

# New Accountancy Act

A new Accountancy Act (AA) is effective in Bulgaria from 1 January 2016. Learn about the changes important for your business.

A photograph of several spiral-bound notebooks stacked on a desk, with a window in the background showing a blurred view of a building. The notebooks are the primary focus on the left side of the slide.

## Main changes

A new Accountancy Act (AA), which is consistent with the provisions of Directives 2013/34/EU and 2014/95/EU of the European Parliament and the Council, has become effective since 1 January 2016. The new Act introduces a number of changes in the national accounting legislation, the more important of which relate to the following:

- ▶ Introduction of categorization of the entities and the groups, on which many of the requirements of the AA depend
- ▶ Changes in the definition of public interest entity (PIE)
- ▶ The applicable basis of preparation of financial statements
- ▶ The minimum requirements to the elements of the financial statements
- ▶ Preparation of new annual reports
- ▶ The criteria for statutory financial audit
- ▶ The requirements for making public the financial statements and the annual reports
- ▶ The responsibilities of the Management
- ▶ Significantly higher penalties for non-compliance with the law

## Categorization of the entities and the groups

The new AA introduces four categories of entities and three categories of groups of entities:

Categorization of the entities and groups				
	Categories	Net sales revenue	Carrying value of assets	Average personnel
entities	Micro	< BGN 1.4 million	< BGN 0.7 million	< 10 people
	Small	< BGN 16 million	< BGN 8 million	< 50 people
	Medium	< BGN 76 million	< BGN 38 million	< 250 people
	Large	> BGN 76 million	> BGN 38 million	> 250 people
groups of entities	Small	< BGN 16 million	< BGN 8 million	< 50 people
	Medium	< BGN 76 million	< BGN 38 million	< 250 people
	Large	> BGN 76 million	> BGN 38 million	> 250 people



When identifying the categorization, at least two of the three indicators for the respective category should be met. A change in the category occurs when for the last two reporting periods, the entity or the group of entities ceases to meet two of the three criteria for the respective category. The initial categorization is performed based on the indicators of the entity as of 31 December 2015.

# Public interest entities

The new AA changes the definition of PIE, which was previously specified in the Independent Financial Audit Act.

## PIE, regardless of their size, are:

- ▶ Issuers of securities on a regulated market in a EU Member State
- ▶ Credit institutions
- ▶ Insurance companies
- ▶ Pension companies and funds managed by them
- ▶ “Holding Bulgarian State Railways” EAD and its subsidiaries;  
National Railway Infrastructure Company
- ▶ Companies providing water and sewerage services as a major activity

## PIE, as far as they fall within the category of large entities, are:

- ▶ Investment intermediaries
- ▶ Collective investment schemes and management companies within the meaning of the Collective Investment Schemes and Other Undertakings for the Collective Investments Act
- ▶ Financial institutions
- ▶ Companies dealing mainly with production, transmission and sales of electricity or thermal power
- ▶ Companies dealing mainly with importation, transmission, distribution or transit of natural gas



## Basis of preparation of financial statements

Significant changes are being introduced, which relate to the applicable basis of preparation of financial statements, allowing more entities to apply the National Accounting Standards (NAS).

Only the PIEs are obliged to prepare their financial statements in accordance with the International Financial Reporting Standards (IFRS), while all other entities can choose between NAS and IFRS. As far as large entities are concerned, this option to choose will be applicable from 1 January 2017 onwards.

Similarly to the revoked AA, the entities cannot switch from IFRS to NAS. An exception is granted to entities meeting the criteria for micro, small and medium as at 1 January 2016. They are allowed to make a one-off transition to NAS, and to this effect, a new national accounting standard will be adopted.

Consolidated financial statements are prepared according to the same basis of preparation which is applied to the preparation of the financial statements of the parent company. Relief is envisaged for the small groups which are allowed not to prepare consolidated financial statements, unless the group includes PIE.

## Elements of the statutory financial statements

Greater relief is provided in connection with the elements of the financial statements. According to the new AA, the minimum requirements are the following:

Category	Elements of AFS
Large Medium PIE	Full set in accordance with the applicable accounting standards
Small	Condensed Statement of Financial Position Condensed Income Statement by sections and groups Notes
Micro*	Condensed Statement of Financial Position Condensed Income Statement by sections
Sole traders with net sales revenues < BGN 200k for the reporting period	Income Statement

(\*) This relief is not applied to micro enterprises, which are investment or holding companies.

## Requirement for preparation and publication of annual reports

In addition to the Annual activity report, the following new annual reports are introduced - Report on payments to governments, Corporate governance declaration and Non-financial declaration.

The main changes and the new requirements in connection with the annual reports are as follows:

Report	To whom it applies	Comments on the content
Activity report	All entities except micro and small (*)	Additional requirements for disclosure of information about the financial instruments of the entity, the key exposures and risk management policies are included
Non-financial declaration as a separate report or as part of the activity report (**)	PIE with average number of personnel in the financial year > 500	Policies related to the following issues: ecological and social; personnel; human rights; combatting corruption; gender diversity and equality in the entity's management bodies
Report on payments to governments	Large entities and PIE which operate in the extractive industry or the logging of primary forests	The nature of the payments to every government as a total amount and by type, for example, for copyright, dividends, license fees, infrastructure improvements.  It is not prepared if the payments for the year are up to BGN 195,600
Corporate governance declaration	Issuers of listed securities in a member state  Credit institutions  Insurers/reinsurers	Information determined in the Public Offering of Securities Act



\* Exempt from the obligation for Annual activity report preparation are micro and small entities which are not subject to audit, provided that the information regarding the acquisition of their own shares required under Art. 187d of the Commercial Act, is disclosed in the financial statements. This relief is not applied for investment and holding companies.

\*\* The requirements for preparation of a non-financial declaration are effective from 1 January 2017.

# Requirements for independent financial audit

The thresholds for statutory audit are increased. According to the new rules, subject to audit are the financial statements of:

- ▶ Small entities which, as at 31 December of the current reporting period, exceed at least two of the following criteria:
  - ▶ Carrying value of assets - BGN 2 million
  - ▶ Net sales revenue - BGN 4 million
  - ▶ Average number of personnel for the reporting period - 50 people
- ▶ Medium and large entities and PIEs
- ▶ Medium and large groups, and groups which include PIE
- ▶ Joint-stock companies and limited partnerships with shares, except for the cases when the companies had not performed any activities throughout the year
- ▶ Consolidated financial statements and the financial statements of the entities included in the consolidation.

The auditors should express opinion regarding the conformity with the AA and the applicable legislation of the mandatory reports prepared by the entities or groups.

The preparation and the audit of the financial statements and the activity reports for the year ended 31 December 2015 are performed according to the requirements of the revoked AA.

High penalties are introduced in case of not assigning an audit of BGN 500 up to BGN 5,000 for the liable person and of BGN 2,000 up to BGN 10,000 for the entity. The penalties are doubled upon repeated violation.



BGN 2 million carrying value of assets



BGN 4 million net sales revenue



50 people - average number of personnel for the reporting period

## Requirements for publication of the financial statements

The statutory financial statements and the mandatory annual reports are subject to publication. The deadline for publication is standardized - 30 June of the following year for all stand-alone and consolidated financial statements prepared by all types of entities.

Relief which is applicable to the following entities, in case the latter are not subject to statutory audit, is introduced:

- ▶ Micro and small entities are not obliged to publish their income statements and activity reports
- ▶ Sole traders are not obliged to publish their financial statements

A parent company which is simultaneously also a subsidiary and, based on the applicable accounting standards, is not obliged to prepare consolidated financial statements, should publish the consolidated financial statements and the activity report of its parent company in Bulgarian.

Joint-stock companies, limited partnerships with shares and limited liability companies which are medium or large entities, or are PIE, are obliged, together with their financial statements, to publish information about the proposal of the management and the decision of the shareholders' general assembly for the way of distributing the profit or covering the loss for the previous year.

The publication of the financial statements and the activity reports for the year ended 31 December 2015 are performed in accordance with the new AA.

In case of non-publishing of the financial statements, there is a penalty of BGN 200 up to BGN 3,000 for the liable person and, for the entity - a penalty from 0.1% to 0.5% from the net sales revenue for the reporting period the non-published financial statements relate to, but not less than BGN 200. The penalties are doubled upon repeated violation.



## Management responsibilities

The new AA determines more clearly and comprehensively the responsibilities of the management of the entity, as follows:

- ▶ Approves the individual chart of accounts
- ▶ Organizes the current bookkeeping in accordance with the requirements of the AA
- ▶ Approves the form of accounting, which provides chronological, systematic, analytic/synthetic reporting
- ▶ Is responsible for the preparation, content and publication of the financial statements and the annual reports required by the AA
- ▶ Determines the regularity of the financial statements for the needs of the management
- ▶ Is responsible for executing statutory financial audit
- ▶ Determines the rules for stock takes
- ▶ Is responsible for the storage of the accounting information
- ▶ Determines the rules and movement of the accounting documents - from preparation/obtaining to their destruction or transmission in accordance with the applicable legislation

According to the revoked AA, the preparers of financial statements were responsible for organizing the accounting activity of the entity, which implied a shared responsibility together with the management in some of the areas above. Further to the changes, the management bears the whole responsibility now.

In addition, the new AA includes specific texts based on which the following is not permissible:

- ▶ Reporting of business transactions outside the accounting books and records
- ▶ Reporting of fictitious or inadequately identifiable transactions or non-existent expenses, liabilities of unclear nature, performed with the aim of bribing officials or concealing bribery.

The changes above aim at improving the quality and transparency of the financial reporting. In the event of non-compliance penalties from BGN 500 to BGN 5,000 for the management and from BGN 2,000 to BGN 10,000 for the entity are envisaged. Upon repeated violation, the penalties are doubled.



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