

## NEW ACCOUNTING REGULATIONS CONCERNING THE FINANCIAL STATEMENTS OF LARGE ENTERPRISES IN BULGARIA

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**Abstract:** The article reviews the new harmonized European accounting legislation and its impact on accountancy and drawing the financial statements of large enterprises in Bulgaria. We analysed the transposition of the fundamental accounting Directive 2013/34/EU into the new Accounting Act of 2016. The subject matter of research in the article are the financial statements of the profit-oriented enterprises. The subject matter of the article includes the new requirements towards the elaboration of the annual financial statements of the category “large enterprises” regulated in the Accounting Act. The objective of the article is to research “de jure” and “de facto” the alleviations for financial accountancy of the large enterprises and disclose the reasons behind and expected to bring about in the future discrepancies between the “letter of the law” and its enforcement. Author’s thesis is that there is very weak relation and coordination among the regulatory bodies in the accounting area and the needs of the real business environment in Bulgaria. We have researched the statutory opportunity with which large enterprises are provided, namely in 2017 to modify the accounting basis enforceable towards them on drawing and presenting the financial statements from International to National accounting standards. We have considered the accounting procedures to be performed by these enterprises for the first time in the history of accounting standards in Bulgaria. Additionally, arguments were presented of the representatives of large enterprises for and against the transition from International accounting standards to National accounting standards. We have analysed the new requirements towards the elaboration and publication of the annual financial statements of the large enterprises. The special focus is on the contents of the new components – “Non-financial declaration” and “Report on payments towards the government” created in order to disclose additional information about the policy being implemented by the enterprises. The non-financial declaration aims at making public the enterprise activities in the area of ecology, social issues and the ones related to employees, human rights, counteracting corruption and gender equality in the company management. The report on payments towards the government is mandatory to the large enterprises and the ones of public interest in the extraction industry or logging from virgin forests in the EU and is being introduced in order to achieve higher transparency of payments received from the state, in relation to rights with which individual enterprises are provided to national natural resources. Scope of payments towards the government includes the payments effected for production rights, fees, dividends, license fees, rental fees, entrance fees and other concerns on issuing licenses and/or concessions etc.

**Keywords:** accounting regulations, financial statements, large enterprises.

### 1. INTRODUCTION

The strategic objective of the regulatory bodies of the European Union is to draw and provide high quality legislative acts in conformity with the principles of subsidiarity and proportionality, as well as levying administrative burden pro rata to the benefits from it in the area of accountancy and financial accounting was achieved with the elaboration and verification of the new *Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC*.

After verifying the Directive in 2013 in all EU member-states processes were initiated to transpose it into the national accounting legislations. Concerning it a process was unfolded in Bulgaria to introduce the new regulatory mechanisms and requirements in the national legislation. Under Directive 2013/34/EU the deadline for its transposition was the 25<sup>th</sup> of July 2015. On behalf of the Bulgarian authorities the Directive was transposed with some delay. Since the 1<sup>st</sup> of January 2016 the changes in the accounting regulations in the Republic of Bulgaria are effective.

### 2. THE NEW ACCOUNTING LEGISLATION ON LARGE ENTERPRISES IN BULGARIA OF 2016.

The new accounting legislation is about passing new Accounting Act<sup>128</sup> and making modifications and supplementations of the National accounting standards<sup>129</sup>. Among all novelties, modifications and supplementations

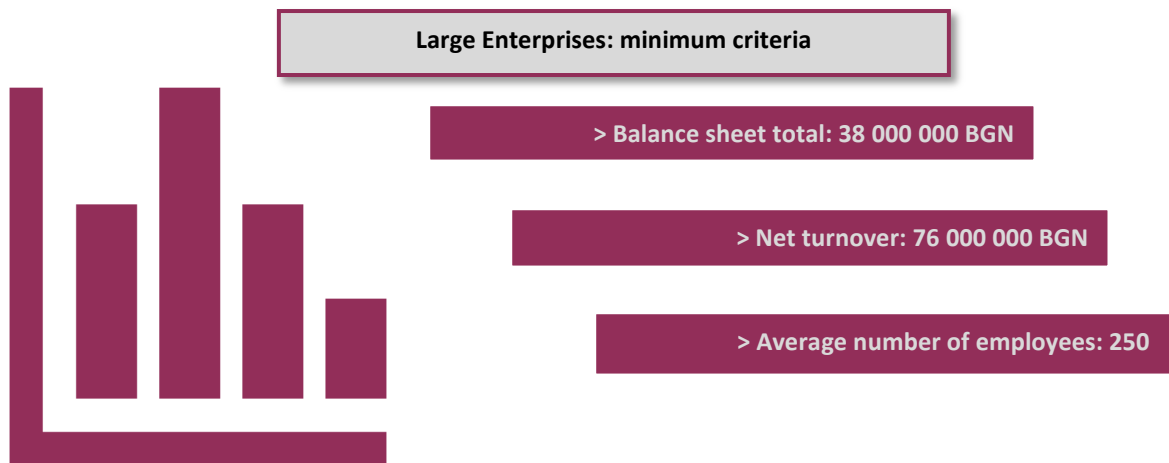
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<sup>128</sup> Made public in State Gazette, edition 95 dated 08.12.2015, in effect from 01.01.2016, modified in edition 74 dated 20.09.2016, in effect from 01.01.2018, modified and supplemented in edition 95 dated 29.11.2016, edition 97

in the accounting legislation it is worth mentioning the regulations on large enterprises. The current importance of the topic on financial statements of the large enterprises results from their new specific accounting definition with particular quantitative dimensions, as well as from the requirements towards the information contained in their financial statements defined in the National accounting standards.

The Accounting Act introduces the following **four enterprise categories** – micro-enterprises, small-sized enterprises, medium-sized enterprises and large enterprises. This classification is valid only for accounting purposes and is performed for the first time in the history of the accountancy regulation in Bulgaria.

According to the norm of article 19, paragraph 5 of the Accounting Act we introduce the minimum quantitative parameters of large enterprises. These are enterprises that as of the 31<sup>st</sup> of December of the current reporting period do not exceed two of the following indicators: assets' balance value - 38 000 000 BGN, net sales revenues - 76 000 000 BGN and average personnel number for the reporting period - 250 people. The minimum value thresholds defining the lower limit of the category "large enterprises" is illustrated on figure 1.



**Fig. 1. Large Enterprises: minimum criteria**

### **3. CHANGE OF THE ENFORCEABLE ACCOUNTING BASIS TOWARDS THE LARGE ENTERPRISES**

The definition of enterprise category is logically related to the enforceable accounting basis, i.e. to the accounting standards which the enterprise should enforce in its current accounting operations and when drawing and publishing its financial statements.

Under the general rules of the new Accounting Act the annual financial statements of large enterprises should be drawn on the grounds of the Bulgarian National Accounting Standards. According to enterprises' discretion they could elect whether to enforce the International Accounting Standards, as long as no change was performed in the accounting basis. In that case we have full opposition of the general settings of the cancelled Accounting Act (2002 – 2015), which regulated that the enforceable accounting basis for drawing the annual financial statements are the International Accounting Standards (IAS). Exception is allowed for the smallest business entities, called "enterprises that enforce alleviated pattern of financial accountancy" that were allowed to enforce the National Accounting Standards. The new Accounting Act prioritizes the broader enforcement of the National Accounting Standards in conformity with the perceptions of the European accounting legislation. In the case of large enterprises we introduce transitory regime and according to it their financial statements for 2016 should be drawn on the grounds of the International Accounting Standards (§1, point 11, AA). The large enterprises could enforce their right to choose whether to keep implementing the International Accounting Standards as accounting basis or transfer to the enforcement of the National Accounting Standards as of the 1<sup>st</sup> of January 2017 on one-time basis. That statutory

dated 06.12.2016, in effect from 01.01.2017.

<sup>129</sup> Decree of the Council of Ministers № 394 dated the 30<sup>th</sup> of December 2015 on the modification and supplementation of the National standards on financial statements of the small- and medium-sized enterprises passed with decree № 46 of the Council of Ministers dated 2005.

opportunity to transfer from the International to the National Accounting Standards is a “precedent” of its kind in the newest history of accounting regulation in Bulgaria from 1991 to present days.

#### 4. PATTERN, STRUCTURE AND CONTENTS OF THE FINANCIAL STATEMENTS OF LARGE ENTERPRISES

That report part reviews the requirements of the National Accounting Standards towards the pattern, structure and contents of the financial statements of large enterprises.

Under point 2 of *Accounting Standard 1 – Presentation of financial statements*<sup>130</sup> the comprehensive set of the financial statement consists of the following components:

- a) balance sheet;
- b) statement of revenues and expenses;
- c) statement of equity;
- d) cash flow statement;
- e) appendices.

The large enterprises should draw and publish annual financial statement that covers a period of one calendar year and in view of the newly incorporated enterprises – as of their incorporation date until the end of the reporting period. Each compound part of the financial statement should be clearly identified. It means that every compound part of the statement should contain information about:

- a) appellation, address and legal form of the enterprise or other data necessary to identify it;
- b) type of the financial statement – individual or consolidated;
- c) reporting period to which the financial statement refers;
- d) reporting date and date of drawing the financial statement;
- e) reporting currency - BGN;
- f) degree of rounding off the numbers in the financial statement – thousand BGN.

The pattern, structure and contents of the individual compound parts of the annual financial statement of large enterprises are regulated in the appendices to the *Accounting Standard 1 – Presentation of financial statements*. That Standard defines the special requirements towards the individual positions of the financial statement.

The Accounting Act allows the large enterprises that draw their financial statements on the grounds of the International Accounting Standards, to proceed on one-time basis to enforcing the National Accounting Standards after the verification of *Accounting Standard 42 – First-time implementation of the national accounting standards*. Even though that Standard is unmatched in the national accounting practice and is significant professional challenge, before passing it no professional and public discussion was held. There are certain weaknesses and shortcomings hence at present it is subject to reasonable professional criticism. The enterprises that would take advantage of the one-time transitory regime of the new Accounting Act and would proceed to the implementation of the National Accounting Standards, with the effect of the new Accounting Act they would never again be capable of changing their accounting basis for drawing and presenting their financial statements, i.e. the option of one-time transition would not be enforceable towards them, upon their discretion to implement the International Accounting Standards<sup>131</sup>. Hence the conclusion that if in 2017 the large enterprise draws and presents its financial statements on the grounds of the International Accounting Standards, there would be no consecutive right to proceed to the implementation of the National Accounting Standards.

If a particular large enterprise decides to proceed from the International to the National Accounting Standards, within the accounting system of that enterprise we should consistently undertake the following six steps:

*Firstly*, define the date of proceeding to the National Accounting Standards. This is the beginning of the earliest period for which the enterprise presents full comparative information in conformity with the National Accounting Standards. When it comes to drawing and presenting the financial statements, usually we present

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<sup>130</sup> Passed with Decree of the Council of Ministers № 46 dated 21.03.2005, made public in State Gazette, edition 30 dated 7.04.2005, modified in State Gazette edition 86 dated 26.10.2007, modified and supplemented in State Gazette, edition 3 dated 12.01.2016.

<sup>131</sup> Filipov, V. (2016) Concerning some important aspects of the new Accounting Act – regulatory framework and problematic issues, Magazine of the Institute of the Certified Public Accountants, edition 2.

information about the current and the previous reporting period. In that case to the large enterprises that have elected to proceed to the National Accounting Standards, that prerequisite requires presenting information in the financial statements for 2017 and 2016.

*Secondly*, analysis and assessment should be drawn of the accounting policy that had been implemented until the date of proceeding to the National Accounting Standards. That analysis is to be performed after reviewing and comparing the provisions and requirements in the International Accounting Standards and the National Accounting Standards – in view of each standard individually. If necessary, changes should be made in the accounting policy that would always be enforced retrospectively.

*Thirdly*, corrective accounting entries should be performed in relation to the transition to the National Accounting Standards. These corrections are reflected on the amount of the retained earnings \*(uncovered loss) from past years.

*Fourthly*, introductory balance sheet should be drawn as of the date of transferring to the National Accounting Standards.

*Fifthly*, alleviations should be implemented from the retrospective implementation of the accounting policy for the reporting subjects defined in the Standard.

*Sixthly*, the procedure of proceeding from the International Accounting Standards to the National Accounting Standards and the performed accounting transformations should be disclosed.

The one-time transfer from the International Accounting Standards to the National Accounting Standards is legal opportunity and not obligation to the enterprises. In general, that statutory option is set from the outside, i.e. by the European accounting legislation without undertaking preliminary research and surveys on its need and possible consequences. In the held empirical research on the transfer from the International Accounting Standards to the National Accounting Standards<sup>132</sup> 68 % of the inquired managers and accountants are of the opinion that the transition to the National Accounting Standards could have favourable impact on the financial accountancy of their enterprises. At the same time only 40 % of the inquired took advantage of the transitory regime. The reasons behind that small share are the too short term of transition to the National Accounting Standards, as well as the absence of the practical need of National Accounting Standards. In numerous cases the commercial relations and partnerships of the enterprises, as well as their key users (shareholders, suppliers, clients, creditors etc.) of the financial statements require the implementation of the International Accounting Standards hence they do not have the necessary arguments and reasons to take advantage of the transitory regime from the International Accounting Standards to the National Accounting Standards. This is indisputable evidence that supports the thesis of numerous weak relations and dependencies between the regulatory bodies in the accountancy area and the needs of the business subjects in Bulgaria.

## 5. PREPARERS OF FINANCIAL STATEMENTS

The experts that draw financial statements are “*professional accountants since these persons should be in conformity with the requirements defined in the Accounting Act in terms of the minimum degree of graduated education and the accompanying actual term of service in the major*”<sup>133</sup>, just like in conformity with the requirement not to be sentenced for crime of general nature under the fifth chapter and the sixth chapter, first section of the Special part of the Penal Code. The professional accountants undertake not only to draw the financial statement. These persons are currently and daily responsible for the comprehensive organization of the accounting operations in the enterprise via their obligations and responsibilities that result from their job descriptions or on the grounds of the entered civil and corporate contracts for accounting services rendered for the company business. Hence in article 25, paragraph 3 of the Accounting Act the financial statements should contain the names of the following persons:

- the manager of the reporting enterprise;
- the physical person if the expert that draws the annual financial statement is physical person;
- physical person that manages and represents an accounting enterprise if the expert that draws the annual financial statement is an accounting enterprise.

Under article 17 of the accounting act the preparers of financial statements of the large enterprises could be two categories of persons, namely:

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<sup>132</sup> Filipova A., Kamburova, L., Andasarova-Georgieva, R. Enforceable accounting basis for the enterprises in Bulgaria – projections and challenges. Economy of Bulgaria and of the European Union: science and business, Collective monography, Publishing house University of National and World economy, pages 327 – 357, (2017).

<sup>133</sup> Dosev, H. Experts that prepare financial statements – possible violations of article 17 and article 18 of the Accounting Act. Magazine of the Institute of the Certified Public Accountants, edition 1, (2017).

**a) Physical persons** – so that one physical person could be in conformity with the requirements towards an expert that draws financial statements, he or she should have graduated education and the accompanying actual term of service in the area of accountancy, independent and internal audit, as well as the financial inspection, tax revisions or in the capacity of accounting lecturer as follows:

- higher degree of accounting-economic education – master’s degree and 2 years of actual term of service;
- higher degree of accounting-economic education – bachelor’s degree and 3 years of actual term of service;
- higher degree of accounting-economic education – professional bachelor’s degree and 4 years of actual term of service;
- other higher economic education and 5 years of actual term of service;
- secondary economic education and 8 years of actual term of service in the capacity of accountant.

The Accounting act requires entering between the physical persons – experts that draw financial statements and the reporting enterprises employment, service or obligatory legal relation. Special attention should be paid to the fact that the particular legal relation should be for consideration – at fair prices, which is not a requirement of the accounting legislation but is a requirement of the tax legislation in order not to treat the legal relation as deviation from taxation.

**b) Accounting enterprises** – an enterprise that is registered under the Commercial Act or under the legislation of another member-state of the European Union or of state that is party to the Agreement on the European Economic Area. The subject matter of activity of the accounting enterprise should include “organization of accountancy and elaboration of financial statements”. Additionally, the manager and/or representative of the accounting enterprise should be physical person that is in conformity with the requirements towards graduated education and actual term of service defined below.

## **6. ANNUAL ACTIVITY REPORT, NON-FINANCIAL DECLARATION AND REPORT ON PAYMENTS TOWARDS THE GOVERNMENTS**

The annual financial statement of the large enterprises includes as a rule reporting or disclosure of information in the pattern of:

**a) Annual activity report** – it contains summarized overview of the business development and the achieved financial resources of the company operations, the financial conditions and the main risks the company business faces. The report includes analysis of the main financial and non-financial indicators of the company business, it summarizes all important events that occurred after the date as of which the annual financial statement was drawn, the future development of the enterprise, the activities in the R&D area, information about the bought back own shares, the financial instruments used during the year, the presence of company branches and all additional clarifications that could prove useful to the external users of the information contained in the annual financial statement.

**b) Non-financial declaration** – the large enterprises with average payroll that exceeds 500 workers and employees during the reporting year should draw and publish Non-financial declaration. That statutory obligation should be performed for the first time in terms of the annual financial statements for 2017. The non-financial declaration presents the enterprise policies in the area of ecology, social issues and the ones related to employees, human rights, counteracting corruption, versatility and gender equality in the management bodies of the enterprises – number of women and men, age, geographic versatility, education, professional qualities, religion. If necessary, the Non-financial declaration could include explanations of the cost amounts reported in the annual financial statements. In the cases whereas the enterprise deviated from the policies set in the Non-financial declaration, the reasons because of which the verified policies were not conformed should be disclosed with the arguments behind that.

**c) Report on payments towards governments** – the large enterprises whose business is in the sector of extraction industry or logging from virgin forests should draw and publish annual report on payments effected towards the governments only if during the reporting period lump sum or numerous payments were effected at a total amount of 195 600 BGN. The annual report on payments to governments should reflect the essence and not the pattern of the particular payments or activities. It should contain the following information: total amount of the payments effected towards each government; total amount for each of the payment types effected towards each government (rights to production, profit taxes and income taxes, copyright, license and the related rights, dividends, bonuses for entering a contract, opening and production, license fees, registration fees and other remunerations for licenses and concessions, payments for infrastructural improvements); total amount of payments under each project individually, as well as total amount under the payment types for each project.

## **7. INDEPENDENT FINANCIAL AUDIT AND PUBLICATION OF THE ANNUAL FINANCIAL STATEMENTS OF LARGE ENTERPRISES**

Under the provisions of the Accounting Act the annual financial statements of the large enterprises are subject to mandatory independent financial audit by registered auditors. The registered auditors that perform independent financial audit of the annual and consolidated financial statements present the results of the performed audit in the auditor's report. In essence, auditor's reports concerning the annual financial statements of the large enterprises contain auditor's opinion that under article 51, paragraph 3, point 5 could be "non-modified, qualified or negative and it clearly expresses the opinion of the registered auditor on whether the financial statement provides clear and fair notion on the applicable accounting basis and is in conformity with the statutory requirements if applicable, or refusal of opinion, if the registered auditor does not express auditor's opinion".

Concerning the annual financial statements for 2017 the registered auditor should express an opinion on the following issues: Was the activity report drawn in conformity with the applicable statutory requirements and whether as a result of the acquired knowledge and understanding of the enterprise activity and the circumstances in which it operates, cases of significant untrue presentation in the activity report were established? If the answer is positive, the auditor should define the character of the untrue presentation. Does the declaration on corporate management present the information required in the particular regulations? If the non-financial declaration presented and was it drawn in conformity with the requirements of the Accounting Act? Was a report presented on the payments towards the governments and whether the report was drawn in conformity with the statutory requirements?

During the mandatory financial audit, the registered auditor lays his/her personal signature and professional seal onto auditor's report and onto each component of the annual financial statement concerning which auditor's opinion was expressed (except for the appendix that is not to be signed and sealed by the registered auditor).

The enterprises publish the comprehensive set of the annual financial statement and auditor's report with application for entry and presentation for announcement in the Commercial Register, until the 30<sup>th</sup> of June the next year. That term makes it obvious the large enterprise should arrange for the accounting finalization, elaboration and audit of the financial statement in the period from the 1<sup>st</sup> of January until the 30<sup>th</sup> of June. But because of the terms regulated in the Bulgarian tax legislation, related to the submission of the annual tax returns, defining and depositing the due annual taxes under the Corporate Taxation Act, the financial statements should be drawn at an earlier stage. *"The careful analysis of the material tax law shows that actually there is normative vacuum and no rules concerning the situation. ... The fact that after the new Accounting Act becomes effective in the beginning of 2016 (which concerns the finalization of 2015 in some areas, including the considered one) there is no equivalence between the deadline for filing the annual tax return and for drawing the annual financial statement is not taken into consideration, whereas the first one precedes the second one with 3 months"*<sup>134</sup>.

## **8. CONCLUSION**

In summary, let us highlight that the new accounting legislation which defines the requirements towards the financial statements of the large enterprises in Bulgaria results from the introduction of the fundamental Directive 2013/34/EU in the national legislation. The present work reviews the hypotheses whereas it is considered that the large enterprises implement the National Accounting Standards, as well as the opportunities for transition from International to National Accounting Standards. Additionally, it presents the requirements towards the pattern, structure and contents of the annual financial statements, as well as the persons responsible for drawing them and the conditions for their audit and publication. We have outlined the limitations and hindrances when it comes to proceeding from International Accounting Standards to National Accounting Standards, as well as the created administrative hindrances and collisions in the terms for drawing and publishing the annual financial statements.

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<sup>134</sup> Filipov, V. Concerning some important aspects of the new Accounting Act – regulatory framework and problematic issues. Magazine of the Institute of the Certified Public Accountants, edition 2, (2016).

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