
The New Accountancy Act of Bulgaria

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*Accounting
newsletter*

PwC Bulgaria



In brief

A new Accountancy Act of Bulgaria was announced in the State Gazette No. 95 on 8 December 2015. The aim of the new act is to transpose the requirements of the Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013. The major objective of the Directive is to reduce the administrative burden on the small and medium business in the European Union. As a result of this, the new Accountancy Act of Bulgaria impacts the local companies in the following ways.

- The act has introduced categorisation of entities and groups based on their reported sales revenue, total assets amounts, and average number of employees.
 - The act has specified different reporting requirements for each category of entities and groups.
 - New criteria to the financial statements that need to be audited have been set out.
 - The deadlines for announcing the financial statements have been unified and shortened for some entities compared to the current regime.
 - Increased penalties have been introduced especially in cases of late announcement of financial statements.
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Categories of entities

The new Accountancy Act of Bulgaria introduces for the first time categories of entities based on sales revenue, total assets, and average number of employees. The table below summarises the categories of entities and the criteria that need to be met for each category.

Criteria	Micro-entities	Small entities	Medium-sized entities	Large entities
Total assets at 31 December	< BGN 700,000	< BGN 8,000,000	< BGN 38,000,000	> BGN 38,000,000
Net sales revenue for the year	< BGN 1,400,000	< BGN 16,000,000	< BGN 76,000,000	> BGN 76,000,000
Average number of employees for the year	< 10	< 50	< 250	> 250

If an entity meets two out of the three criteria for a certain category as at 31 December, it is deemed to be in the same category. Subsequent changes of the entity's category will happen if it ceases to meet at least two of the criteria for its category for two consecutive years.

Categories of groups

A group is a Bulgarian parent entity and all its subsidiary entities. The table below summarises the categories of groups and the criteria that need to be met for each category.

Criteria	Small groups	Medium-sized groups	Large groups
Total assets at 31 December	< BGN 8,000,000	< BGN 38,000,000	> BGN 38,000,000
Net sales revenue for the year	< BGN 16,000,000	< BGN 76,000,000	> BGN 76,000,000
Average number of employees for the year	< 50	< 250	> 250

If a group meets two out of the three criteria for a certain category as at 31 December, it is deemed to be in the same category. Subsequent changes of the group's category will happen if it ceases to meet at least two of the criteria for its category for two consecutive years.

Content of the financial statements

The new Accountancy Act introduces the following minimum requirements to the content of the financial statements.

	Balance sheet/ Statement of financial position	Income statement / Statement of total comprehensive income	Statement of changes in equity	Statement of cash flows	Notes to the financial statements
Micro-entities	√	√	x	x	x
Small entities	√	√	x	x	√
Medium-sized entities	√	√	√	√	√
Large entities	√	√	√	√	√
Public interest entities ¹	√	√	√	√	√

Micro-entities and small entities are required to prepare abridged balance sheets and income statements as minimum.

A parent entity of a small group is not required to prepare consolidated financial statements if none of the group entities is a public interest entity.

Parent entities that are required to prepare consolidated financial statements must prepare full set of financial statements in accordance with the applicable accounting standards.

Basis of preparation of the financial statements

The entities are required to apply the following accounting standards as a basis of preparation of their financial statements.

	IFRS	National Accounting Standards
Micro-entities	x	√
Small entities	x	√
Medium-sized entities	x	√
Large entities	x	√
Public interest entities	√	x

Entities that are required to apply the National Accounting Standards are allowed to choose the International Financial Reporting Standards (“IFRS”) as a basis of preparation. However, once they have chosen the IFRS as a basis of preparation, they are not allowed to apply National Accounting Standards in the future.

Regardless of the above, micro-entities, small entities, and medium-sized entities that already apply the IFRS as of 31 December 2015 can choose to apply National Accounting Standards. This is one-off option.

Entities in liquidation are required to apply the National Accounting Standards.

Groups that prepare consolidated financial statements must apply the accounting standards that they use for the preparation of the parent-entity’s individual financial statements.

^[1] Public interest entities are (i) entities whose transferrable securities are traded on a regulated market of any Member State; (ii) credit institutions; (iii) insurance institutions; (iv) pension funds; (v) investment intermediaries; (vi) mutual funds; (vii) financial institutions; (viii) Bulgarian State Railroads Holding and Railroad Infrastructure Company; (ix) all entities producing, distributing or trading with electricity and meet the criteria for large entities; (x) all entities importing, distributing or transiting natural gas and meet the criteria for large entities; and (xi) all entities supplying water and maintaining water pipe systems.

Additional reports and statements

Entities are or might be required to prepare a management report, a corporate governance statement, a non-financial declaration, and a report on payments to governments. The requirements to each category of entities are summarised in the table below.

	Management report	Corporate governance statement	Non-financial declaration	Report on payments to governments
Micro-entities	√ ¹	x	x	x
Small entities	√ ²	x	x	x
Medium-sized entities	√	x	x	x
Large entities	√	x	x	√
Public interest entities	√	√ ³	√ ⁴	√

The management report shall include a fair review of the development and performance of the entity's business, together with a description of the principal risks and uncertainties.

The non-financial declaration is a description of the entity's policies in respect of ecology, social responsibility, human rights, diversity, and religion, and others.

The report on payments to governments shall be prepared by large and public interest entities operating in the extractive industry or the logging of primary forests. Only certain type of payments to governments shall be reported in case they exceed the threshold of BGN 195,600 annually.

Audit of the financial statements

The financial statements of the following entities are subject to independent audit in accordance with the New Accountancy Act.

- Small entities that exceed two of the following three criteria as of 31 December:
 - ✓ Total assets value – BGN 2 million;
 - ✓ Net sales revenue for the year – BGN 4 million;
 - ✓ Average number of employees for the year – 50.
- Medium-sized entities;
- Large entities;
- Public interest entities;
- Medium-sized groups;
- Large groups;
- All groups in which at least one entity is a public interest entity;
- All subsidiary entities and a parent entity in case the consolidated financial statements are subject to audit;
- All entities for which such requirement is introduced by another law;
- All joint stock entities and all partnerships limited by shares irrespective of the category to which they belong unless they have not performed activity during the year;
- Certain not-for-profit entities.

^[1] Micro-entities that are not investment entities and financial holding entities and whose financial statements are not subject to audit may not prepare management report if they disclose information about share buy-backs in the notes to the financial statements.

^[2] Small entities that are not investment entities and financial holding entities and whose financial statements are not subject to audit may not prepare management report if they disclose information about share buy-backs in the notes to the financial statements.

^[3] Applicable only to (i) entities whose transferrable securities are traded on a regulated market of any Member State; (ii) credit institutions; (iii) insurance institutions

^[4] Applicable to public interest entities that are large entities and have average number of employees for the year exceeding 500.

Announcement of the financial statements

According to the new Accountancy Act, financial statements of all entities should be announced by 30 June of the year following the reporting year as follows.

- All traders - with the Commercial Register;
- Certain not-for-profit entities - with the Register of the Ministry of Justice;
- All other entities - in an economic newspaper or a magazine, or on the Internet.

Small entities whose financial statements are not subject to audit may not publish their income statements and management reports.

Penalties

The penalties that may be imposed under the new act are higher compared to the current regime and vary between BGN 500 and BGN 15,000.

There is a significant increase in the penalty charge for late announcement of the financial statements. The penalty charge may vary between 0.1 and 0.5% of the net sales revenue of the entity for the year.

Let's talk!

For a deeper discussion of how these issues might affect your business, please contact:

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