



New Accountancy Act

KPMG in Bulgaria

An aerial photograph of a snowy, mountainous landscape. Several tracks, likely from skis or snowshoes, are visible, curving through the white snow. The tracks are darker, showing the underlying ground or snow texture. The overall scene is bright and wintry.

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What's new?

The new Accountancy Act (AA) was promulgated in the State Gazette on 8 December 2015. It is effective from 1 January 2016 and transposes the requirements of Directive 2013/34/EU. The Act lays down significant changes in relation to definitions, classification of entities, requirements for preparation and audit of financial statements, and introduction of new mandatory reports that have to be prepared by certain entities.

The changes will affect all entities and the most significant ones are the new requirements for public interest entities and the requirements for publication of new reports together with the annual financial statements. Some exemptions are envisaged for the smaller entities.

Effective date

The Act is effective from 1 January 2016, except for the provisions for the newly introduced non-financial declaration which are effective from 1 January 2017.

The preparation and audit of the financial statements and annual reports of the activities for 2015 will be performed in accordance with the provisions of the revoked Accountancy Act.

Overview of the amendments set out in the new Accountancy Act

The amendments in the new AA will affect all entities.

- Introduction of new definitions and classifications of entities.
- Amendments to the criteria for mandatory application of the International Financial Reporting Standards (IFRS) and introduction of the option to revert back to application of the National Accounting Standards (NAS) for entities currently applying IFRS.
- Mandatory preparation of new reports for certain entities.
- Amendments to the criteria for statutory financial audit
- Introduction of new additional reports (services) required from the auditors for certain entities.
- Change in some of the requirements which allow for the preparation of condensed financial statements.
- Changes in the provisions regulating the exemption from preparation of consolidated financial statements (CFS).
- Introduction of a definition of accounting entity.
- Alignment of the deadlines for publication of the annual financial statements and other reports for all entities – 30 June of the following year.
- The obligation for translation of all accounting documents into the Bulgarian language is waived.
- A significant increase in the sanctions for non-compliance with the provisions of the new AA.

New categories for entities and groups

The classification of entities and groups of entities is at the core of the provisions of the new AA as different new requirements will apply on the basis of the categories – for example, the preparation of additional reports.

Entities are included in the respective category when as at 31 December of the current reporting period they do not exceed at least two out of the following three criteria:

	Micro entities	Small entities	Medium entities	Large entities
Carrying value of assets (BGN)	700,000	8,000,000	38,000,000	> 38,000,000
Net sales revenue (BGN)	1,400,000	16,000,000	76,000,000	> 76,000,000
Average personnel	10	50	250	> 250

“Group of entities” means the parent company and all of its subsidiaries.

Groups are included in the respective category when on consolidated basis as at 31 December of the current reporting period they do not exceed at least two out of the following three indicators:

	Small groups	Medium groups	Large groups
Carrying value of assets (BGN)	8,000,000	38,000,000	> 38,000,000
Net sales revenue (BGN)	16,000,000	76,000,000	> 76,000,000
Average personnel	50	250	> 250

Entities and Groups determine their category for 2016 in accordance with their benchmarks as at 31 December 2015.

Public interest entities (PIEs)

Health insurance entities and those providing telecommunication services are no longer PIEs.

For the entities under bullets e), f), g), i), and j) there are also quantity criteria in order to be classified as PIEs.

Every PIE must have an audit committee in accordance with the requirements of the Independent Financial Audit Act and additional reports are required for these entities together with the annual financial statements.

The public interest entities (PIE) in accordance with the new AA are listed below. As compared to the previous definition, the underlined ones were not PIEs before:

- a) Entities whose transferrable securities are admitted to trading on a regulated market of a European Union Member State
- b) Credit institutions
- c) Insurance and reinsurance undertakings
- d) Pension insurance companies and funds managed by them
- e) Investment intermediaries which are large enterprises as defined in the AA
- f) Collective investment schemes and management companies within the meaning of the Collective Investment Schemes and Other Undertakings for Collective Investments Act which are large enterprises as defined in the AA
- g) Financial institutions within the meaning of the Credit Institutions Act which are large enterprises as defined in the AA
- h) Holding Bulgarian State Railways EAD and its subsidiaries; National Railway Infrastructure Company
- i) Commercial entities whose primary business activity is to produce and/or transfer and/or sell electricity and/or thermal power and which are large enterprises
- j) Commercial entities whose primary business activity is to import and/or transmit and/or distribute and/or transit natural gas and which are large enterprises as per this Act
- k) Commercial entities whose primary business activity is to provide water supply and sewerage.

Preparation of annual financial statements (AFS)

Depending on their classification, the entities apply different criteria for the preparation of AFS.

- The AFS of medium-sized and large enterprises, as well as of PIEs, are to be prepared as a full set in accordance with the applicable accounting standards.
- The AFS of small enterprises may consists of a condensed balance sheet, condensed statements of income and expenses by components and groups and notes (pursuant to the revoked AA, the above is applied by companies which apply a simplified form of financial reporting – do not exceed 2 of the following 3 criteria: assets – BGN 1.5 million; revenue – BGN 2.5 million and number of employees – 50).
- The AFS of micro enterprises may consists only of a condensed balance sheet and condensed statements of income and expenses by components (does not apply for investment companies and financial holding companies classified as micro enterprises).
- The AFS of sole proprietors which are not subject to statutory audit, with sales revenue below BGN 200,000, may consist only of a statement of income and expenses (according to the revoked AA, the above is applied only when the amount of revenue does not exceed BGN 100,000).
- In accordance with the new AA, the enterprises stated above (micro, small and sole traders which are not subject to statutory audit) may optionally prepare a full set of financial statements.
- It is specifically required that the AFS are signed by the manager of the entity and a definition is included: “manager of the entity” – a person or persons who personally manage the entity in their capacity of owners, managers or by virtue of an authorization by a contract and who take responsibility for the whole economic activity of the entity before the owner or owners – shareholders, partners, before the local authorities or the state.

Applicable accounting standards

It is now possible for entities that currently apply IFRS to have a one-off choice to apply NAS.

The preparation and audit of the financial statements and annual reports of the activities for 2015 will be performed in accordance with the provisions of the revoked AA.

Application of IFRS	Revoked Act	New Act
Carrying value of assets (BGN)	8,000,000	PIE
Net sales revenue (BGN)	15,000,000	
Average personnel	250	

- Public interest entities prepare their financial statements in accordance with IFRS and all others apply NAS.
- The option for a one-off and irreversible selection of IFRS is retained.
- The CFS are prepared in accordance with the accounting standards which are applied for the preparation of the AFS of the entity which prepares the CFS.
- Non-profit legal entities, regardless of their classification, prepare AFS in accordance with NAS.
- Introduction of the option for a one-off transition to application of NAS for certain entities currently applying IFRS.
- Entities which, as at 1 January 2016, meet the criteria for micro, small or medium-sized enterprise and prepare annual financial statements in accordance with IFRS may make a one-off transition to application of NAS.
- Large enterprises prepare annual financial statements for 2016 in accordance with IFRS and may make a one-off transition to NAS from 1 January 2017.

Consolidation and exemption from consolidation

Some entities may be exempt from the obligation to prepare CFS.

The rules for such an exemption in the AA are ambiguous and may contradict the requirements of the applicable accounting standards.

- CFS are prepared by a parent company in accordance with the rules and requirements of the applicable accounting standards – NAS or IFRS.
- In accordance with the new AA, CFS do not have to be prepared by a parent company of a small group, unless at least one PIE is part of the group.
- Lack of clarity (possible contradiction with IFRS or NAS) in terms of exemption from the requirement to prepare consolidated financial statements for a large and medium-sized group, as well as a small group, part of which is at least one public interest entity (the AA specifically requires statutory audit of CFS of a PIE and medium and large entities and groups, as well as groups in which there is at least one PIE).

New mandatory reports for certain entities

New mandatory reports are introduced that are to be prepared and published together with the AFS in addition to the annual report on activities:

1. Report on payments to governments
2. Non-financial declaration
3. Corporate governance declaration

Exemption from preparation of activity report for micro and small enterprises

Micro and small enterprises which are not subject to statutory independent financial audit do not have to prepare an annual report on the activities, provided that the information regarding the acquisition of own shares, required as per Article 187e of the Commerce Act, is disclosed in the notes to the annual financial statements (does not apply for investment companies and financial holding companies classified as micro and small enterprises).

Report on payments to governments

It is required from large enterprises and all PIEs active in the extractive industry or the logging of primary forests; to be published together with the AFS. If the entity is required to prepare CFS, a consolidated report on payments to governments is prepared.

The report is to include the total amount of payments to each government by types, for example:

- Copyright, licensing and related rights
- Dividends
- License fees, rents, registration fees and other considerations for licenses and concessions
- Payments for infrastructure improvements.

An annual report on payments to governments is not prepared in the case of a one-time payment or a series of related payments amounting to not more than BGN 195,600 were made during one reporting period.

New mandatory reports for certain entities

When a parent entity is required to prepare annual and consolidated report on the activities, the two may be presented as one single report.

Corporate governance declaration

Issuers of listed securities, credit institutions, insurance undertakings and reinsurance undertakings include in their annual report on the activities a corporate governance declaration in accordance with the Public Offering of Securities Act.

The corporate governance declaration may be prepared as a separate report published together with the activity report; or a document which is publicly accessible on the website of the entity.

Non-financial declaration

Large enterprises which are PIEs and which, as at 31 December of the reporting period, exceed the criteria for average number of employees during the financial year – 500 employees, include a non-financial declaration in their annual report on the activities.

The non-financial declaration contains descriptions of the policies of the entities in relation to their activities in the field of ecology, social issues and those related to the employees, human rights, anti-corruption activities, gender diversity and equality in management functions of enterprises – number of female and male employees, age, geographical diversity, education, professional qualities, religion.

The required content of the non-financial declaration may be prepared as a part of the annual report of the activities or as a separate report which has to be published together with the annual report of the activities and the AFS.

An entity which is itself a subsidiary does not prepare a non-financial declaration if the entity and its subsidiaries are included in the consolidated report of the activities or in the separate non-financial declaration of another entity prepared in accordance with the requirements of the new AA.

PIEs, which are parent companies of a large group and which, as at 31 December, exceed on a consolidated basis the criteria for average number of employees during the financial year – 500 employees, include in their consolidated annual report of the activities a consolidated non-financial declaration.

Acceptance and publication of AFS

The deadline for publication of AFS and CFS for all entities is 30 June of the following year; this also applies to the reports for 2015.

- All entities publish their AFS, CFS and the annual reports required under Chapter 7 of the AA approved by the General Shareholders Meeting or by the respective committee; for all traders, this is done through filing with the Commercial Register before 30 June of the following year.
- Small enterprises which are not subject to statutory independent financial audit do not have to publish their statements of income and expenses and activity reports.
- Sole traders which are not subject to statutory independent financial audit are not required to publish their AFS.
- The publication of financial statements and annual reports of the activities for 2015 is to be carried out in accordance with the new AA.
- The Branches of foreign entities are not required to file their AFS in the Commercial Register but only publish them in an economic magazine or on the internet.
- A parent company which is also a subsidiary and according to the applicable accounting standards is not required to prepare consolidated financial statements publishes, within the same deadline, consolidated financial statements and consolidated activity report in the Bulgarian language prepared by the parent company.
- Annual financial statements and the annual report of the activities are published in the same form and text as the ones on which the auditor expressed its opinion, accompanied by the complete text of the auditors' report.
- The decision of the sole owner/shareholders meeting for the acceptance of the AFS is to contain information about the proposed profit distribution, coverage of losses and others, i.e. it would not be possible to have "boilerplate decisions" which contain only one item, namely "the AFS for the year xxxx are approved". This applies to joint-stock entities, partnerships limited with shares and limited liability entities that are medium and large entities or PIEs. It is required that this decision be published before 30 June of the following year together with the AFS.

Requirements for statutory financial audit

The quantity thresholds for statutory financial audit are amended. There is a possible contradiction in the AA with regard to parent companies that are exempt from preparation of CFS under the applicable accounting standards.

Criteria for audit	Revoked Act	New Act
Carrying a value of assets (BGN)	1,500,000	2,000,000
Net revenue from sales (BGN)	2,500,000	4,000,000
Average personnel	50	50

- Micro enterprises which are not PIEs are exempt from statutory audit.
- AFS and CFS of joint-stock companies and limited partnerships with shares are subject to statutory financial audit, except for the cases these companies have not performed activities during the reporting period.
- Statutory independent financial audit is required for the AFS and CFS of PIEs and of medium-sized and large enterprises and groups, as well as groups part of which is at least one PIE.
- The CFS and AFS of the entities included in the consolidation are subject to statutory independent financial audit.

Non-profit legal entities (NPLE)

- There are no changes in the criteria for statutory independent audit for NPLE designated to perform activities of public benefit.
- There is a new requirement for statutory audit of NPLE designated to perform activities of public interest whose activities are in accordance with Article 116 of the Family Code, irrespective of the size of their assets and financing obtained and the net revenue from their activities.

New requirements of auditors of annual financial statements

Previously, the auditors reported on the compliance of the financial information in the annual report of the activities with the financial statements.

According to the new Act, auditors will issue an opinion on the new mandatory reports as well.

In addition to the current requirements, the auditor is required to express a statement on whether:

- The activity report is prepared in accordance with the applicable legal requirements and to state whether, as a result of the acquired knowledge and understanding of the activity of the company and the context it operates in, the auditors have identified cases of material misrepresentations in the activity report, and state the nature of the misrepresentation.
- The information required by the relevant regulations is presented in the corporate governance declaration.
- A non-financial declaration is presented and whether it is prepared in accordance with the requirements of the AA.
- A report on payments to governments is presented and whether the report is prepared in accordance with the requirements of the AA.

Sanctions

The sanctions for all cases of non-compliance with the AA have been increased significantly.

- The sanctions for non-compliance with the new law have been increased significantly – for example, if AFS have not been published in the Commercial Register, the entity may have to pay a penalty in the amount of 0.1 to 0.5 percent of the net revenue from sales.
- When the financial statements have been initially filed for publication within the deadline (before 30 June) and a refusal for publication has been issued in accordance with Article 22, paragraph 5 from the Commercial Register Act and within 14 days of its effective date a second application for publication is submitted, it is considered that the financial statements have been filed on time.
- If the requirement to appoint a statutory registered auditor is not met, the penalties for the responsible person are in the amount of BGN 500 to BGN 5,000 and, for the entity, they are in the amount of BGN 2,000 to BGN 10,000. The revoked Act did not provide for such a sanction expressly.

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