

BOOK KEEPING IN BULGARIA IN CONDITIONS OF TRANSITION TO MARKET ECONOMY

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Abstract. The purpose of the present work is to analyze the problems that Bulgarian accounting system encounters in the run of economical changes, and, based on that, to outline the tendencies in its development under conditions of a world undergoing globalization on a larger scale. Emphasis has been given on more essential problems, as presenting information in financial reports, accounting investments and business – combinations, realized as privatization deals.

Key words: accountancy reform, stages of accounting development, Bulgarian Accountancy Standards, International Accountancy Standards.

1. Introduction

Economic changes, occurring in Republic of Bulgaria at the beginning of the 1990s, effected essential changes in activities of a large number of enterprises, which had to adequately result in the system of book keeping. Thus, a difficult process started, filled with challenges, where Bulgarian accountancy legislation had to go through transformations in compliance with the achievements of the advanced European countries and the International Accountancy Standards (IAS). That process was basically directed towards to changes in the line of thinking of specialists book-keepers, which required more time, and, probably, shift in generations. The purpose of the present work is to analyze the problems that Bulgarian book-keeping system encounters in the run of economical changes, and, based on that, to outline the tendencies in its development under conditions of a world undergoing globalization on a larger scale.

In relation to these goals, the present research targets the completion of the following major tasks:

1. To point out the development stages of Bulgarian accountancy legislation in conditions of transition to market economy;
2. To analyze the conformity between Normative Deeds, regulating book keeping in Bulgaria, the Directives of EU on accounting problems, and the International Accountancy Standards (IAS).

Emphasis has been given on more essential problems, as presenting information in financial reports, accounting investments and business – combinations, realized as privatization deals. That is conditioned by the following reasons:

1. The basic goal of book-keeping is to present information on the financial state of the enterprise and the financial results from its activity. The information, announced in the

Annual Financial Report, is in service of a large number of consumers to make economical (and most often investment) decisions.

2. Certain property possession restructuring started in Bulgaria with commencing a reform in economy. State property underwent gradual privatizations, and a series of privatization transactions were realized, which defined the exceptional actuality of problems, related to investment accounting and their presentation in Annual Financial reports.

2. STAGES OF BOOK-KEEPING DEVELOPMENT IN BULGARIA IN TERMS OF TRANSITION.

Three stages can be formulated for the period since the beginning of the 1990s the development of accountancy legislation in Bulgaria.

II.1 STAGE ONE (1991 - 1997)

The process of transformation of Bulgarian society (involving accountancy legislation) at the beginning of the 1990s started in conditions of prevailing state property. Regardless of legislation changes¹, directed to raising the functional efficiency of separate enterprises and economy in general, the process of reconstruction in property possession elapsed quite slowly and hard. In fact, privatization process started several years later, which caused major slow down in running the economy reform. As it can be noticed in table 1, by the end of 1997 property structure had been changing too slowly. Processes, observed in other ex-socialist countries, undergoing economy reform, were apparent. State shares and those of company workers (managers and employees) had been undergoing a reduction in return for increase in external investors' shares (local physical persons and privatization funds), as well as foreign investors.

In fact, because of the yet prevailing state property, there was a lack of real proprietors in the country, and, it is a well known fact, there can't be a real accountancy report without a real proprietor. Major consumer of accountancy report information was still the State, presented by its bodies – the Tax Administration and the National Statistics. Things reached to a point that parts of the Annual Accountancy Report and its Supplements were understood as ordinary statistical reports that had to be filled in at definite periods.

Regardless of stating a transition to a more contemporary system of accounting, even in the first version of the Accountancy Law there was a text, stating that “the Ministry Council approves of National Accountancy Standards and National Balance Sheet corresponding to the international accountancy standards and the present Law,” all legislation changes, occurring, only made evident the weakness and inexperience of people that had developed it, but not any conformity with any international accountancy standards. The fact that in 1993 standards, such as Accountancy Papers and registering Economic Operations, Making an inventory of enterprise's assets and liabilities, Book-keeping by single entry, and all of them not having analogue in international accountancy standards, were adopted, could be of support of support to such a thesis. They aimed to assist a more-gradual transition to an accountancy legislation rather than being standards adequate to any

¹In July, 1991 the new Commercial Law came into power, which was an impulse for the development of Joint-Stock activities in the Republic of Bulgaria. In April, 1992, The People's Assembly adopted the Law for Transformation and Privatisation of State and Municipal Enterprises, which aimed establishment of new economic relations and finding new proprietors of the State Enterprises.

international ones. Similar was the role of the later adopted standard, named Financial-Accounting Enterprise Analysis Indexes.

The lack of real consumers of financial report information brought to an accountancy mostly tax oriented at that stage². Owners (as far as there were any) of small and average enterprises required from book-keepers to support a balance avoiding problems with tax authorities. It was not realized yet, that tax and commercial legislation are two very differing legal institutions. Commercial Law (and accountancy legislation being part of it) aims to limit constituting a balance sheet of extraevaluated assets and underevaluated liabilities. Tax legislation regulations are completely different. It aims to protect the Fiscal Power interests (the budget) and regulate taxation rules being essentially different, in some of their aspects, from the common accountancy principles.

From the very beginning Bulgaria declared its intention to get involved in the process of harmonizing its system of book-keeping through developing its national legislation in compliance with the development of the international experience. During the first steps of accountancy reform our legislation was closer to any European directives concerning problems in accounting rather than to the international accountancy standards. It is completely natural bearing in mind the fact that not before the early 1950s Bulgarian accountancy and commercial legislation corresponded to the processes in European development and mostly in Germany. Accountancy principle were regulated in the Accountancy Law, that had been taken directly from Directive IV of the European Union with major importance being given to the one of cautiousness³.

At that stage of development of the accountancy reform in our country the Bulgarian Accountancy legislation allowed interference of Governmental bodies in defining the accountancy rules. It was completely possible for a Decree of the Ministry Council to change the way of application of any accountancy principle, irrespective of the fact that the latter were regulated by a Law. Generally it was related to the attempts of the Government to collect more taxes in order to “fill in state budget holes”. At the same time, contrary to the European countries, we had no traditions in accountancy regulating in market economy conditions. What is more, the process of changing proprietors had been significantly slowed down, which was a real obstacle in the proper adoption and applying accountancy principles. The stock market was merely developed and as far as such market existed, only a small amount of stock securities of Bulgarian state companies had been traded there.

At the beginning of 1991 a new national Balance Sheet came into power, it being a systematically rendered list of book-keeping accounts, used by the enterprise as a form of presentation of the economic activities being realized. The compulsory character of the latter resulted in some practical problems as some book-keepers considered the reform in accountancy only as a change in the balance sheet and the account correspondence. The original idea was that it play the part of a Regulation on applying the Accountancy Law, and irrespective of the changes made, it “remained as one of the elements of accountancy legislation that was hardly synchronized with any modern understanding of professional regulation in accountancy” (Svrakov 2000)

² Unfortunately this tendency has been observed in the functioning of a great part of the Bulgarian enterprises so far.

³ At that stage, principles such as true and proper presentation, as well as giving priority to contents instead of form, were unknown to Bulgarian experience, which made it impossible to re-evaluate the Long-term Assets and writing off receipts (though obviously being bad debts) before expiry of prescription terms.

As for Bulgarian Accountancy Standards, they had suffered changes related to bringing them closer to the International Accountancy Standards (IAS). Unfortunately, that stage of the process was also a sign of the ambition to make up faster for the things lost, and the Bulgarian enterprise financial reports to be drawn up in compliance with the conventional accountancy principles.

Taking into account the facts mentioned above, we can draw some general conclusions that the realization of an accountancy reform in Bulgaria was accompanied by a series of difficulties basically effected by two circumstances.

- With the adoption of new accountancy legislation our country proceeded from a more detailed regulation of all activities related to accountancy to the implementation of National Accountancy Standards being quite concise and marking only some basic principles that have to be kept when making accountancy reports. Everything else had to be decided based on the professional judgment, experience and traditions existing in accountancy interpretation of trade deals;

- The lack of sufficiently imposing practical experience and traditions in reference to the role and importance of accountancy in market conditions, as well as preparation of financial reports.

II.2 STAGE TWO (1998 – 2001)

A major change in accountancy legislation was carried out during that stage, mostly targeting adoption of principles, implied in IAS, rather than further harmonization with European Directives. For a first time in Bulgarian accountancy legislation history it was given the start of a transition from legislation, typical for continental European countries, to the adoption of IAS, being a product of the British-American accountancy system. That change was effected under the influence of a set of operators, the more important being as follows:

1. At the beginning of 1990s the process of harmonization of accountancy legislations of advanced European countries based on principles, laid in EU Directives, had been practically completed. The member-countries had adopted the necessary changes in their national legislations, thus completing the aim of harmonization - “financial reports of stock companies to be prepared based on principles, agreed among the member-countries”(Svrakov 2002).

2. By the end of 1997 a number of foreign companies and banks were already functioning in Bulgaria, which prepared their financial reports according to the requirements of IAS, but not on the basis of European Directives.

3. A number of privatization deals were realized in our country (see fig.1 and table 2.)⁴, thus constantly reducing the share of State property in return to the rising share of Joint-stock property on enterprises of the real and financial sphere. The rising shares of private proprietors gave an opportunity to apply a modern philosophy of accounting as a “business language” as it targeted guaranteeing stock holder’s interests.

⁴ The data for privatisation deals concluded is generally presented as well as separately (whole enterprises as well as autonomous parts). As an “autonomous part” should be understood structure of a trade company that can independently perform economic activities (a shop, an atelier, a ship, a workshop and others) – owned by the company.

3. Capital market appeared and started developing (though slowly), and the basic Acts were adopted that stipulated its regulation.

In fact, the Stock Market in Bulgarian really started with the first session of the Bulgarian Stock Exchange (BSE) on 27.10.1997⁵. From the data presented about the stock exchange trade for the period 1997 – 2001 (table 3) the following conclusions could be drawn:⁶

- In 1998 19 companies of the official market and 700 companies of the free market were traded at the stock exchange. The turnover realized at the official and the free market amounted 138 171 867 BGN. During that year the beginning of privatization process was set through public offer of shares at the stock exchange market, and the first sale of 60% of the capital of the first company registered – “ELKABEL” – was realized

- In 1999 14 more enterprises were registered on the official market, and 5 of them were transferred from the free to the official market. Typical for 1999 was the reflux of capitals and poor interest from investors. The turnover of the official market fell down to 11808 968 BGN, and that of the free market - to 37 725 358 BGN.

- In 2000 over 1000 deals were concluded at the Stock Exchange which was a fall down compared to the previous year. The turnover of the official market fell to 8 277 704 BGN, and that of the non-official – to 23 537 705 BGN.

- For the period January - November 2001 the turnover of the official market showed a significant fall down reaching its lowest rates – 2 506 431 BGN. There was a significant rise in the turnover realized at the free market – up to 36 063 659 BGN, which was a considerable rise compared to the previous year.

With the adoption of the Accountancy Law in February, 1998 a series of new accountancy principles were regulated legislatively, drawn on IAS - functioning enterprise, priority to economical contents for legal form, and true and fair presentation. Those principles were not known to specialists book-keepers in Bulgaria. Their adoption presented the willingness of Bulgarian accountancy legislation to get closer to IAS. At the same time those principles could hardly find any real practical implementation for two reasons mainly: 1) lack of traditions and practical experience, and 2) in most cases Bulgarian legislation laid limitations in their implementation. A typical example of that is the implementation of the principle for true and fair presentation when re-evaluating Long-term Assets. For the period 1998 – 2001 the long-term assets were re-evaluated in a percent not higher than the one of price changes of a producer, announced by the National Statistics Institute. For that purpose, The National Statistics announced a percentage for rises in asset groups. Of course, other examples can also be pointed, but even this single one is enough to draw the conclusion that such a practice was not in harmony with the requirements of IAS. According to international standards LTA (long-term assets) are re-evaluated when there are conditions available for

⁵ Certain attempts in renewing the Bulgarian Capital Market were made at the beginning of 1991, when the Commercial Law came into power. Its appearance was related to deep structural, economical and social changes in Bulgaria, having started in 1989. For the period 1992-1994 about 20 stock exchange markets were established. Market was not regulated and functioned without any clear rules until the reception of the Securities and Stock Exchange Market Law in July, 1995. For more details on the first steps of the Bulgarian Stock Exchange see Koparanova, M. Development of Bulgarian Capital Market in the First Half of the 90's: Is the Incubator Period Over? In Emerging Capital Markets in a transitional Environment ed. by M. Koparanova, ANKO, 1997

⁶ The data for deals concluded was taken from the official internet page of the Bulgarian Stock Exchange - www.bse-sofia.bg.

that, applying definite approaches to accountancy treatment of the re-evaluation. For each LTA there is an individual approach and re-evaluation is carried out by professional business values.

Except for regulating the presented accountancy principles, since the beginning of 1998 a number of other positive changes have been adopted by the Bulgarian legislation, the most important of which are:

1. The purpose of balance sheets prepared was clearer, namely true and fair presentation of company's property and realized financial results for the accounted period.

2. Opportunity was provided the balance sheet and accountancy report to be prepared based on single or double entry (by the decision of the enterprise), maintaining at the same time the requirement that they be prepared based on a standard scheme, regulated by the Accountancy Law and the National Statistics Institute 1 Presentation of financial reports. Two new elements were introduced – Report on own capital and Report on cash flow, which by that time, had existed only as references in the Attachments.

3. An opportunity was created to re-evaluate assets and liabilities of a company – LTA based on NSI percent rate, currency – based on the final rate of BNB, investments – based on the stock exchange rates as per 31.12. in the accounted period. To re-evaluate the latter, an essential impact was introduced by the functioning Stock Exchange, which, irrespective of the decreasing volume of trade, could be used as a trustful base for defining the investment rate for the purpose of their presentation in financial reports.

4. The principle of historic price lost its essential role in evaluating assets and liabilities of a given enterprise when presenting them in balance sheets, as for some of the assets and liabilities a concept of true value had been adopted.

5. Educational requirements were legislatively regulated to persons in capacity of “Head accountants”, thus creating prerequisites for preparation of financial reports of a higher quality..

6. The newly adopted national accountancy standards were substantially revised and unified to IAS even in numeration regardless of that, Bulgarian accountancy standards were still far from the IAS concept, directed to issuing trustful fiscal information.

II.3.STAGE 3 (SINCE 2002)

A decisive step towards adoption of IAS and finding their straight implementation in our country was done at the end of 2001 by introducing some changes in the Accountancy Law. Meanwhile, at a worldwide scale, two major parallel processes were running. On one side, a process of accountancy harmonization had been carried out within EU member countries, on the other side, IAS were being continuously developed and improved and were becoming more and more popular. Thus certain contradictions appeared between rules, implied in European directives, and IAS principles. That led to the statement of the Federation of European Accountant Experts that “there is incompatibility between the idea of the European Directives and IAS.” (Svrakov 2002) and, the future of Europe does not go through affiliation with IAS.

Regardless of that, experience imposed something different. Although being harmonized, the legislation of member-countries did not deny the great differences between British-American and Continental-European accounting school. As an illustration on that matter we are going to give just one example, which effected a large-scale scandal at the beginning of 1994. The International community of financial analysts and investors was

deeply concerned on the reports published by “Deimler Bentz” company. According to German commercial legislation the financial results of the corporation was positive, amounting 615 mln. DM. The same report, re-calculated based on the commonly adopted principles of USA, showed negative financial results, amounting 1,839 billion DM. The fact, itself, was very worrying, and again many of the analysts put the question on trustfulness of information presented in the financial reports, as well as its usefulness to making investment decisions. Exactly those major differences between the two systems, related to the rules of preparation of financial reports, did not allow European companies, whose financial reports were performed based on European directives, to trade their shares at the American Stock Exchange.

Being influenced by worldwide processes⁷ that had been running since the beginning of 2002 Bulgaria adopted new accountancy legislation, regulating implementation of IAS. New Accountancy Law was developed, where the problems of independent financial audit were regulated by separate Act. All national accountancy standards were fundamentally revised and were put in compliance with the requirements of IAS, as much as possible. This creates basis for preparation of accountancy practice for working out and presenting financial reports of companies based on IAS since the beginning of 2005⁸. The compulsory character of the national balance sheet has been dropped off. It has already been considered only as advisable. Thus an opportunity was given to companies to define by themselves the system of accountancy approaches for carrying out their current book-keeping.

Some more important changes in legislation can be systematized in the following order:

1. Requirements to persons, making annual financial reports, should be defined. For the first time in Bulgarian legislation history these persons have to meet requirements on economical education and professional experience in the field of accountancy.

2. The responsibility of managing bodies of enterprises, related to reliability of a given annual financial report, presented, has been defined.

3. The volume of information, presented, rather than its form, has been defined.

4. Implementation of the principle of historical price in evaluation of assets, liabilities and capital of an enterprise at the time of their achievement has been preserved. The succeeding evaluations of assets and liabilities for being presented in financial reports shall

⁷ After lively discussions had been held, and agreement was reached on the possibility of adopting IAS as a conventional frame for making financial reports. The fact that in 1995 the IAS Committee and the International Association of Stock Exchange Committees (IOSCO) reached to an agreement on cooperation on development of new standards for financial reports, is in support of that thesis. As a result of mutual cooperation between the mentioned committees a pack of accountancy standards was worked out as IAS 32 financial tools – recognition and evaluation, IAS 39 financial tools – recognition and evaluation and others, containing rules for evaluation and presentation of various financial tools in financial reports. Thus the historical decision was made, announced in June, 2000,- from the beginning of 2005 to use them in preparation of financial reports by all companies from member-countries, whose securities are traded at Stock Exchange Market. Therefore, IAS has the potentials to turn into a uniform accountancy language, and more definitely, into a proper basis for preparation of financial reports, presenting sufficiently reliable and trustful information on investment decision making.

⁸ For some enterprises – banks, insurance agencies, investment and insurance enterprises, as well as enterprises – eminent by means of Public Securities Offer Law, the obligation to apply IAS has come into power since 01.01.2003.

be done in accordance with stipulations of accountancy standards, this being in compliance with approved international practice. Thus prerequisites for Bulgarian enterprises to prepare their financial reports on the basis of conventional accountancy principles in a way, similar to the one typical for countries with developed economy, have been established. This is considered as a major challenge for book-keepers in our country, and is related to solving a set of problems, some of the most important being:

1. After 2005 national accountancy standards will be dropped off and Bulgaria will adopt the international ones. That means that book-keepers of all enterprises, will use IAS for the purposes of current accountancy, but not only making annual financial reports⁹, as the conventional world practice is.¹⁰

2. Training of staff. Aiming to assist the process of mastering the philosophy of IAS and their practical implementation, the Accountancy Law foresees realization of a training programme, organized by the national Accountancy Committee, the Institute of Certificated Accountants – Experts and Higher Schools. For that purpose a training programme has been developed and approved, which provides for carrying out courses in IAS for the period 2002-2004 with minimum number of lecture hours of 60 academic hours. Experience shows that great majority of the courses have been carried out within 60 lectures as classes and practical work shops discussing and solving practical cases, that include the application of a couple of standards. In our opinion, attendance of just a couple of courses on IAS is far from sufficient to master their philosophy. If we take as additional consideration the lack of time for self-preparation of most of the accountants, as well as the act that some Bulgarian companies already imply IAS, it turns to be a major problem for most Bulgarian enterprises.

3. Tax legislation is still far behind the concepts of IAS. For the last few years the principle of true and fair presentation, involving all assets and liabilities in their presentation in the financial report to be re-evaluated, based on their fair value, to be applied. Generally these re-evaluations are not recognized as tax evaluations, this being the reason for the larger implementation of temporary tax differences which are merely known to the practicing accountants in our country.

3. PROBLEMS IN PREPARING THE BALANCE SHEET

With the adoption of the new accountancy legislation in at the beginning of 1991 in Bulgarian was given the start of approaches to preparing net balance sheet. The number of balance asset and liability articles was significantly reduced, and the balance scheme, regulated by the legislation, was borrowed from Directive IV of the European Union on problems in accounting.

Irrespective of the presence of an explicit text in the directive, mentioned above, Bulgarian accountancy legislation did not provide any opportunity any devaluation of receiving to be performed due to their considering as bad debts, as well as long term

⁹ So far, there are some ideas on changes in the Accountancy Law, targeting the usage of IAS only by large Bulgarian enterprises whose shares are traded at the Stock Exchange Market.

¹⁰ As it has already been stated, EU declares that IAS is going to be used as a base for making financial reports n those companies, whose shares are traded at the Stock Exchange Market. The remaining enterprises are going to maintain current book-keeping and make financial reports in compliance with the requirements of the national legislation.

investments for a significant drop down in their market price. Practically it meant that immediately after starting an accountancy reform, Bulgarian enterprises presented in their financial reports over-evaluated assets, which was in contradiction with one of the legislatively regulated accountancy principles, namely the one of cautiousness. Certain possibility for calculating devaluations of receipts was given with the change in national accountancy standards at the beginning of 1998, but it was related to a lot of limiting terms¹¹ and do not meet the requirements of IAS.

The practice to prepare the balance sheet based on a model balance scheme, led to the paradox, that enterprises had to adhere to strictly stipulated groups of balance articles on assets and liabilities, and when any information was missing along a given line in the balance sheet, empty space had to be left or zero result appeared. What is more, balance sheet schemes and the income-expenditures report were quite detailed, which significantly made some of the appendixes, prepared as part of the annual balance sheet, useless.¹²

Only with the legislation changes, occurring in 2002, the requirement of making the balance sheet based on a balance scheme, was dropped off. An opportunity was given to enterprises to define the contest of separate balance articles, as well as information presented in the Appendix to the Annual Financial Report, based on its rate of importance. Limitations on the opportunity to devalue receipts and long-term investments were dropped off. Presentation of additional balance articles and medial sums was allowed when the managing body of the company considered that it would provide for ore trusty and fair presentation of the financial state of the enterprise.

Together with the mentioned positive changes related to regulations on annual financial report, there are still legislative texts not corresponding to the concept of IAS. Some of the most important are:

1. In the National Accountancy Standard (NAS)1 Presentation of Financial Reports, it has been stated that separate accounting objects (for example future expenses on rates of interest or rent incomes) should be presented as incomes and expenses for future periods. These balance sheets are inheritance of the near past and are in contradiction with the requirement for completion of net balance sheet. The presence of such articles in the balance sheet is not tolerated by IAS.

2. It could be pointed out as another shortcoming, that in the present accounting standard it has been listed in details what must be presented in the balance articles “Other long-term receiving”, “Other short-term receiving”, “Blocked capitals”, “Cash equivalents”, “Specialized reserves” and “Other long-term debts”. Such a fact is in contradiction with the accountancy principle that company’s managing body defines at its sole discretion, in what way given financial information should be presented in compliance with the regulation requirements.

¹¹ Devaluations could be set only on receiving from salesman in accountancy standards it was regulated the exact percentage rate for devaluating the receiving, and after what term of expiry it was possible. No opportunity was given to the accountant to proceed from a reasonable trade estimation and the principle of precautious ness in devaluation of receiving.

¹² For example, on the face of the balance, information on the accounted value was presented, amortization and balance value of long-term assets, which was not quite logical, bearing in mind the fact that in appendix 1 the same information was presented in complete details. In reference to these contradictions and others, see Svrakov, A., Necessity of a New Stage in Accountancy Legislation. Collection of reports Accountancy and Control in Market Conditions, Varna, 1995, p. 17

Other examples can be given, but these are enough to draw the conclusion that even declaring that in the near future every Bulgarian company will have to prepare its financial reports in compliance with IAS, we can not overcome some prejudices of the past, yet, related to regulating some insignificant matters.

4. PROBLEMS IN ACCOUNTANCY TREATMENT OF INVESTMENTS AND PRIVATISATION DEALS

With the first issue of the National Accountancy Standards in 1992 an accountancy standard was adopted, treating problems of accounting and presentation of investments in financial reports of the enterprise. With NAS 15 Investment Accounting an attempt was made to briefly formulate the basic principles of accounting investments and their presentation in financial reports. The standard mentioned presented the ambition to lay the beginning of harmonizing and standardizing accounting procedures in reference to investments rather than any compliance with the similar IAS. This, to a great extent, explains the fact that in our country, within one standard were regulated matters, which were internationally regulated in a series of accountancy standards.

In 1996 several accountancy standards were adopted, which referred to (although not directly) the term “investment” in its broadest economical understanding. The subject referred to is NAS 26 Accounting Enterprise Transformation, and NAS 31 Accounting Privatization Deals. These NASs had no analogue among international ones, and it is author’s personal belief that their adoption was needed to unification approached to accounting in privatization deals.

In accounting privatization deals a series of problems were encountered, and most of them were due to the fact that Bulgarian accountancy legislation kept to the international experience in quite a conflicting manner and was not willing to adopt for quite a long time the basic principles, laid in IAS. In that respect a lot of examples could be pointed, though just a few are enough to find out that in most cases there was no coincidence at all between our legislation and IAS, which gave a serious impact on the trustworthiness of information presented in financial reports.

For example, the Law for Transformation and Privatization of State and Municipal Enterprises, gave options on cash incomes from privatization of autonomous parts and unfinished construction sites to remain at the disposal of the enterprise undergoing privatization and be used to redeem debts. The execution of such act resulted in search of possibilities for accounting of remised resources. The opinion that remised taxes must be accounted as subsidy, was prevailing. Similar line of thinking was based on the clear and explicit stipulations of paragraph 12 of NAS being in power since 31.12.1997 - “Accountancy Principles in Privatization Deals”. According to them “cash incomes being at disposal of and under the command of the enterprise... should be accounted as stipulated in NAS 13 Subsidy Accounting” which means as a subsidy received from the State. Similar text was present in the account description in column 13 “Subsidies” of the National Balance Sheet, where it was explicitly stated that “under accounts of that group remised taxes must be accounted...”¹³. Bearing in mind the empowered stipulations mentioned the remised taxes was accounted as a receive subsidy from the State budget.

¹³ By the end of 2001 the national Balance Sheet had compulsory nature and all enterprises had to comply with it when accounting their business operations.

Considering the economical nature of preferences given by the State (in the form of remised taxes) our opinion is that the case refers to tax relieves rather than governmental grants or help. It leads to the conclusion that tax preferences given by the State in order to financially strengthen subjects of economy should not be considered (and therefore accounted as subsidy). Paragraph 2 of IAS 20 “Accounting Governmental Grants and Announcement of Governmental Assistance” could be pointed in support of that line of thinking. It is stated from the very beginning that “Governmental Support provided to enterprises in the form of benefits, applied in defining taxable incomes, or limited based on liabilities to tax payments over the income” should not be treated as governmental grants”. Therefore, in international experience, the cases when the State is engaged in rendering tax preferences to economy subjects, this act is not considered as rendering subsidy. It should not be forgotten, that when remised resources are not accounted as a subsidy, part of it will be detracted as due taxes, which will reduce to a great extend the economical effect of the remission. That is why funds provided by the State, should be accounted as an element of the own capital, which means through one of the accounts for enterprise’s stock reserves. Some major practical problems occurred when the means of payment in privatization deals was a non-fiscal tool as various securities such as those emitted under the regulations of the Law for Arranging non-operated credits¹⁴ and the External Debt of Republic of Bulgaria¹⁵.

The problem descended from the fact that Bulgarian accountancy legislation by the end of 1997 contained a text, stating that all State Securities, achieved, should be evaluated based on their face value which remains unchanged at the end of the year. Similar text caused the occurrence of an absurd that financial income accrued even at the time of purchase as they were traded at prices, much lower than their face value. The income, realized, was spaced out to future periods within a term of five succeeding accounting periods.

Irrespective of the positive changes in accountancy and presentation of information in financial reports of privatization deals (after the legislation change in 1998) problems continued, resulting from the enforcement of by-Law Acts (letters, directives, regulations, e.t.c, issued by the Minister of Finance) in order to change legally stipulated accountancy principles. A typical example in that respect is the decree issued by the Minister of Finance in 1999 to define the order of evaluation and presentation in financial reports investments gained as a result of privatization deals, when payment have been carried out by means of non-fiscal tools (State Securities). According to the state, quoted, the price difference between face value and the price of acquired Securities used as a payment tool in privatization deals, is reduce the value (being the contracted sales price) of acquired stocks and the shares of enterprises that have undergone privatization. Thus the basic principles of accountancy, such as true and fair presentation and historical value, have been disrupted, and financial reports contain devaluated assets, which could mislead the consumers of financial information.

¹⁴ In order to reduce the Internal Debt, an opportunity was given to holders of bonds, emitted under the orders and terms of the Law for Arranging non-operated credits, agreed by 31.12.1990, to use them as a payment tool in privatization deals under certain conditions.

¹⁵ According to the agreement, signed on 29.06. 1994 between crediting banks of the London Club, our country emitted bonds on the External Debt, which, as per Bulgarian legislation, were also accepted as payment tools in privatization deals.

The practice to replace basic accountancy principles with by-law Acts has nothing to do with the European traditions or IAS. In that case we have to take into consideration the financial incomes, because by means of a cheaper asset we acquire stocks or shares from enterprises having been subject to privatization, which are much more expensive. Therefore the available financial income has been realized and has to be included in the financial report for the period of its occurrence. If the purpose was to provide for any tax relieves (as what obviously had been the idea of the Minister of Finance), similar preferences should be provided in the Tax Laws, but not in the accountancy legislation being part of the commercial legislation

Some major practical problems were encountered in reference to “goodwill” as a subject of accountancy. It is the difference between the price, paid by the investor and the sales (fair) value of separate assets of the enterprise, being subject to purchase. Probably, due to lack of practical experience accounting the goodwill in contradiction with the IAS 22 regulations – Economy Combinations Accounting – it was regulated in our standards that, reputation is the difference between the price, paid by the investor, and the history (accounted) but not fair (sales) price of the separate assets of the enterprise, being subject to purchase. Such reading gave an opportunity to many Bulgarian enterprises, suffering lusts, to present the asset “reputation” in their financial reports, which was in contradiction with the requirements of IAS.

5. Conclusion

Conclusively we have to state that since the beginning of the 1990s Bulgarian Accountancy legislation has passed through quite a contradicting way in its development. A gradual reform has been carried out from accountancy system, typical for countries on Continental Europe, and based on European Directives on accountancy problems, to the implementation of IAS, which is slowly becoming a conventional base for preparation of financial reports. That has been done under the influence of world scaled processes, occurring at that time, as well as for the reason that Bulgaria is a small country and its Economy is not that specific to develop its own accountancy system. Of course, the fact, itself, that Bulgaria has stated the adoption of IAS for direct implementation, would not be enough for the inflow of foreign investments in the country. That should be considered as one of the steps, directed towards heightening the trust of the International Community in Bulgaria. Transparency in reference to financial reports being composed and presented, will bring for diminishing the risk for investors thus making their investments cheaper.

Having in mind the experience gained so far in the long in after the start of the accountancy reform, a general conclusion could be drawn that definite positive results are available, but there are still serious problems related to the transition to IAS. The accountancy reform could be considered as completed just when every accountant has mastered the approaches to implementation of IAS, and enterprise managers show their real concern in presenting true and fair information in their financial reports. That means that hard work is at hand, related to training and qualification improvement both of accountants and tax administration officers, lawyers, National Statistics officials, enterprise managers, share holders, bank experts, and all other consumers of financial report information.

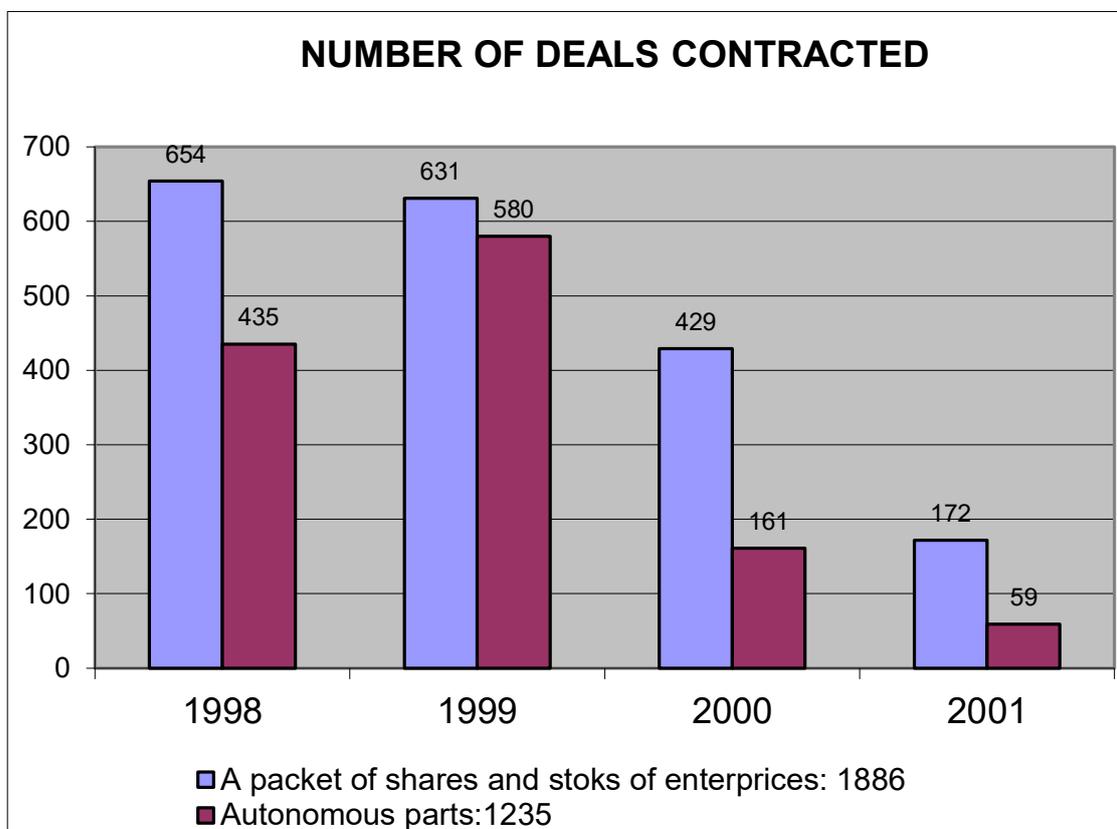


Figure 1 Privatization deals for the period 01.01.1998 – 31.12.2001
 Source: Privatization Agency www.priv.government.bg

Table 1

Property possession structure of enterprises researched (%)

Category of share holders (owners of shares)	Immediately after privatization	Base on official registration as per 31.12.1997
1. The State	30	18
2. Local investors – physical persons, out of the enterprise	2	3
3. Local investors – corporate bodies not including privatization funds	21	23
4. Privatization Funds	11	19
5. Present employees and company managers, as well as ex-company staff	20	20
6. Foreign investors - physical persons	0	0
7. Foreign investors – corporate bodies	9	10
8. Others	7	7

Source: Dimitrov L. &co Post-privatization development of enterprises in Bulgaria. Center for Economical Development. S., 1999, p. 47

Table 2

**Total of privatization deals contracted in Bulgaria for the period 01.01.1993 –
 30.11.2003 based on the type of privatization body**

	Total		Ministries		Privatization Agency	
	Packet of Stocks and Shares of enterprises	Autonomy parts	Packet of Stocks and Shares of enterprises	Autonomy parts	Packet of Stocks and Shares of enterprises	Autonomy parts
Total 1993	22	41	18	34	4	7
Total 1994	84	77	63	62	21	15
Total 1995	107	211	87	163	20	48
Total 1996	161	352	112	254	49	98
Total 1997	320	264	266	235	54	29
Total 1998	654	435	559	354	95	81
Total 1999	631	580	492	489	139	91
Total 2000	429	161	358	139	71	22
Total 2001	172	59	120	28	52	31
Total 2002	73	30	20	7	53	23
Total 2003	74	26	1	1	73	25
Total	2727	2236	2096	1766	631	470

Source: Privatization Agency. www.priv.government.bg

Table 3
Development of Stock Exchange Trade for the period 1998 – 2001

Market	1998		1999		2000		January-November 2001	
	Num. Securities	BGN	Num. Securities	BGN	Num. Securities	BGN	Num. Securities	BGN
Official share market	2511958	12733254	2587982	11808968	4860977	8277704	2681449	2506431
Official market of State Securities	0	0	0	0	2123	219277	220	432532
Official market of Corporate Bonds	0	0	1884	472163	26152	3337847	5874	527
Official market of Municipal Bonds	0	0	0	0	0	0	0	0
Free share market	13740462	125438613	5357038	37725358	8372280	23537705	8003823	36063659
Free Bond Market	0	0	0	0	0	0	0	135798

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