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The Accounting System of Bulgaria and its Classification

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ABSTRACT : The standardization of accounting processes is one of the most serious problems affecting both the business world and the academia worldwide. In recent years, many scandals have demonstrated the need for even greater effort in accounting standardization. The development of an accounting system and practices in a country reflects its economic development as well as the legislative process. In this paper we are trying to highlight the Bulgarian accounting system, its features and its classification. The changes that have been made in early 2002 have forced the countries of the Balkans to adopt the International Accounting Standards. Bulgaria couldn't be an exception to the international practice because the economy of the country is not a specialized economy with particularities that would allow and perhaps impose the use of rules different from those provided by International Accounting Standards.

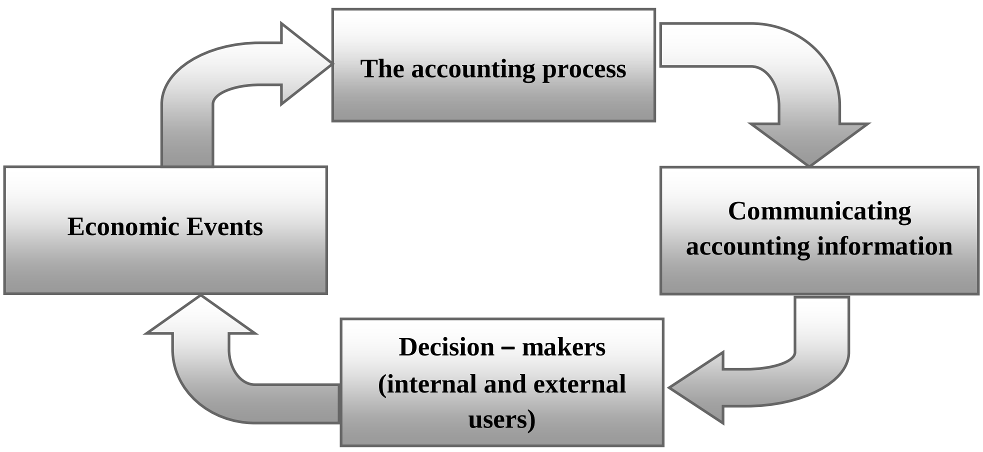
KEYWORDS: *Accounting Systems, Bulgaria, Classification, Harmonization, International Accounting*

I. INTRODUCTION

The economic interdependence in our globalized society is considered prerequisite and as a result the financial information is necessary for economic prosperity and growth. Accounting is the common language between businesses of all types and the rapid changes in the economy and society are the ones that lead to the complexity of the accounting system. The definitions that can be given for the interpretation of Accounting are many.

For others, accounting is the process used to measure and present to individuals the relevant financial information regarding the economic activity of an organization or unit (AICPA, 1970). Another definition of accounting argues that accounting is a scientific methodology based on a system of assumptions and rules of general acceptance and of basic practical importance (Anao, 1996). However, accounting may be a process which, after gathering all useful quantitative information, records the transactions, gathers, classifies and analyzes the relevant information and finally presents them to the management for decision making (A.A.A., 1996). Furthermore, accounting may be the historical narrative of economic events, such as gathering, ranking and correlation of data over time (Hendrickson, 1992).

Figure 1: The process of accounting



The basic functions of Accounting are summarized in four elements: observation, analysis, classification and control. The company buys from the market the conditions of its operation (economic values), and consumes these conditions by creating its product and finally selling it, something which consists the purpose of the business. All these operations are recorded and classified and given as information to the company's management (Pomonis, 2002).

In other words, accounting is a scientific technique based on the scientific rules and constraints of microeconomics. Therefore, each accounting question has only one solution. The Gnostic subject of Accounting focuses on providing information about (Devine, Carl Thomas, 1999):

- The results of the operations of the enterprise (profit / loss of business, taxable income of the accounting period, the capital of the company, what is the total cost, how efficiently the departments of the business operate.)
- The Financial position of the company (balance sheet, statements of the assets, liabilities and net worth)
- The company's position. If it is in line with the plan drawn up originally in its administration.
- Wage statements of the business.
- Available information to other government agencies and organizations.

II. THE HISTORY OF ACCOUNTING

The early development of accounting system has been traceable to the most ancient cities, in Mesopotamia around 450 and 500 BC. (Keister, 1965). Greece and Rome were cities where the coinage was invented in about 630 BC (Chatfield, 1977) and China is the place where the accounting systems were concerned with the recoding of merchants, temples, and estates (Fu 1971). In his study Keister (1965), further has tried to describe the use of clay tablets impressed with the markings of the Cuneiform script by the Scribe, a forerunner of the present day accountant. The system though relatively simple by modern standards; the Mesopotamia economy did not require more advanced system to record its transactions and property among parties. According to the study of Goldberg (1949) he recognized the recording of complex transactions of grain involving several individuals, a system of record-keeping (accounting) which is a clear demonstration that accounting is socially constructed. Chatfield (1977), has seen the systems of estate records in part of Athenian Empire, by Zenon in terms of data collection, recording and analysis by several individual as responsibility accounting. That system which was employed by Zenon Papyri with respect to data generation, recording and analysis, (though elaborate and meticulous) was sufficient to detect any possible errors, frauds and inefficiencies in the system. The Zenon Papyri system had little concern for decision making, efficiency or profitability, and perhaps this feature might invalidate a lot of work that went into the operating system (Glautier, and Underdown 2001). The Zenon system was developed in the 5th Century BC and later was modified by the Romans. Goldberg (1949), saw the modification of Zenon in ancient Rome as the memorandum book and the monthly transfer of entries to the ledgers, from which today's ledger has derived its name 'codex'. This system of recording in ancient Greece and Rome according to the researchers Goldberg (1949) and Chatfield (1977), is indicating that the accounting systems were mainly concerned with recording and exposing losses due to theft, frauds, inefficiencies and corruptions. For sure it was not for decision making and assets protection. Gulman (1939), has stated that the accounting systems of that period were avoided financial reports to outsiders or determination of income or tax due to government and allied parties. The system still reveals that the accounting system at that period was of course fulfilling the societal needs and expectations of the users of financial statements. Fu (1971) argued that the accounting systems that were mostly used by feudal and expansionist for merchants and estates in China, under Chou dynasty (1122 - 1256), allowed for large physical distances and several layers or hierarchies. The surplus products however were collected for export and were used outside China, (Yameh, 1940). In a recent research, Ahmed (2000) has argued that, funds accounting system exists in the form of general reserve fund, special reserve fund and reserve fund. The source of the goods, the purposes for which they were used, the frequency of taxes being levied and each tax ceiling were all bases of accounting system. Perara and Mathew (1966), believes that the coinage was invented probably in Lydia at about 700BC as a result of difficulties experienced in maintaining the records and other inherent factors associated with barter system. It is worthy to mention that the early accounting records were found on stones and marble tablets in the Parthenon building accounts in Athens and Acropolis.

III. WHICH FACTORS ARE AFFECTING THE ACCOUNTING SYSTEMS

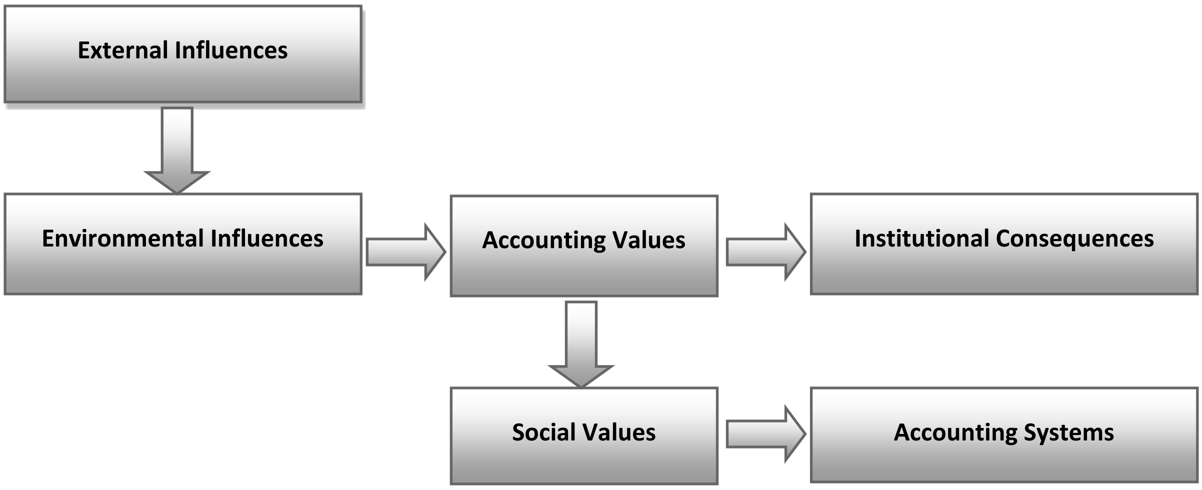
Each country's accounting system is affected by several important factors and the possibility these factors that affecting one country will be the same as those affecting another is minimal. This suggests that national specificities are reflected in accounting, and this is also obvious and in accounting differences at international level. Therefore, the link between the accounting systems and the environment of a country is important.

The factors that are affecting accounting are:

- The capital market, which refers to the classification of countries depending on the sources of funding that prevail (debt securities, loans) and the influence of globalization on the market
- The financial reporting systems
- The type of businesses. It is important to know the type of businesses in a country, their size and the status of the ownership
- The legal system, which, depending on the legal rules, leaves more or less room for interpretation on the part of the accountants
- Implementation of the legal system to demonstrate whether the law is being implemented in practice
- The level of inflation. Inflation is critical, since it affects the valuation level of the property
- Political and economic relations with other countries, which are the result of international trade.
- The quality of education in Accounting, which is directly related to the level of the knowledge society and the status of the accounting profession (Cerne, 2009).
- Culture, since the interaction of groups is of primary importance in Accounting
- The professionalism of accountants. In his paper Grey (1988) mentioned the accountant's professionalism and he argued that the social values and behavior of accountants are the result of social and working conditions.

The following figure demonstrates the interaction of external factors, environmental conditions and social values, which lead to the formation of institutional consequences. According to Gray (1988) all this is proven that they affect book values and accounting systems.

Figure 2: The Gray's model



Source: Gray, S. J., (1988)

IV. THE ACCOUNTING SYSTEM OF BULGARIA AND ITS CLASSIFICATION

The concept of Accounting Standards was presented in Bulgarian legislation for first time in early 1991. That was impossible to happen earlier because of the Communist regime which required the use of a completely different accounting system for meeting the needs of the centrally planned operation economy. That system was mainly oriented in the direction of the protection of state property, the achievement of planned central government objectives and to control production costs rather than in the direction of providing information to non-business entities for making decisions (e.g to make investments).

Accounting was limited to the recording of accounting events and financial procedures, and the accountants of the business were not able to process commercially and in the interest of the business, and moreover, they were not able to adopt an independent accounting policy. The only interested party for the financial statements was the state, which required, besides the financial statements, a large amount of statistical data (Lindahl & Schadéwitz, 2018).

Following the fall of the regime and the normalization of the situation, the Law for Accounting was passed in 1991. This Law was a natural consequence of the desire of the Bulgarian economic world to follow international and European developments in the field of Accounting. No coincidence that this first Law stated that "the Council of Ministers approves the National Accounting Standards and the National Accounting Plan that is in line with the International Accounting Standards as they are in force today". As we can see, Bulgaria has shown from the very beginning its intention to follow international developments and to participate actively in efforts to adopt common international accounting practices (Jensen and Smith, 1985).

Of course, the process of adopting and applying new accounting principles and practices was not an easy task, because for the accounting world of Bulgaria many of these principles were unprecedented. Beyond that, Bulgaria had to face the dilemma of adopting the Anglo-Saxon or the European Accounting Model. Since the beginning of the accounting reform in 1991, Bulgarian Laws have been closer to European accounting practices than to Anglo-Saxon (i.e the International Accounting Standards) (Bailey and Wild, 1998).

That was perfectly reasonable because until the beginning of the 1950s the Bulgarian Commercial, Tax and Accountancy Laws were in harmony with the corresponding Europeans Laws and more specifically with the Germans. This fact and according and to the geographical proximity of Bulgaria's desire to join the European Union and the national experience and traditions in accounting organization, led to the adoption of European rather than the Anglo-Saxon accounting techniques in this first period after 1991 (Ballas et al, 1999).

Regarding the accounting assumptions and principles, this Law provided for the following: Assumption of the Autonomy of Management Periods, Acceptance of Continuity of Business Activity, Principle of Obligation, Principle of Objectivity and Principle of Consistency. The introduction of the above assumptions and principles was an innovation in Bulgarian accounting practices as the new Laws brought a change in the concept of Accounting which was no longer governed by detailed regulations which were covering all its functions, but by a framework of general and simple rules which should be followed for the preparation of the financial statements of the enterprises.

However, very soon the dilemma of fully adopting the accounting principles advocated by International Accounting Standards or the continuation of alignment with the principles of European accounting, combined with the preservation of certain principles based on national experience, emerged again. In the end, it was decided to adopt the national currencies to international practice, as in many cases Bulgaria's accounting practices were difficult for foreign investors, which was an obstacle to the inflow of foreign capital into the country.

A typical example of this problem was the documentation of all economic enterprise agreements and their accounting representation, although these international practices are not subject to accounting treatment since it is not a financial transaction. The changes that were followed in the content of the 1991 Law and in a series of laws eventually resulted in the complete alignment of Bulgarian legislation with international practice on this issue, as in many others. In particular since 1996, it has attempted to harmonize with International Accounting Standards by adopting Principles such as the Correlation of Revenues with Expenses and Historical Costs.

Nevertheless, Bulgaria throughout that period wavered between harmonization with International Accounting Standards on one hand and European practice on the other. For example, the principle of presentation in fairly values the assets of the company (provided by the International Accounting Standards), it was still unknown. Following the European practice, asset impairment was, but the increase was not allowed.

Besides that, there was a great dependence on Accounting from taxation, which not only hindered Accounting, but many times, lead to a compulsive breach of accounting principles in order to bring them into line with state requirements for greater taxation.

The year of 1998 was a year of significant changes in national laws. These changes primarily aimed at the adoption of the principles underpinned by the International Accounting Standards. By that year there was a significant shift towards International Accounting Standards against the European accounting practices. Until then they had mostly affected the national accounting practices. From that point and then, Bulgarian Accounting Standards were increasingly following the Anglo-Saxon model, leaving behind European Accounting Principles. The reasons that led to this shift are many but the most important ones are:

- At the end of 1997, many foreign companies and banks already operated in Bulgaria had a greater need for accounting information based on International Accounting Standards than on European and, consequently, Bulgarian practices.
- The large number of privatizations undertaken by the Bulgarian state over the two years 1997-1998 led to major changes in ownership. The first reserves created by the privatization were planned to be invested later in joint investment companies.
- At that time, the Bulgarian Stock Exchange was taking its first steps and therefore raised the need for adopting internationally reliable operating rules.

Regarding the new Principles that were adopted, the most important Principle was the Fair Value Presentation of the Company's assets. That principle is the product of the Anglo-Saxon Accounting System and requires the presentation of financial statements to fair and objective values. Its adoption is the result of the view that everything should be reviewed for the sake of accurate and realistic representation of the financial situation of the company. The content of this principle is related to the degree of usefulness of the accounting information that appears in the financial statements for decision-making. A truly active entity is the one which there is no need to liquidate it or there is no need for a significant limitation of its activity in a time horizon of one year from the date of preparation of its financial statements (Bellanca eta al, 2015).

Nevertheless, the accounting principles applied in Bulgaria have continued to have a simple statement character, without being clearly understood by the professional accountants. Beyond that, the annual financial statements continued to be affected and following current accounting practice rather than International Accounting Standards (Baker et al., 2015).

Finally, with the changes made in early 2002, a decisive step towards the full adoption of International Accounting Standards has been taken place. It was found that Bulgaria cannot be an exception to international practices and it was considered necessary to fully implement it, since the Bulgarian economy is not a specialized economy with specificities that would allow and perhaps impose the use of rules different from those stipulated by the International Accounting Standards. That was also helped by the acceptance by the part of the EU Member States of the idea that International Accounting Standards can be an internationally common principle for the compilation of corporate financial statements. That idea was implemented in practice in 2005 with the Directive on the Mandatory Preparation of the Financial Statements of listed companies in the European Union Member States on the basis of International Accounting Standards (Dassi et al, 2016).

In 2005 we have the full implementation of International Accounting Standards in Bulgaria, which had already imposed their use since 2003 to banks, insurance and investment joint stock companies and a series of public institutions such as pension funds. It is worth to mention that the Law provided their mandatory application not only by large companies but and by all small and medium-sized enterprises. In particular, it defined as a limit for the application of International Accounting Standards, an annual turnover of more than 50,000 Bulgarian Leva. That has caused a great reaction to the country's business world, as it believed that the cost of accounting would be greatly increased. Finally, in 2006, a new legislative act revised that provision, which now provides the application of International Accounting Standards by small and medium-sized enterprises only on a voluntary basis.

V. CONCLUSION

The process of adopting and applying new accounting principles and practices was not an easy task for Bulgaria, because for the accounting world of the country many of these principles were unprecedented. Beyond that, Bulgaria had to face the dilemma of adopting the Anglo-Saxon or the European Accounting Model. Since the beginning of the accounting reform in 1991, Bulgarian Laws have been closer to European accounting practices than to Anglo-Saxon (International Accounting Standards). The changes that have been made in early 2002 have prompted the countries of the Balkans to adopt International Accounting Standards. Bulgaria has been found that it couldn't be an exception to international practice. It has been considered necessary to fully implement them, as the Bulgarian economy is not a specialized economy with particularities that would allow and perhaps impose the use of rules different from those provided by International Accounting Standards.

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