

## ASPECTS OF LEGISLATIVE REGULATION OF THE ORGANIZATION OF ACCOUNTING IN THE REPUBLIC OF BULGARIA

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**ABSTRACT.** This paper presents some aspects of the specific legislative regulation of the organization of Accounting in the Republic of Bulgaria from 1991 till present. The topic of the paper is chosen having in mind the specificities of the Accounting rules application according to the National legislative regulation.

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### 1. Introduction

Before the contemporary accounting theory and practice are posed specific questions regarding the reliability and transparency of the received accounting information. These quality characteristics of the accounting information of general character presented in the Annual Financial Report are influenced by a lot of inside and outside for the enterprise factors. Doubtless is the fact that what is important for receiving qualified accounting information is the legislative regulation of the accounting. In this paper an attempt to present some aspects of the legislative regulation of Accounting in Bulgaria is made. Bulgaria has been a member state of the European Union since 2007 and the enterprises here have to apply the European Directives and the IFRS. Special emphasis is placed upon the national legislative regulation of the organization of accounting in the Republic of Bulgaria.

### 2. The Historical Characteristics

The independent financial control in Bulgaria was established in 1931 and existed until 1948, represented by the institution of the chartered certified

public accountant (CPA). In 1948 this institute was closed down by the first Bulgarian Law in Accounting, article 50, and its property was taken over by the state. After that, this law was suspended and the accounting activities were regulated by by-laws – government decrees, etc.

The changes that took place in the political and socio-economic life in Bulgaria during the period of 1989-1990 brought changes in the legislative regulation of the accounting activities. The second law in accounting was developed and was passed in the Great National Assembly on the 3rd of January 1991. This was the first law of its kind, passed in 1991. It re-established the independent financial control in the form of the institution of the certified public accountant (CPA).

The Association of the certified public accountant in Bulgaria was created on the 19th of December 1991. In 1996, with the active participation of this Association, the Institute of certified public accountant was established. During the same year, with a law, the Association transferred all this activities to the Institute.

Another professional organization, created during this period of transition, is the “Union of the Bulgarian accountants” established on 6-th June 1990. Its main aim is to support the development of theory and practice in Accounting, in Bulgaria. A special system was introduced in Bulgaria, including the Law of Accounting and by-laws of the Government, called National Accounting Plan. After that, until the end of 2001 – National Accounting Plan and National Accounting Standards. The International Accounting Standards were also introduced (2003). Bulgaria belongs to the Continental traditions in Trade Law, which are mostly characterized by a comparatively strong interference of the State.

By the beginning of 1991, when the Law of Accounting and the National Accounting Plan were introduced in Bulgaria, the process of harmonization of the Accounting legislation in Western Europe carried out these changes on the basis of legislative changes in their national legislation, introduced by the requirements of the European Directives.

The lack of knowledge and experience in the Bulgarian legislative tradition during that period caused the understanding that they can be applied separately and parallel to each other. On this basis, from 1993 to 2002, the National Accounting Standards were developed in Bulgaria. Special care was taken that these national standards develop in accordance with the international ones. The system regulating Accounting by a special law was established, as well as accounting standards were introduced. This brought about the introduction of International Accounting Standards (IAS) as an initial base for accounting in some of the Bulgarian companies.

### 3. Stages in the Development of Accounting Legislation, after 1991

(Svrakov, 2004)

Stage I - Transition to European Harmonisation – 1991-1993. During that stage, the Law of Accounting and the National Accounting Plan were in action. They were strongly influenced by the good practices of France and to a certain extent, of Germany. At that time the accounting Standards did not exist; therefore, there was almost no choice in the accounting decisions and as a whole, there were no such attitudes. The common practice in the accounting policies of the companies were such that they were based on the Law of Accounting and mostly, on the characteristics of the accounts, as regulated by the national Accounting Plan. The importance of a particular decision is based more on the correct legislative application, than on the choice of an accounting policy of the management of a particular company.

Stage II – The practice of the National Accounting Legislation – 1993-2001. This stage is characterised by the application of national accounting standards, which constantly improved. The contemporary Bulgarian accounting practice was gradually developing then. The adapted National Accounting Standards (NAS) introduced new aspects to the understanding of the national concept of legislation. There were some opportunities for choosing accounting policies, which implies a better financial and legal culture on the part of the management of the company. During this stage, the tax legislation did not develop relatively separately from accounting legislation. It was as if all the attention of the management and accounting decisions for reducing the accounting profit, thus reducing the taxed profit.

Stage III – The Practice of the transition to applying the IAS – to date. Prerequisites for applying IAS were introduced with the Law of Accounting from 2002. At present, they are the practice of some of the biggest and most important companies. This stage is characterised by completely new dimensions in respect to the quality in comparison to the previous two stages, and it is therefore expected that special care should be taken in order to achieve the envisaged results. It can be prognosticated that this stage will have an important role in the process of eliminating the existing tax trend and setting the conditions for the development of accounting which will take into account the interests of investors. However, the processes from the last years, more and more, shifted their importance to the professional norms, which are included in the national<sup>1</sup> and international standards. In this way, the typical continental understanding of legal regulation of accounting in Bulgaria is gradually replaced by the Anglo-Saxon concept. It is definitely not popular for the traditional Bulgarian concept of the accounting theory, legislation and practice.

#### **4. The Legal Regulation of Accounting in the Republic of Bulgaria**

The establishment of a national accounting legislation as an aspect of the continental tradition was accepted as part of the whole legislative system of the respective country. As far as the developed countries are concerned, this process started as early as the 19th century. A similar legislation is in close connection with the trade and tax legislative norms, as well as with the administrative-criminal punishments, and the needs of the different state institutions, etc. The force of the formal requirements is considerable – rather, exclusive. They have been established before hand, enacted by legislative decisions, therefore, they are considered by presumption for rightness. Historically, this system was gradually established and in compliance with the existing concepts in the countries of continental Europe.

In Bulgaria, the development of the Law of Accounting in 1991 acquired the general requirements of a norm subject according to the aspect of the European concept of this period. The regulation of accounting on the basis of professional standards is an alternative to this approach, which is a result of the Anglo-Saxon tradition. What, for France and Germany, is the power of the State regulation, for Great Britain and the United States is the power of the common principle which has the force of a law. Even though it may refer to one and the same principle, with the continental approach it is accepted as correct, because it is included as a legal requirement, whereas in the Anglo-Saxon tradition – it is common sense and it is supported by the good practices of its application. The international standards for financial reports are a typical example of regulating of accounting on the basis of professional style.

The big concerns of the European bodies and local governments of the IAS, that is, without being connected with any of the national legal framework. That's why their acceptance by the European Union is connected with the preliminary work of various European bodies, which enforce them from the aspect of the possibility for a non-conflict application with the other trade and tax legislative and administrative legislative norms and requirements.

Probably, the period which is beginning and which is characterised by a considerable application of the International standards for financial reports on a global scale requires reconsideration of a number of traditional approaches, including Bulgaria.

There is another interesting fact, which supports the idea that the future belongs to the application of professional standards. The Committee for IAS actively worked on the already issues second collection of international standards in accounting – this time for small and medium-sized enterprises.<sup>2</sup>

At the end of the 20th century, a considerable activity took place for identifying the differences between the local accounting rules and IAS,

aiming at the presentation for a correct transition to the IAS. From the beginning of 2005, the International standards for financial reports are applied, in one way or another, in more than 100 countries worldwide. The main requirement to accounting is to give true and honest, objective and neutral information about the state of the company, and together with this, the information should be compatible with the accounting information of other economic subjects. For the receiving of such information, each company should apply the same principles (rules) for the organization and functioning of the accounting.

The main principles for the organization and realization of accounting in Bulgaria are regulated with a special law (art. 4, Law of Accounting) and other legislative and by-law norm documents, which can be grouped into specific and general.

The Law of Accounting is a specific and basic norm document (Law of accounting, last ed. 2013) about the organization and realization of accounting in each company.

The Law of Accounting has been in force since 1-st January 2002.

The Law of Accounting regulates: the requirements concerning the wholeness and validity of accounting in the company; the content, the creation and publicity of the financial reports; the requirements to the authors of the financial reports.

The Law of Accounting regulates the rule that each company performs accounting of all the economic activities and operations in chronological order, according to their implementation.

In the Law of Accounting, the main topics are: definition of the company; the applicable accounting principles; the accounting documents – nature, requisites and classification; a separate definition of the assets, the own capital, liabilities, incomes and expenses. Legislative classification of each of the enumerated accounting objects according to the Bulgarian Law of accounting refers to the applicable Accounting standards. The questions of the development of the financial reports are also regulated – content, creators and publicity; Additional, administrative and supporting regulations.

In the last edition of the acting Law of Accounting, a distinction between, small, medium and big enterprises is made *not* in connection with the law for Small and Medium-sized Enterprises. On the other hand, the budget companies are considered separately from companies with specialized activities, non-profit organizations and companies in liquidation. Each of these separate companies is prescribed applicable legal norms in connection with the creation of the financial reports (art. 22, Law of Accounting).

To the so called “specific accounting norm documents” belong the following documents (after the Law of Accounting): the National Financial Reporting Standards for Small and Medium-Sized Enterprises; the

International Accounting Standards; the International Standards for financial reports; the Suggested national Accounting Plan.

With decree 65/25.03.1998 for the establishment of the National Accounting Standards, these standards started to be applicable in Bulgaria.

The National Accounting Standards consist of general regulations and standards. Each of these standards regulates questions concerning the reporting of accounting and the presentation of separate accounting subjects and economic process. To date, they are applicable to small and medium sized enterprises, for newly set up entities for the year of their formation and for the year following it, and for enterprises terminated through liquidation or declared bankrupt, according to the Law of Accounting.

It is important to point out and that in Bulgaria the process of Euro-integration influence not only the change in the applicable norm regulation, but also other similarly obvious and influential process. For example, one of the most important ones is the foreign investment interest.

All these factors set the requirement and the necessity to “communicate” in a common accounting language. At present, the basis of this common language is the International Standards for Financial Reports, which main task is to create comparability of the information from the Annual Financial Reports of the companies from various branches of the economy and from different countries.

The globalization in the area of accounting causes the need for harmonization of the accounting concept and the increase of the importance of the role of the more developed countries in the cooperation, and the search for a mutually acceptable and applicable accounting frame. The integration of a common accounting language brings about the reduction of the value of the received accounting information for the various customers. It is expected that the professional accounting organizations will also encourage and stimulate the application of the International Accounting Financial Reports in a suitable way. The IAS have been applicable in Bulgaria since 2003 for certain companies. This was done two years ahead of European Union countries. The companies for which IAS are mandatory as from the beginning of 2003 include Bulgarian banks, insurance companies, social security institutions, and investment and public companies. The IAS are developed by the Committee for IAS. The aim of these standards is to create and introduce in Bulgaria the IAS in connection with the harmonization of the accounting legislation and also the development of financial reports of companies on a worldwide scope. On the other hand, the aim is to defend and comply with the informational interests of a wide scope of customers, as far as the decision making process is concerned.

Since 1-st January 2005, and in compliance with the last edition of the Law of Accounting, in Bulgaria, International Accounting Standards are mandatory for all companies in Bulgaria, except the enterprises specified in

art. 22, Law of Accounting. On the whole, their application is of tremendous importance for investors and analysts, because it guarantees, to a great extent, transparency, validity, reliability, comparability and clarity for making economic decisions. The usefulness of the applicability of International Standards for Financial Reports can be presented, also, from the point of view of auditors, in connection with the same rules for producing the financial reports, on a worldwide scale. Very often, when developing the financial reports in accordance with the requirements of the International Standards for Financial Reports, it is necessary to consider the explanatory notes accompanying the financial report, including explanations and corrections. IAS and the International Standards for Financial Reports are exclusively targeted at regular accounting reporting and in particular, in the development and presentation of the financial reports of the companies.

In the Law for Accounting, article 5 it is envisaged that the current accounting is organized with "... approved by the management individual Accounting plan." On 13.07.2002 the National Council for Accounting approved a Model National Accounting plan with a recommendable character. When preparing the individual Accounting plan the enterprises can use the model one as a basis.

The Accounting plan is a list of accounts, classified in a definite order according to the reported objects.

The individual Accounting plan can be organized in two ways:

- through applying the consecutive system for coding the accounts;
- through applying the serial system of coding the accounts.

The current active Model National Accounting plan is made on the basis of the serial system. There are nine chapters:

Chapter 1 – Capital Accounts;

Chapter 2 – Accounts of Fixed Assets;

Chapter 3 – Accounts of Materials;

Chapter 4 – Accounts for Liabilities;

Chapter 5 – Accounts of Financial Means;

Chapter 6 – Accounts for Expenditure;

Chapter 7 – Accounts for Income;

Chapter 8 – free;

Chapter 9 – Accounts for Conditional Assets and Passives.

The development of an individual Accounting plan of each enterprise according to the Law for Accounting is assigned to the accounting team in the enterprise and requires good knowledge of the whole technological process and the organization of the reporting. The individual Accounting plan is approved by the manager of the enterprise.

The National Council for Accounting recommends for the development of the individual Accounting plan that the enterprises use the chapters, the groups and the accounts, as given in the Model National Accounting plan.



There are some specific issues in developing the individual Accounting plan of a commercial enterprise, a productive enterprise, as well as the financial institutions like the banks and the insurance companies.

In the second big group, namely the general normative documents which indirectly have to deal with the accounting activity, there are: The Commercial Law, the Law for Obligations and Contracts, the Law for Banks, the Law for Insurance, the Law for SMEs, the Code for Health and Social Insurance, the Labour Code.

As a separate subgroup to the above we could distinguish the so-called tax laws. They define which are the liable persons and their taxation, among them are: the Law for VAT, the Law for Corporate Income Taxation, the Law for Taxation of Incomes of Physical Persons, the Customs Law, the Law for Excise Duty, the Law for Local Taxes and Fees, etc.

## 5. Conclusion

The contemporary economic situation in Bulgaria is characterized by great changes, especially in the area of accounting. The main aim of these mainly normative changes is to create real conditions for rational preparation of the financial reports complying with the requirements of the specific business environment. This is a result of the big scope of consumers of accounting information whose interests should be protected through the applicable legal norms. Very often the interests of the various consumers of accounting information are opposite.

The good knowledge of the broad normative regulations for the organization of the accounting is of big importance in solving each specific accounting case.

This shows once again the necessity for knowing and understanding the accounting rules in a national and world scale taking into consideration the current processes of convergence.

## NOTES

1. From 2007, The National Accounting standards were renamed to National Financial Reporting Standards for Small and Medium-Sized Enterprises.

2. The International Accounting Standards for Small and Medium-Sized Enterprises (IASSME) *are not* an official base in Bulgaria at present.



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