referred to in paragraph (3), documentary support shall be deemed to exist also where the primary accounting document has been issued by a party which is not an enterprise in the

meaning of this Act and the document is missing some of the information required under paragraphs (1) and (2), provided such document reflects truly the documented business transaction.

(5) (New, SG No. 105/2006) The issuance of a primary accounting document as referred to in paragraph (1), except for cases where the recipient so desires or where so required by a law or a regulation, shall not be obligatory where:

1. the business transaction is documented by a fiscal cash register receipt issued by means of a fiscal device following a procedure as established under a regulation issued by the minister of finance, or by a security issued following a procedure as established under the Regulation on the Terms and Procedure for Securities Printing and Control (promulgated, SG, No. 101/1994; amended, No. 38/1995, No. 73/1998, No. 8/2001), and

2. the recipient thereunder is a natural person who is not a trader.

(6) (Renumbered from paragraph (3) - SG No 105/2006) In accounting for certain business transactions, assets and liabilities of budget-funded enterprises, the Minister of Finance shall endorse the terms and procedure to document those, the format and requisite details for accounting documents the application of which is mandatory.

(7) (New, SG No. 102/2005, renumbered from paragraph (4) - SG No. 105/2006) For business transactions relating to payables to budgetary organisations which have arisen on the grounds of and under the terms and conditions of a law or regulation, the primary accounting document referred to in paragraph 1 shall be the relevant payment document for the payment made.

(8) (New SG No. 63/2006, renumbered from paragraph (5) - SG No 105/2006) The address under Paragraph 1, Item 3 is:

1. the permanent residence address - for the natural persons;

2. the business address - for the legal persons;

3. the address for correspondence under the Tax and Social Insurance Procedure Code for the persons, who do not have business address.

(9) (New, SG No. 63/2006, renumbered from paragraph (6) - SG No. 105/2006) The sole trader shall be identified only through an BULSTAT uniform identification code.

Article 8

(Amended SG No. 91/2002, supplemented, SG No. 105/2006)

In drawing up the primary accounting documents by technical means, the signatures referred to under Article 7, may be substituted for by identification codes or by electronic signatures in the meaning of the Electronic Document and Electronic Signature Act . Identification codes must provide a possibility beyond any doubt to identify the individual drawing up the primary accounting document.

Article 9

(1) In setting up and maintaining its accounting system, an enterprise shall ensure:

1. Exhaustive chronological registration of accounting transactions;

2. Systematic accounting ledgers to summarise accounting information, with the former being opened at the beginning of the reporting period and closed at its end;

3. Synthetic and analytical accounting ledgers, and the reconciliation and connection among them;

4. Interim and annual closing of accounting ledgers, generation of a journal;

5. Possibility to make changes in the book entries made, by way of making adjustment accounting entries;

6. Application of an individual chart of accounts.

(2) (Amended, SG No. 105/2006) Where an accounting software is used in keeping accounts, such software must have been developed in compliance with the requirements of this Act and support data processed by means of it and documents generated by it in the Bulgarian language.

Article 10

No corrections or additions shall be allowed in the primary accounting documents. Any primary accounting documents that have been erroneously drawn up shall be cancelled and new ones shall be drawn up.

Article 11

The persons who have drawn up and signed the accounting documents and technical information carriers shall be held liable for the authenticity of the information therein.

Article 12

The form of accounting shall be endorsed by the manager of the enterprise. The form shall ensure the synchronized execution of the chronological and systematic (analytical and synthetic) accounting.

ASSETS, OWNER'S EQUITY, LIABILITIES, INCOME AND EXPENSES

Article 13

(1) *Assets, owner's equity, liabilities, income and expenses shall be valued and recorded at the time of their acquisition or origination at their historic cost or other cost, in compliance with the applicable accounting standards.*

(2) *Historic cost is the acquisition price, the cost or the fair value.*

(3) *Subsequent valuations of assets and liabilities shall be done in accordance with the applicable accounting standards.*

Article 14

(Amended, SG No. 105/2006)

Assets and liabilities shall be classified and shown in financial statements under the terms and following the procedures as set in the applicable accounting standards.

Article 15

(1) *(Amended, SG No. 105/2006) Enterprises shall depreciate/amortise their depreciable/amortizable long-term/non-current assets in accordance with the applicable accounting standards.*

(2) *(Repealed, SG No. 102/2005) .*

(3) *Depreciation/amortisation in budget-funded enterprises shall be effected pursuant to an enactment of the Council of Ministers.*

Article 16

In the course of their consumption, inventory stocks shall be valued in accordance with the applicable accounting standards.

Article 17

(Amended, SG No. 105/2006)

Expenses and income shall be classified and shown in financial statements under the terms and following the procedures as set in the applicable accounting standards.

Article 18

(Repealed, SG No. 105/2006)

Article 19

(Repealed, SG No. 105/2006)

Article 20

(Amended, SG No. 105/2006)

Components of owner's equity shall be classified and shown in financial statements under the terms and following the procedures as set in the applicable accounting standards.

INVENTORY TAKING

Article 21

(Amended and supplemented, SG No. 91/2002, repealed, SG No. 105/2006)

Article 22

(1) *(Amended, SG No. 105/2006) Inventory taking of assets and liabilities shall be carried out in each reporting period in order to ensure that they are presented in a truthful manner in the annual financial statements. Inventory shall be taken following a procedure and in a manner as established by the governing bodies of the enterprise.*

(2) *(New, SG No. 105/2006) For budget-funded enterprises, the minister of finance may set other time periods for carrying out inventory taking.*

(3) *(Previous paragraph (2) - SG No. 105/2006) Inventory taking shall be carried out also upon the request of the authorities of the judiciary and of other authorities, where so provided for in a law.*

FINANCIAL STATEMENTS

(Title amended, SG No. 105/2006)

Section 1

Applicable Accounting Standards, Contents of Financial Statements and Annual Management Reports

(Title amended, SG No. 105/2006)

Article 22a

(New, SG No. 96/2004, amended, SG No. 105/2006)

(1) Enterprises in the Republic of Bulgaria, with the exception of enterprises referred to in Article 22b, shall prepare and present their annual financial statements on the basis of International Accounting Standards.

(2) Enterprises referred to in Article 38, paragraph (1), items (2) and (3) shall be obliged to prepare and present their annual financial statements on the basis of International Accounting Standards.

(3) An enterprise which has, in one reporting period, prepared and presented its annual financial statements on the basis of International Accounting Standards cannot apply the National Financial Reporting Standards for Small and Medium-sized Enterprises.

Article 22b

(New, SG No. 105/2006)

(1) Annual financial statements shall be prepared and presented on the basis of the National Financial Reporting Standards for Small and Medium-sized Enterprises by enterprises which, for at least one of the two preceding years, do not exceed the indicators under two of the following criteria:

1. balance sheet assets as of 31 December: BGN 8 million;

2. net income from sales for the year: BGN 15 million;

3. average number of personnel for the year: 250 persons;

(2) Newly established enterprises shall prepare and present their annual financial statements on the basis of the National Financial Reporting Standards for Small and Medium-sized Enterprises for the year of their establishment and for the year following it.

*(3) National Financial Reporting Standards for Small and Medium-sized Enterprises shall be adopted by the Council of Ministers and shall comply with the European Union *acquis communautaire* and national specifics.*

(4) Enterprises referred to in paragraphs (1) and (2) may choose to prepare and present their annual financial statements on the basis of International Accounting Standards.

(5) Enterprises terminated through liquidation or declared bankrupt shall prepare and present their annual financial statements on the basis of a National Accounting Standard adopted by the Council of Ministers.

(6) Standards referred to in paragraphs (3) and (5) shall be published in the State Gazette.

Article 22c

(New, SG No. 105/2006)

Consolidated and interim financial statements shall be prepared and presented on the basis of the accounting standards on the basis of which the annual financial statements of the enterprise producing such consolidated and interim financial statements have been prepared.

Article 23

(1) (Amended, SG No. 105/2006) Enterprises shall draw up:

1. annual financial statements as of December 31 in thousand Bulgarian levs;

2. consolidated financial statements as of December 31 of the reporting period in thousand BGN, in the cases referred to in Article 37;

3. interim financial statements covering a period of less than one calendar year, where so required by a law or a regulation, or upon a decision of their governing body.

(2) The annual financial statements must give a true and fair picture of the property and financial condition of the enterprise, its reported financial result, and any changes in cashflows and in owner's equity.

(3) (Amended, SG No. 96/2004, repealed, SG No. 105/2006) .

(4) (Amended, SG No. 96/2004, repealed, SG No. 105/2006) .

(5) (Amended, SG No. 96/2004) Budget funded enterprises shall prepare and present their annual financial statements on the basis of the chart of accounts, accounting standards and the methodology guidance referred to in Article 5a.

Article 24

(Amended, SG No. 105/2006)

The governing bodies of the enterprise shall be responsible for drawing up, timely preparation, the contents and publication of its financial statements.

Article 25

(Amended, SG No. 105/2006)

Information presented in the financial statements must meet the following requirements:

1. Understandability: it should be useful to its users in taking economic decisions;

2. Relevance: it should enable users to assess past, present or future events and confirm or adjust their earlier judgements in taking economic decisions;

3. Reliability: it should be free of any material error or bias;

4. Comparability: it should enable comparisons between the information from the enterprise from different years, and with information from other enterprises in order to assess its efficiency, financial condition and any changes therein.

5. (Repealed, SG No. 105/2006) .

Article 26

(1) *The component parts of the annual financial statements shall be a balance sheet, a profit and loss account, a statement of cash flows, an owner's equity account and notes.*

(2) *(Amended, SG No. 105/2006) The component parts of the consolidated financial statements shall be a consolidated balance sheet, a consolidated profit and loss account, a consolidated statement of cash flows, a consolidated owner's equity account and notes.*

(3) *(New, SG No. 105/2006) The form, structure and contents of the components of the annual financial statements shall be defined in accordance with the applicable accounting standards.*

(4) *(New, SG No. 105/2006) Enterprises applying a simplified form of financial reporting which prepare and present their annual financial statements on the basis of the National Financial Reporting Standards for Small and Medium-sized Enterprises may prepare summary annual financial statements. Its form, structure and contents shall be defined in the National Financial Reporting Standards for Small and Medium-sized Enterprises.*

(5) *(New, SG No. 105/2006) The form, structure and contents of the components of financial statements shall be kept unchanged across the various reporting periods, with the exception of cases specified in the applicable accounting standards. In cases where a change has been made, the notes to the financial statements must disclose and explain the reasons for such change.*

(6) *(New, SG No. 105/2006) The form, structure and contents of the components of annual and interim financial statements of budget-funded enterprises shall be determined by the minister of finance.*

Article 27

(Repealed, SG No. 105/2006)

Article 28

(Repealed, SG No. 105/2006)

Article 29

(Repealed, SG No. 105/2006)

Article 30

(Repealed, SG No. 105/2006)

Article 31

(Repealed, SG No. 105/2006)

Article 32

(1) *(Amended, SG No. 96/2004, repealed, SG No. 105/2006).*

(2) *Enterprises, when controlled by the state or by municipalities, or when assisted thereby through subsidies, preferential loans, government guarantees or other forms of government aid, may be required by the Minister of Finance to present additional statements and information following requirements as to format, contents, timing and procedure for drawing up and presentation as set by the Minister of Finance.*

(3) *(Amended, SG No. 96/2004, SG No. 105/2006) Annual financial statements of sole traders which are not subject to an obligatory independent financial audit and having a net amount of income from sales for the current year that does not exceed BGN 100,000 may consist only of a profit and loss account.*

(4) *(Amended, SG No. 96/2004, SG No. 105/2006) Sole traders which are not subject to an obligatory independent financial audit and having a net amount of income from sales for the previous reporting period that does not exceed BGN 50,000 may report and present their activity by keeping special books, i.e. ledgers, by means of which the financial result for the reporting period can be determined in a true and fair way.*

(5) *(New, SG No. 96/2004, repealed SG No. 105/2006) .*

Article 33

(Supplemented, SG No. 96/2004, amended, SG No. 105/2006)

(1) *Enterprises the annual financial statements of which are subject to obligatory independent financial audit shall draw up also a management report, which shall include, at a minimum, the following information:*

1. *An overview presenting a true and fair description of the development and performance results of the operations of the enterprise and of its condition, together with a description of the main risks faced by it;*

2. *All significant events that have occurred after the date of drawing up the annual financial statements;*

3. *The probable future development of the enterprise;*

4. *Activity in the area of research and development;*

5. *Information as required under Article 187e and Article 247 of the Commerce Act ;*

6. *The existence of any branches of the enterprise;*

7. *Any financial instruments used by the enterprise, and where material for the purposes of evaluating the assets, liabilities, financial condition and financial result, the following shall be disclosed:*

(a) *the goals and policies of the enterprise concerning financial risk management, including its hedging policy for each main type of hedged position for which accounting for hedging is applied, and*

(b) *the enterprise's exposure to price, credit and liquidity risk and cashflow risk.*

(2) *The overview referred to in paragraph (1), item (1) is a balanced and exhaustive analysis of the development and performance results of the operations of the enterprise, and of its condition in terms of the size*

and complexity of operations. The analysis shall include financial, and where appropriate, non-financial performance indicators relevant to the respective operation, including information relating to the environment and personnel to the extent necessary to gain an understanding of the development, performance and condition of the enterprise. Where appropriate, the overview shall also include reference to additional explanations concerning amounts represented in the annual financial statements.

(3) Enterprises which prepare and present consolidated financial statements shall draw up also a consolidated management report, which shall include, at a minimum, the following information:

1. An overview presenting a true and fair description of the development, performance results of the operations and the condition of the enterprises included in the consolidation as a whole (the enterprises in the group), together with a description of the main risks faced by them;

2. All significant events that have occurred after the date of drawing up the consolidated financial statements;

3. The probable future development of the enterprises in the group as a whole;

4. Activity in the area of research and development of the enterprises in the group as a whole;

5. number and face value of shares or stock in the parent company held by it, by any of its subsidiaries or any party acting on its own behalf but for the account of such enterprises;

6. Any financial instruments used by the enterprises in the group, and where material for the purposes of evaluating the assets, liabilities, financial condition and financial result, the following shall be disclosed:

(a) the goals and policies of the enterprises concerning financial risk management, including their hedging policy for each main type of hedged position for which accounting for hedging is applied, and

(b) the exposure of the enterprises in the group to price, credit and liquidity risk and cashflow risk.

(4) The overview referred to in paragraph (3), item (1) is a balanced and exhaustive analysis of the development and performance results of the operations of the enterprises in the group, and of their condition as a whole in terms of the size and complexity of operations run by them. The analysis shall include financial, and where appropriate, non-financial performance indicators relevant to the respective operation, including information relating to the environment and personnel to the extent necessary to gain an understanding of the development, performance and condition of the enterprise. Where appropriate, the overview shall also include reference to additional explanations concerning amounts represented in the consolidated financial statements.

(5) The annual management report and the annual consolidated management report may be prepared and presented as a single whole. In such a case, where appropriate, attention should be paid to the issues which are significant for the group as a whole.

(6) Reporting data on assets, liabilities, income, expenses and transactions of all budget-funded enterprises shall be consolidated at the Ministry of Finance on the basis of trial balances and other information submitted by the budget-funded enterprises under terms, conditions, frequency periods and following a procedure established by the minister of finance.

Section II

Drawers of Financial Statements

(Title amended, SG No. 105/2006)

Article 34

(Amended, SG No. 105/2006)

(1) Financial statements (interim, annual and consolidated) shall be drawn up by drawers of financial statements.

(2) Any natural person or a specialised accounting enterprise can be a drawer of financial statements provided they meet the requirements of this Act.

(3) The financial statements of an enterprise shall be signed by:

- 1. those natural persons who manage and represent the enterprise, and*
- 2. the natural person who:*

(a) has drawn up the financial statements, in cases where the financial statements have been drawn up directly by a natural person, or

(b) manages and represents the enterprise which is the drawer of the financial statements, in cases where the financial statements have been drawn up by a specialised accounting enterprise.

(4) The financial statements shall also bear:

- 1. the first and last names of the persons referred to in paragraph (3);*
- 2. the stamp of the enterprise;*
- 3. the stamp of the specialised accounting enterprise.*

(5) in cases where the financial statements have been drawn up directly by a natural person, that person must be engaged in a legal relationship under an employment agreement under the Labour Code or the Civil Servants Act, or be retained under a contractual obligation with the respective company.

(6) The parties referred to in paragraph (3), item (2) must meet the requirements stated in Article 35.

Article 35

(1) (Amended, SG No. 105/2006) A drawer of financial statements may be a person meeting the listed qualification requirements for an obligatory minimum degree of completed education and the professional experience relevant to it, as follows:

1. (Amended - SG No. 33/2006) Tertiary education in accounting and economics, and a length of employment in the area of accounting, external, internal audit and financial inspection, tax audits or as an educator in accounting and control, as follows:

- a) For holders of a master's degree, 2 years;*
- b) For holders of a bachelor's degree, 3 years;*
- c) For holders of a specialist degree, 4 years;*

2. (Amended - SG No. 33/2006) Other tertiary economic education and 5 years of previous employment in the area of accounting, external, internal audit and financial inspection tax audits or as an educator in accounting and control;

3. Secondary economic education and 8 years of previous employment as an accountant.

(2) (Amended, SG No. 105/2006) A drawer of financial statements may be a person who has not been convicted for a crime of a public nature under Chapter Five and under section I of Chapter Six of the Special Part of the Criminal Code .

(3) (Amended, SG No. 105/2006) The Minister of Finance may specify also any additional requirements to persons drawing up financial statements of budget-funded enterprises.

Article 36

(Amended, SG No. 105/2006)

Drawers of financial statements shall be responsible for the organisation of the accounting function at the enterprise.

Section III

Requirements for Drawing Up Consolidated Financial Statements, Preparation, Independent Financial Audit and Public Access to Financial Statements

(Title amended, SG No. 105/2006)

Article 37

(Supplemented, SG No. 96/2004, amended, SG No. 105/2006)

(1) Enterprises shall draw up their annual financial statements by 31 March of the following year.

(2) An enterprise (parent company) shall draw up consolidated financial statements where:

1. it controls more than half of the voting rights of shareholders or partners in another enterprise (controlled enterprise), including under a contractual relation, provided that it is a shareholder or partner in that enterprise;

2. it has the right to appoint or release more than half of the members of the managing and/or supervisory body of another enterprise (controlled enterprise), including under a contractual relation, provided that it is a shareholder or partner in that enterprise;

3. it has the right to manage the financial and operations policies of another enterprise under a contractual relation;

4. it is a shareholder or partner holding 20 per cent or more of the voting rights in another enterprise (controlled enterprise) and solely through the exercise of such rights it has appointed more than half of the members of the managing and/or supervisory body of the controlled enterprise which operated during the reporting period, during the previous reporting period and until the date of preparing the consolidated financial statements; no consolidated financial statements as referred to in the first sentence shall be drawn up where the rights specified in items (1 - 3) with respect of the controlled enterprise are held by another enterprise.

(3) In establishing the rights of the parent company for the purposes of paragraph (2), items (1), (2) and (4), the voting rights and the rights to appoint or release held by the subsidiary in the parent company or by a party acting on its own behalf but for the account of the parent company or of any subsidiary in the group, shall be added to the rights of the parent company.

(4) In establishing the rights of the parent company for the purposes of paragraph (2), items (1), (2) and (4), the following shall not be taken into account:

1. voting rights attaching to shares held for the account of any party different from the parent company or any of its subsidiaries;

2. voting rights attaching to shares received as security, where the enterprise which put up such security exercises those rights.

(5) For the purposes of paragraph (2), items (1) and (4), the total number of voting rights in the controlled enterprise held by all shareholders or partners shall be reduced by the voting rights attaching to shares or stock held by that controlled enterprise and/or by any of its subsidiaries, and/or by any party acting on its own behalf but for the account of such enterprises.

(6) The parent company and its subsidiaries shall be subject to consolidation regardless of where the registered addresses of subsidiaries are located.

(7) Consolidated financial statements shall be prepared only by companies which are parent companies.

(8) For budget-funded enterprises, the procedure, method and time periods for preparing and presenting financial statements shall be established by the minister of finance.

Article 37a

(New, SG No. 105/2006)

No consolidated financial statements shall be drawn up under the procedure set out in Article 37, paragraph (2) by a parent company where the sum of the indicators of the enterprises within the group which are subject to consolidation do not, according to their annual financial statements drawn up as of 31 December of the current year, exceed the indicators under two of the following criteria:

1. balance sheet assets as of 31 December: BGN 3 million;

2. net income from sales for the year: BGN 6 million;

3. average number of personnel for the year: 80 persons.

Article 37b

(New, SG No. 105/2006)

(1) No consolidated financial statements shall be drawn up under the procedure set out in Article 37, paragraph (2) by a parent company where it is also a subsidiary of a domestic parent company or a parent company from another Member State of the European Community, in any one of the following cases:

1. such domestic parent company or parent company from another Member State owns all shares or stock in the domestic (subsidiary) parent company; in establishing the shares or stock of the domestic (subsidiary) parent company, shares or stock held by members of the managing and/or supervisory body under the provisions of a law or the articles of association or charter shall not be taken into account, or

2. such domestic parent company or parent company from another Member State owns 90 per cent or more of the shares or stock in the domestic (subsidiary) parent company and the other partners or shareholders in it have given their consent in writing that no consolidated financial statements are to be drawn up.

(2) Paragraph (1) shall apply where all of the following conditions are met at the same time:

1. the domestic (subsidiary) parent company and all of its subsidiaries are included in the consolidated financial statements of the domestic parent company or parent company from another Member State;

2. the consolidated financial statements and the annual consolidated management report are drawn up by the domestic parent company and are subject to an independent financial audit under the terms and following the procedure set out in Article 38, or by the parent company from the other Member State and are subject to an independent financial audit in accordance with the legislation of that Member State;

3. the consolidated financial statements, the annual consolidated management report and the auditor's report of the domestic parent company are published under the terms and following the procedure set out in Article 40,

or of the parent company from the other Member State are published in the Bulgarian language by the domestic parent company under the terms and following the procedure set out in Article 40;

4. the notes to the annual financial statements of the domestic (subsidiary) parent company contain a disclosure of the name and registered address of the domestic parent company or of the parent company from the other Member State which draws up the consolidated financial statements referred to in item (1), and that it is released from the obligation to draw up consolidated financial statements and an annual consolidated management report.

Article 37c

(New, SG No. 105/2006)

No consolidated financial statements shall be drawn up under the procedure set out in Article 37, paragraph (2) by a parent company where it is a subsidiary of a domestic parent company or a parent company from another Member State of the European Community, and all of the following conditions are present at the same time:

1. the conditions set out in Article 37b, paragraph (2) are met;
2. the partners or shareholders in the domestic (subsidiary) parent company which own not less than 10 per cent of the shares or stock, where the enterprise is a limited liability company, a joint stock company or a partnership limited by shares, or not less than 20 per cent of the shares, where the enterprise is a general partnership or a private partnership, have not requested that consolidated financial statements are to be drawn up by 30 June of the respective reporting period.

Article 37d

(New, SG No. 105/2006)

No consolidated financial statements shall be drawn up under the procedure set out in Article 37, paragraph (2) where the parent company is also a subsidiary of a parent company from a non-Member State of the European Community (a third country), and all of the following conditions are met at the same time:

1. the domestic parent company and all of its subsidiaries are included in the consolidated financial statements of a parent company from a third country;
2. the consolidated financial statements and, where appropriate, the annual consolidated management report are drawn up in accordance with this Act and the applicable accounting standards or in an approach equivalent to them;
3. the consolidated financial statements of the parent company from a third country is subject to an independent financial audit in accordance with the legislation of that country;
4. the requirements set out in Article 37b, paragraph (2), items (3) and (4), and Article 37c, paragraph (2) concerning the parent company from a third country are met.

Article 37e

(New, SG No. 105/2006)

The provisions of Article 37a - 37d shall not apply to enterprises referred to in Article 38, paragraph (1), items (1) to (4), which shall be obligated to prepare and present consolidated financial statements in the presence of the conditions specified in Article 37, paragraph (2).

Article 38

(Amended, SG No. 91/2002, SG No. 96/2004, effective 29.10.2004, SG No. 105/2006)

(1) Unless otherwise provided for by law, annual financial statements of the following shall be subject to an independent financial audit by registered auditors:

1. joint stock companies and partnerships limited by shares;
2. enterprises which are issuers in the meaning of the Public Offering of Securities Act ;
3. (amended, SG No. 108/2006) credit institutions, insurance and investment undertakings, companies for additional social security and the funds managed by them;
4. enterprises for which this requirement is established by a law;
5. all enterprises not mentioned in items (1) through (4), with the exception of enterprises applying a simplified form of financial reporting and budget-funded enterprises.

(2) Annual financial statements of non-profit legal persons designated as operating for the public benefit and listed in the Central Register with the Ministry of Justice shall be subject to an independent financial audit by registered auditors where for the current year they exceed one of the following criteria:

1. balance sheet assets as of 31 December: BGN 1 million;
2. income from for-profit and not-for-profit operations for the current year: BGN 2 million;
3. total amount of financing received during the current year and financing received in previous reporting periods not absorbed as of 31 December: BGN 1 million.

(3) Consolidated financial statements and individual financial statements included in the consolidation shall be subject to independent financial audit.

(4) In their audit reports, registered auditors who carry out independent financial audit of financial statements shall be obligated to express also an opinion on the correspondence between the annual management report and

the annual financial statements for the same reporting period and/or on the correspondence between the annual consolidated management report and the consolidated financial statements for the same reporting period.

Article 39

(Repealed, SG No. 105/2006)

Article 40

(Supplemented, SG No.96/2004, amended SG No. 105/2006)

(1) By 30 June on the following year, enterprises shall publish their annual financial statements and their consolidated financial statements, their annual management report and their annual consolidated management report as adopted by the general meeting of partners/shareholders or by the relevant body as follows:

1. merchants in the meaning of the Commerce Act , by filing and submitting them for the purposes of announcing them in the Commercial Register;

2. non-profit legal persons designated as operating for the public benefit: by filing for recordation and submitting them to the Central Register with the Ministry of Justice under the terms and following the procedure set out in the Non-Profit Legal Persons Act;

3. the rest of enterprises, through a business publication or in the Internet.

(2) Following the procedure set out in paragraph (1), enterprises referred to in Article 38 shall publish:

1. their financial statements, in the form in which they were certified by a registered auditor;

2. their annual management reports, in the form on the basis of which the registered auditor expressed his/her opinion;

3. the auditor's report on the statements and reports referred to in items (1) and (2).

(3) Following the procedure set out in paragraph (1), together with their annual financial statements, joint stock companies, partnerships limited by shares and limited liability companies shall also publish information on the proposal of the managing body on the distribution of profit or for covering a previous year's loss and the decision of the general meeting of shareholders/partners on the allocation of profit for distribution or for covering a previous year's loss.

(4) The annual financial statements of an enterprise which prepares consolidated financial statements shall be published concurrently with the consolidated financial statements of the group, together with their respective annual management reports.

(5) Where the statements and reports of enterprises referred to in paragraph (1), item (3) are published in the Internet, free access must be ensured to them free of charge for a period not shorter than three years following the date of their publication.

(6) Upon request, enterprises referred to in paragraph (1), item (3) shall provide information on the location where their statements and reports are published.

(7) Outside the cases referred to in paragraphs (1) and (2), where an enterprise publishes summary financial statements, it shall be obligated to disclose that the statements are summarized, indicating also the location where the financial statements are published following the procedure set out in paragraph (1). Where the financial statements have not been published yet following the procedure set out in paragraph (1), this fact must also be disclosed. Where summary financial statements have been published, the auditor's report cannot accompany such publication but it shall be obligatory to disclose the auditor's opinion expressed: unqualified, qualified or negative opinion, or a refusal to issue an opinion, and the issues included in the auditor's report to which attention is drawn without qualifying the auditor's opinion.

(8) Paragraphs (1) through (7) shall not apply to budget-funded enterprises as and when otherwise provided for in a law.

Article 41

The form, contents and periods for financial statements for the management purposes of the enterprise shall be determined by its governing bodies.

SAFEKEEPING ACCOUNTING INFORMATION

Article 42

(1) Accounting information shall be kept at the enterprise following the procedure prescribed by the State Archive Fund Act , for the following duration:

1. Payrolls, for 50 years;

2. Accounting ledgers and financial statements, for 10 years;

3. Documents for tax control, for up to 5 years after the expiration of the statute of limitation for retiring the public debt certified by the documents involved;

4. Documents for financial audit, until the execution of the internal audit and audit by the National Audit Office;

5. All other information carriers, for 3 years.

(2) *Accounting information may be stored on a paper or technical carrier and in archives set up by enterprises engaged in the relevant business activity, while complying with the requirements set in paragraph (1).*

(3) *(Supplemented, SG No. 105/2006) After the accounting information has been recorded /transferred/ from paper onto a magnetic, optical or other technical carrier ensuring its reliable retrieval, the paper carrier may be destroyed. The accounting information transferred on a technical carrier must be reproducible in a volume and with contents identical to the information contained on the paper carrier.*

(4) *(New, SG No. 105/2006) Where an enterprise is terminated by way of reorganisation, carriers (paper and/or technical) of accounting information shall be handed over to the receiving and/or newly established enterprise/enterprises.*

Article 43

Upon the expiry of the prescribed term of safekeeping, accounting information carriers /paper or technical/ that are not subject to submission to the State Archive Fund may be destroyed.

Article 44

(Amended, SG No. 105/2006)

Any movement of accounting documents from the time of their generation or receipt at the enterprise to the time when they are destroyed or submitted as required by a law or a regulation shall be conducted following a procedure set by the governing body of the enterprise.

Article 45

(1) *(Amended, SG No. 105/2006) In case of a termination of the legal relationship under an employment agreement under the Labour Code or the Civil Service Act, or a contractual obligation, with a drawer of financial statements, the accounting documentation shall be handed over to his/her successor.*

(2) *(Amended, SG No. 105/2006) The acceptance and handing over referred to in paragraph (1) shall be done in the presence of a committee following a procedure as established by the governing bodies of the enterprise.*

(3) *In case of a termination of legal relationships with the manager of the enterprise, the said manager must hand over the entire accounting and other official documentation of the enterprise in his/her possession to his/her successor.*

ADDITIONAL PROVISION

§ 1. *In the meaning of this Act:*

1. *"Budget-funded enterprises" shall be any state and municipal authorities, their structural units and any economically autonomous persons applying budgets, budget accounts, extra budgetary accounts and funds in the meaning of the Structure of the State Budget Act and the Municipal Budgets Act, and any state funds and institutions involved in the obligatory social security, health insurance or other such security/insurance, central government schools of higher education, the Bulgarian Academy of Sciences, the Bulgarian National Television, the Bulgarian National Radio and other persons and structural units the accounts and transactions of which are included, by the Ministry of Finance, into the consolidated fiscal programme.*

2. *"Reporting period" shall be the calendar year (January 1 December 31).*

3. *"Fair value" shall be the amount for which an asset can be exchanged or a liability retired in an arm's length transaction between a buyer and a seller informed and willing to transact. It is a sales price, a stock exchange price or a market price.*

4. *"Cost" is the valuation of assets produced (created) at an enterprise not including any administrative expenses, sales expenses, financial or extraordinary expense.*

5. *(Amended, SG No. 105/2006) "Independent financial audit of financial statements" is the audit as defined in the Independent Financial Audit Act.*

6. *(Amended, SG No. 105/2006) "International Accounting Standards" refers to the international accounting standards adopted by the European Commission under Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The international accounting standards include: International Accounting Standards (*{in English}* (International Accounting Standards (IAS)), International Financial Reporting Standards (*{in English}* (International Financial Reporting Standards (IFRS)) and the interpretations on their application (*{in English}* (SIC - IFRIC interpretations). International accounting standards include also subsequent amendments to these standards and the interpretations on their application, future standards and the interpretations on their application, issued or approved by the International Accounting Standards Board (*{in English}* (International Accounting Standards Board (IASB)).*

7. *(Amended, SG No. 105/2005) "Specialised accounting enterprise" is any person registered in accordance with the Commerce Act or with the legislation of another Member State of the European Union, or a country signatory to the Agreement on the European Economic Area, having within its scope of business activity to organise accounting and to draw up financial statements following the procedure set in this Act.*

8. *"Acquisition price" refers to the purchase price plus any costs associated with bringing the asset into a form ready to use.*

9. A violation has been made "for a second time" when effected within one year of the entry into force of a penalty warrant under which the offender is penalised for a violation of the same type.

10. "Inventory taking" is the process of preparing and actually checking, through various means, the physical and value parameters of assets and liabilities of an enterprise as of a specific date, comparing the results to book data and establishing any mismatches.

11. (Amended, SG No. 105/2006) "Net income from sales" refers to amounts from the sale of produce, goods and services generated through the ordinary operations of the enterprise reduced by any sales discounts, deductions, rebates, and the value added tax.

12. (Amended, SG No. 105/2006) "Ordinary operations" refers to a set of business transactions carried out regularly by an enterprise in the normal course of its business which by their nature are not investment or financial operations in the meaning of the applicable accounting standards.

13. (Amended, SG No. 105/2006) An "establishment" is the place of business activity in the meaning of § 1, item 5 of the Additional Provisions of the Tax and Social Insurance Procedure Code .

14. (Amended, SG No. 105/2006) "Consolidated financial statements" are a set of financial statements which presents the property and financial condition, the reported financial result, changes in cashflows and in owner's equity of the enterprises included in the consolidation as if they were one enterprise.

15. (New, SG No. 96/2004, amended, SG No. 102/2005, SG No. 105/2006) "Enterprises applying a simplified form of financial reporting" refers to enterprises which over the current or the previous year do not exceed the indicators under two of the following criteria:

1. balance sheet assets as of 31 December: BGN 1.5 million;
2. net income from sales for the year: BGN 2.5 million;
3. average number of personnel for the year: 50.

In determining the status of a newly established enterprise as one applying a simplified form of financial reporting, only the values under these criteria for the year of establishment shall be taken into account.

TRANSITIONAL AND CONCLUDING PROVISIONS

§ 2. This Act shall repeal the Accountancy Act (prom., SG No. 4 of 1991; amend., SG No. 26 of 1992, SG No. 55 of 1993, SG Nos. 21, 33 and 59 of 1996, SG No. 52 of 1997, SG No. 21 of 1998, SG Nos. 57, 81, 83 and 113 of 1999 and SG Nos. 1 and 92 of 2000).

§ 3. In Article 39 of the Non-Profit Legal Persons Act (prom., SG No. 81 of 2000; amend., SG No. 41 of 2001), paragraph (3) shall be amended to read as follows:

"(3) Non-profit legal persons designed to perform activities for the public benefit that have been recorded in the Central Register with the Ministry of Justice shall be subject to an independent audit under the provisions laid down in the Accountancy Act, if they exceed at least one of the following limits:

- (a) Total balance sheet assets for the preceding year of BGN 500,000;
- (b) An amount of operating income and net income from sales, and of financial income for the preceding year of BGN 1 million."

§ 4. In the Co-operatives Act (prom., SG No. 113 of 1999; amend., SG No. 92 of 2000), the following amendments shall be made:

1. In Article 15, paragraph (3), item (3) shall be amended to read:

"3. assigns a registered auditor, where the co-operative exceeds not less than two of the following criteria for the previous year:

- (a) Total balance sheet assets of BGN 500,000;
- (b) Total net operating income of BGN 1,000,000;
- (c) Average number of staff - 30 people;"

2. Article 62 shall be repealed.

§ 5. (Repealed, SG No. 96/2004, new, SG No. 102/2005) In defining the status of an enterprise as a small or medium-sized for 2005, the values of the criterion under § 1, item 15 letters "a" and "b" of the additional provisions are used for 2004 only.

§ 6. For medical establishments that are commercial companies with more than 50 per cent of state and/or municipal interest, the provisions of Article 38 of this Act shall apply as of 1 January 2006.

§ 7. (Amended, SG No. 96/2004 - effective 29.10.2004) Not later than 31 December 2004, the Council of Ministers shall adopt the standards referred to in Article 22a, paragraph (5).

§ 8. (Repealed, SG No. 96/2004, new, SG No. 108/2006) (1) Credit and financial institutions and insurance undertakings shall prepare and present their financial statements following the procedure set out in Articles 22a, 22b, 22c and regulations issued by the Minister of Finance.

(2) The regulations referred to in paragraph (1) shall introduce the requirements of Council Directive 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions and Council Directive 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings.

(3) No later than by 31 January 2007, the Minister of Finance shall issue the regulations referred to in paragraph (1).

§ 9. Any pending administrative penal proceedings shall be completed in the procedure that has been in place until now.

§ 10. Enforcement of this Act is hereby assigned to the Council of Ministers.

§ 11. This Act shall take force and effect as of 1 January 2005, except for § 10 and § 14, which shall become effective as of the date of its publication in the State Gazette.

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