TRANSITIONAL MANUAL

ON

UNIFORM CHART OF ACCOUNTS FOR BUDGETARY ORGANIZATIONS

A. INTRODUCTORY PART

I. Common structure of the Uniform Chart of Accounts and rules for usage.

1. The structure underlying **the Uniform Chart of Accounts for Budgetary Entities (CABE)** is analogous to that of the **National Chart of Accounts (NCA)** and it follows the same classification and grouping rules. The structure of the **UCABE** consist of **4 levels – sections (one digit code), groups (two digits code), subgroups (three digits code) and General Ledger accounts (four digits code)**.

2. By analogy with the NCA **8 sections** have been used for classification of accounts, **five** to account for balance-sheet paragraphs - assets, liabilities and equities, **two - for expenses and revenue**, and one for off balance sheet items. The numbering items and the scope of the objects accounted for in the sections correspond to that in the NCA with only two main exeptions – all the financial assets have been located only in **Section 5,** while prepaid expenses and deferred revenue accounts are included in **Section 4.** There is correspondence on **groups and subgroups** level (General Ledger accounts with 3 digital code in the NCA) in a number of cases, such as fixed assets and inventory accounts, as well as in a part of expenses accounts (the accounts reflecting the break down of expenses by business elements .

3. The budgetary entities are authorised to apply only the General Ledger accounts indicated in UCABE without using the free codes in the UCABE to create new General Ledger accounts. **Only the Ministry of Finance is authorised to open new General Ledger accounts, groups, subgroups and sections.**

4. Budgetary organisations **will be authorised to open a sub-account** with each General Ledger account (the four-digit code) in respect to their specific requirements and needs except for the cases when the MoF has defined some sub-accounts for compulsory application. A definite procedure will be observed for opening and authorisation for usage of budgetary entities' sub-accounts included in the Financial Management Information System.

II. Accounting units and groups inside budgetary entities.

5. The separate budgets, accounts and funds (in the financial and legal context of raising, spending and accounting for funds) are considered as **separate accounting units for the purposes of public finances, management and control.** This means that assets, liabilities, revenues and expenses have to be identified and accounted within corresponding budgets, accounts and funds.

6. Treatment of a separate budget, account or fund as an autonomous accounting unit means, that a complete and interrelated system of accounts will be kept, allowing the identification, differentiation and maintenance of the basic accounting equation: **Assets=Liabilities+Equity**

7. From this point of view the organisational unit itself (the budgetary entity as a legal entity) which is applying the corresponding budgets, accounts or funds, represents an aggregation of separate independent accounting units, and should be considered rather as a consolidated group of accounting entities than as a separate accounting unit.

8. In this context line the budgetary entities' accounting, based on the structure of public finances in Bulgaria which is regulated by the **Budget Organic Law (BOL), the Law on Municipal Budgets (LMB), the Mandatory Social Insurance Code (MSIC**) and other laws, forms three separate **accounting groups – "Budget", "Extra-Budgetary Accounts and Funds" and "Other accounts and Activities"** (SAP R3 uses the term "business areas").

9. The scope of the **"Budget" group** includes the assets, the liabilities, the revenue and the expenses incurred, accrued or related to the business activity of the entity. Transactions' accounting and balance sheet paragraphs on accrual basis of the budgets as well as budgetary accounts of the budgetary appropriation spending units belonging to a first level spending unit fall into this group.

10. In a similar way, the **"Extra-budgetary accounts and funds" group** encompasses the accounting for extra-budgetary accounts and funds in operation within the budgetary entity.

11. All accounting items not included in the above groups such as **bank suspense accounts,** transactions and balances as well as all accounting items, which supposedly are not connected to the current budgetary or extra budgetary activity of the budget entity will be included in the "Other Accounts and Activities" group.

BUDGETARY ENTITIES' ACCOUNTING (on accrual basis)

"BUDGET	**"EXTRABUDGETARY ACCOUNTS AND FUNDS"**	**"OTHER ACCOUNTS AND FUNDS"**
- budgets and budget accounts of structural units and sections of a budgetary entity	- extrabudgetary accounts and funds opened by virtue of a law; - extrabudgetary funds as per **Art. 45, art. 2** of the Organic Budget Law and **Art.42,item 2** of the Law on Municipalities Budget	**- accounts payable/receivable** operations; - other positions, not related to budgetary/ extrabudgetary activity

12. Those groups are considered to be independent from accounting point of view, though the respective assets, liabilties, revenues and expenses eventually belong to one legal entity – the budgetary entity. This means that in the daily posting the business transaction will reflect **only one accounting group (business area)** – i.e.debit an account of one group/business area **with the corresponding credit to an account** of another group/business area is **not allowed**. When a transaction or an event concerns two separate accounting groups/business areas simultaneously, separate postings under the accounting groups concerned are to be entered. For instance, if there is a transfer-in from an extra-budgetary account to the budget of the respective budget entity, the bank budgetary account in the **"Budgets" accounting group *is debited* with the corresponding credit** to the "Transfer from Extra-budgetary Accounts and Funds" account. In the same time a separate posting is entered with the **"Extra-budgetary Accounts and Funds" accounting group**, ***debiting*** the budget transfer-out account against ***crediting*** the bank extra-budgetary account.

13. The above structure of accounting information on accrual basis follows the same scheme and logic as those of the cash based accounting for budget execution. Reports for the execution of the budget and the extra-budgetary accounts and funds are prepared on the basis of the **Budget Classification /BC/.** Separate reports are prepared for each budget, account or fund. The information is processed on a cash basis and the reports are consolidated separately and presented in accordance with the structure of Public Finances. Afterwards they are consolidated as a whole, following the correspondent positions of the BC in the Report on the Consolidated Fiscal Program.

14.The above structure of the accounting information as well as the fact that the budgets, accounts and funds are treated as accounting units leads to the omission of the following revenue and expense accounts from the NCA: **641 "Expenses Covered by the State Budget", 643 "Expenses Covered form Extra-budgetary Accounts", 741 "State Budget Revenue", 742 "State Budget Revenue for Distribution" and 743 "Extra-budgetary Revenue".** Following the definition of codes for the separate business areas in the FMIS **(1000** for the *"Budgets*" accounting group, **2000** for the *"Extra-budgetary accounts and funds"* accounting group and **3000** – for "*Unusual accounts and activities"),* there is no need to maintain such accounts. The definition of those business areas permits the application this basic concept of budgetary entities' accounting not only to revenues and expenses but also to assets and liabilities.

III. Reimbursed revenues and expenses

15. In the accounting for reimbursed revenue/expenses including the cases when this happens during the next accounting year the same approach is applied as that applied to the preparation of reports for the budget and the extra-budgetary accounts and funds on a cash basis in compliance with the **Budget Classification -** the revenue and expenses reimbursed (or liable for reimbursement) are accounted for as decreases in revenue or expenses, as applicable respectively expenditure's decrease.

16. The decrease in revenue is posted through ***debiting*** the corresponding **revenue account** with the corresponding ***credit to*** the bank or other account payable. Similarly, the reimbursement of the expense is accounted for by ***crediting*** the corresponding **expense account** with the corresponding ***debit to*** the bank or other account receivable.

IV. Resident and Non-resident Entities Classification

17. One of the main classification criteria included in the structure of CABE is the differentiation in the operations and balance-sheet accounts between resident and non-resident entities.

18. For the purposes of the CABE the two terms **"resident entities"** and **"non-resident entities"** used in it have been overlaid (exceptions being indicated in **item 19)** with the legal definitions of those notions in **§ 1, items 2 and 3 of the Currency Law:**

Extract from the Currency Law (State Gazette, 83/1999, effective since 01.01.2000):

§ 1 additional regulation:

……………………………………….

2. "**Resident entities" are:**

a) Individual who is permanently residing in the country or who has been allowed to reside in the country for more than 6 months;

b) Legal entity domiciled in the country;

c) Legal entity domiciled abroad – only for the business carried out in the country through a registered branch;

d) Individual who is commissioned by the Bulgarian Government or by Bulgarian enterprise or organisation to reside abroad as well as the members of his family.

3. **"Non-resident" entity** is any individual or legal entity not complying to the provisions under **item 2,** as well as foreign diplomatic consulate, commercial and other representatives, international organisations, members of those organisations and agencies, their personnel and non-resident technical assistants;

……………………………………….

19. Students make an exception of the above classification - for the purpose of the CABE **all foreign students** studying in Bulgaria are treated as **"non-resident entities",** and all **Bulgarian students** studying abroad are treated as **"resident entities"** regardless of the period of residence in the country as under § **1 item 2 of the Currency Law**.

20. In a number of the accounts of the CABE an additional sub-classification of resident and non-resident entities exists.

21. **"Non-resident entities"** are classified into 4 groups:

- *Government entities;*
- *International organizations;*
- *Non-resident financial Institutions;*
- *Other non-resident entities.*

22. **"Resident" entities** are also classified into 4 groups:

- *Non-financial enterprises;*
- *NGOs;*
- *Households;*
- *Banks and other financial institutions.*

23. With regard to budgetary entities (the public sector) a 2-aspects full classification reflecting the public finances structure in Bulgaria has been laid in group**s 45, 46, 75 and some other accounts** in the CABE:

a) First classification aspect – *government institutions and municipalities*;

b) Second classification aspect – operations and payments to and from *the budgets, accounts and funds.*

24. The government institutions themselves are classified according to place, special character and level of fiscal autonomy in the budgetary process and the public finances of the country:

- Ministries, institutions and the Audit Office;
- Judiciary system;
- Institutions managing the insurance funds (National Insurance Institute, Health Insurance Fund and the National Unemployment Office);
- Autonomous budgets institutions – Bulgarian National Television, Bulgarian National Radio, Bulgarian Academy of Science and the government higher institutes.

B. STRUCTURE OF THE ACCOUTNS

Equity accounts in the budget entities

25. In the CABE the equity accounts are differentiated in 5 groups. As a whole the accounts of groups 10, 11, 12 and 13 have the same designation as that of the same groups 10, 11,12 and 13 of the National Chart of Accounts (NCA). It is to account for the state and the changes in net assets of a budgetary entity in three main directions:

- Fund Balances of Government Entities;
- Accumulated Suprluses/Deficits from previous years;
- Surpluses/Deficits for the Period

The Group 14 has been additionally included in view of some specialities and peculiarities of the accounting for budgetary entities' business for taxation purpose as per the **Corporate Revenue Taxation Law (CRTL)**. The budgetary entities equity accounts are based on the classification that corresponds to the **three accounting groups (business area)** stated in **Part II.**

26. With regard to the accounts belonging to **group 10 "Funds Balances of Government Entities" (CABE)** the currently existing requirement to keep the balance equal to that of the fixed assets account **as per item 4, 5 and 6 of the National Accounting Standard No 16** and the characteristics of the account **106 "Permanent Funds of State Budget-financed Enterprises"** is removed. With the removal of this requirement, **group 10 from the CABE** is subject to the same accounting rule as that valid for the accounts 101 "Registered Capital" and 102 " Supporting capital" in the NCA, which form the equity of the budgetary enterprise.

27. The accounts of group **11 (CABE)** are used to reflect the accumulated surpluses/deficit for previous years. The final balance under groups **12 and 13 of the CABE** is posted into these accounts, so they are analogous to **accounts 121 and 122 of the NCA.**

28. Accounting for surplus/deficit of the net assets for the current year (which notion is analogous to the current period profit/loss notion for the non-budgetary entities) is carried out through groups **12 and 13 of the CABE**. The revenue and expense accounts from **part 6 and 7 of the CABE** will be closed off to those accounts. Unlike non-budgetary entities where only one account is used to close off the revenue and expense accounts (**account no. 123 from the NCA**), two groups of accounts are used here for the same purpose. Those are **group 12** –used to account the changes in the net assets resulting from budgetary/extra-budgetary activities, and **group 13 – "revaluation and volume change". Part XV** of this manual states the requirement for carrying out the closing postings to the accounts of **parts 6 and 7.**

29. There is an important structural difference between **CABE and NCA in accounting for the revaluation of equity**. The existing revaluation accounting scheme where account **No 112 "Additional Reserves"** is used will not be applicable to budgetary entities. **All revaluation and non-realised profit/loss** will be accounted for in the relevant account of group 78 (CABE) **- "Holding Gains and Losses",** which accounts are closed off in account **1301 "Revaluation of Assets and Liabilities"** following the normal practice. On its part this account will be closed off in the beginning of the next period into account **1109 "Accumulated other changes"**. When some fixed assets are consequently written off, the balance on **account 1109 will not be adjusted for the corresponding part of the revaluation for the asset concerned,** i.e. the balance of this account is not related to some subsequent write-off of assets, and no subsidiary accounts will be kept for the revaluated assets, as applied to **account 112 from the NCA.**
Actually account 1109 has similar features **as account 122 from the NCA,** and posting into accounts of group **10 (CABE) is possible.**

30. The Group 14 "Net Results from Commercial Taxable Activities" is analogous to the **account 709 (NCA),** used currently by budgetary entities to account for revenue, expenses and results from taxable (business) activities for taxation

purpose under the **Corporate Revenue Taxation Law**. There are two accounts in the group, one for the revenue and one for the expenses linked to the commercial activity. In view of the fact that commercial activity of budgetary entities is strictly integrated in the respective budgetary or extra-budgetary activity (**as per art.2, item 8 of the Organic Budget Law** the revenues are non-earmarked and are used to cover all expenses), it is not possible in practice to segregate the commercial activity into an separate accounting unit, in compliance to the concept of an accounting unit defined in **Part II.** In that situation, all the revenue and expenses resulting from commercial activity are accounted for according to normal practice, posted into the respective **revenue and expenses accounts of section 6 and 7 (CABE)**, and then posted into the accounts of group **14.** In the end of the reported period the accounts from **group 14** have to be closed off into the respective accounts of **group 12.**

VI. Debt and Loans Accounts

31. The loans and debt accounts comprise groups 15-19 of the CABE. Generally the Central Budget and the municipalities will use these accounts. The structure of these accounts is based on a three-criterion classification:

- according to **debt instruments** – securities issued, direct loans, liabilities under activated guarantees, financial leasing and others;

- **according to debt holders** – residents and non-residents. In the same time the direct loan accounts are also classified between types of resident and non-resident entities as per items 21 and 22**.** This classification is not applied to securities issued by government/municipalities (GS/MS).

- **according to remaining term to maturity** – short-term, long-term, and the current portion of the long-term loans (the latter includes long-term –debt principal amounts payable within a year after the end the reporting period).

32. Only the Central Budget and the municipalities use accounts of group **15 of the CABE**. The **subgroups 51 and 152** are to account for the face value only of **the government securities**, and **subgroup 159** for the premium/discounts from the face value for the issue/repurchase of the GS (MS). The total of the balances of group **15** accounts make **the balance-sheet value** of the debt in GS (MS).

33. When the securities are issued **at discount** from the face value the subgroup 159 accounts will result in a debit balance, and when **at premium** – in a credit balance. The balances with the account under this subgroup are periodically and systematically amortised against the accounts of subgroup **621 Expenses for GS (MS) interest**.

34. **Accounts 1517, 1518, 1527 and 1528** are used by the issuer (the Central Budget or the municipality) to account for ***repurchased and non-cancelled GS (MS),(available for consequent placement)***. These accounts will also form **a debit balance** and the securities are accounted for at **face value**. So, the balances with **subgroups 151 and 152** will show the ***nominal value*** **of the actual debt in securities** of the issuer – the government or the municipalities.

35. **Accounts 1517, 1518, 1527 and 1528** will not be used by budgetary entities for accounting for securities acquired in the primary or secondary market. The accounts of group **52 "Acquired Government and municipality securities" (CABE)** will be used for this purpose.

36. In accounting for finance leasing liabilities the balances in **accounts 1911, 1912, 1913 and 1914** indicates the gross /nominal/ value of payables, and **accounts 1917 and 1918** are used for adjustment in value for balance-sheet purpose. The utilisation of these adjustment accounts and the amortisation of their **debit balance** will be carried out in accordance with the requirements of the corresponding accounting standard.

VI. Tangible and Intangible Fixed Assets Accounts

37. **Part 2 of the CABE** consists only of tangible and intangible fixed assets accounts and the accumulated depreciation of those assets. The financial fixed assets accounts are included in **part 5 of the CABE**. The structure of the accounts as a whole follows that of the National Chart of Accounts. The **Group 20 (CABE)** does not contain **account 208 - Fixed Tangible Assets Liquidation (NCA)** – expenses and revenue related to Fixed Tangible Assets Liquidation in budgetary entities are subject to the accepted rules for accounting for and closing of expense and revenue accounts.

38. Two separate accounts are defined in the **subgroup 207 "Fixed Assets in Construction and Progress"** with a view to differentiate construction in progress from acquisition of other Tangible Fixed Assets. **Account 2091 "Leasehold Improvements"** should be used only for reconstruction, modernisation and overhaul expenses for leased Tangible Fixed Assets provided those expenses satisfy the requirements of recognition as fixed assets in compliance with accounting standards.

39. Accounts of **subgroups 241, 242 and 603 (CABE),** earmarked for depreciation of fixed assets, will be used only after a decision to provide for depreciation in the budgetary sector has been taken. **For the year 2001 MoF does not envisage** the introduction of depreciation provisions for use of these accounts**.**

VII. Accounting for Land, Infrastructure sites, Heritage, Defence and Security Specific Assets

40. With regard to land, infrastructure sites, heritage, defence and security specific assets accounts it is suggested to post the cost of acquisition of those assets immediately to the corresponding expense accounts and to keep their records in off balance-sheet accounts... (and to carry out their book-keeping through off-balance sheet accounts).

41. The following factors lie at the basis of the suggestion to adopt this approach instead of the other alternative – the recognition of the above said articles in the balance sheet of the budgetary entity:

- from the point of view of the individual budgetary entity in most of the cases neither benefit nor control over the assets is gained in the sense the National Accounting Standards (NAS) define the "Assets" concept. The budgetary entity exercises rather the safeguarding and maintenance functions in respect to those assets, not having the right to dispose freely of the assets;

- practical impediments as well as lack of administrative capacity of the respective budgetary entity to carry out reliable accounting estimation and revaluation;

- a number of those sites (parks, roads, monuments etc.) bear the specific features of **"Public assets"**- easy access on the part of the public and practical impossibility to impose prohibition on the access and consumption of the related benefits;

- the inclusion of those items in the balance-sheet of a separate budgetary entity may possibly mislead readers concerning the actual availability of the resources to be utilised for the budgetary and extra-budgetary activity of that entity;

- information about that type of assets for preparation of public sector statistical and consolidated financial data can be derived from respective registers and other information sources.

42. Acquisition expenses of those assets are posted into **accounts 6075, 6076, 6077, 6078 and 6079 (CABE)**, while in cases of construction and maintenance of infrastructure sites (overhaul) with the use of local resources accounts 6504 and 6508 should be used. **Accounts 9901, 9902 and 9903** are envisaged for off-balance sheet accounting for the above.

43. Fixed tangible assets and inventory earmarked for special defence and security activities will be posted as expense at their acquisition.

VIII. Inventory accounts

44. The Inventory section includes two new groups – **group 32 "Strategic stocks " and 33 " Forfeited and Foreclosed Property"**. These accounts will be used by a limited number of budgetary entities, assigned to carry out activities with such assets.

45. **Account 3219 "Government Strategic Reserves"** will be used only with materials in stock acquired to maintain certain resources of major importance to the economy and the public sector. The account is to be used by **General Department "Government reserves and wartime stocks"**. Materials acquired for that purpose, including materials consigned to other enterprises should be accounted for here. This account is to be used by other entities officially assigned to acquire materials in stock for providing the strategic or defensive reserve. Materials acquired for the purpose of utilisation in the process of the budgetary entity's activity are accounted for with **group 30** regardless of the quantity.

46. Goods purchased from a given economy sector earmarked to support or regulate production, commerce and competition for are accounted for in **Account 3220 "Stocks of Purchased Goods for Market and Competition Regulation Purposes".**

47. **The accounting for 33 "Forfeited and Foreclosed Property"** will be used mainly by budgetary entities assigned to forfeit, foreclose and compulsorily collect state and municipal receivables. Such entities are the **State Receivables Agency,** the **National Customs Agency** and others. Forfeited non-financial assets in state's/municipalities' benefit subject to consequent sale or distribution between

budgetary entities will be accounted for with this group. As those assets do not concern the budgetary or extra-budgetary activity of the budgetary entity involved in the process, they will be accounted for in the **“Other Accounts and Activities”** reporting group. The budgetary entity that has received such forfeited assets to utilise them in the process of its activity will account for them in groups **20, 21 and 30**. **The forfeited financial assets** will be booked in the

respective accounts in **Section 5 of the CABE.**

48. **Account 301 “Work in Progress”** is to be used by budgetary entities that carrying out production activity. If at the end of the reporting period there is work in progress, the expense **account 6503 ”Own Account Capital Formation – Material”** ***must*** be closed into **account 30**1, contrary to the NCA regulations, where group **61 accounts** are not closed at the end of the period.

IX. Receivables and Payables Accounts.

49. The subgroups of accounts contain separate accounts receivable and payable related to respective counterparts, so the accounting principle **NOT TO SET OFF** (of non-compensation of) receivables with liabilities is observed.

50. **Account 4050 “Accounts payable to Health and Health Insurance Services”** is used only by the **Health Insurance Fund.**

51. **Account 45 “Intra-entity Accounts”** is used to account for property transfer between structural units of the budgetary entity, only when the operation is carried out **within one reporting group**. Intra-entity cash transfers between bank accounts within one reporting group within the spending unit’s system ***are no to be posted to this account***, but to the respective accounts in **subgroup 750 “Cash transfers within reporting entity”.** Transfer of assets, liabilities or differentiated structural units between separate governmental or municipal budgets, accounts and funds is to be accounted for in group **76 “Property liabilities transferred between Central Government, Municipalities and other sectors of Economy”.**

52. In cases of bank insolvency the deposits of the budgetary entity with the insolvent bank will be transformed into a receivable and will be accounted for in **Subgroup “Accounts receivable from insolvent banks”.**

53. In section 4 two types of accounts are envisaged for provisions - adjustment accounts for doubtful and uncollectable receivables **(subgroup 491)** and accounting for approximate estimates of new and existing payables of … timing or amount **/accounts 4230 and 4940/**.

54. No accounts of group **44 “Receivables from Litigation”** type are envisaged in **the CABE**. All the receivables, regardless of their status of collectability, continue to be accounted for until they are finally written-off from the respective account they have been initially posted to.

55. Accounts in group **496 “Carrying value adjustments of receivables and payables from concessions, leases and other items”** are supposed to be used assuming the application of the linear method of accounting for receivables and payables derived from rents, leases, concessions etc. Under this method the accrued receivables/payables amount for the reporting period will be accounted for as receivables and payables to reflect the utilisation of the economic benefit, though the timing of payments may be agreed otherwise. These accounts are supposed to be used particularly in cases, when the receivables/payables amount assigned for the reporting period does not coincide with the timing of payments agreed with the counter-part. The purpose of these accounts is to adjust the face (nominal) value of the receivable/payable.

56. This section includes also prepaid expenses and deferred income accounts. Advance payments from clients and to suppliers should not be posted into these accounts, nor should capitalised expenses, representing tangible and intangible assets.

57. With regard to the accounting for prepaid expenses, the existing practice to post spending of proceeds received from a loan as prepaid expenses and then consequently, on receipt of revenue or extinguishment of the loan to post (write off) them as expenses is to be stopped. This feature of **account 641 of the NCA (“Expenses covered by the budget”)** distorts the application of the principle of current accrual and leads an unreasonable overestimation of the assets of the budgetary entity.

58. **Account 4991 “Prepaid expenses”** will not be used in cases of advances to suppliers and accountable individuals, prepaid subscriptions or in cases of own account capital formation. When there are prepaid expenses, **account 4991 is to be debited against** crediting the respective accounts payable, deposit account etc. ***The amount of the prepaid expense that has been generated during the reporting period is not reflected initially in the expense accounts of section 6***. ***During consequent reporting periods the balance on this account will be amortised and posted to the respective expense accounts of Section 6.*** **Account 4992 “Deferred incomes”** is not supposed to be used in the cases of advances received by the budgetary entity from clients, advance tax payments and other payments received in advance. This account is supposed to be used for accounting assessed amounts for warrantee support and other similar deferred incomes, when the budgetary entity has supplied goods and services and has committed itself to support them for a definite period.

X. Financial Assets Accounts

59. Only bank accounts in leva and foreign currency deposits of budgetary entities in the **Central Bank** are reported in **subgroup 500. Account 5000, 5005, 5006 and 5009** will be used only by the **Central Bank**.

60. Accounts **5001 and 5002** will be used by the **Central Budget** as well as by budgetary entities. Amounts recorded in the Central Budget will mirror those in the budgetary entities, i.e. it will record credit balance, as these amounts will be consolidated in the **“Single Account System”** as *linked* amounts forming the single payment resource of the **“Single Account”**. Centralization of the **“Single Account” system** and the budgetary entities’ foreign currency accounts and deposits in **the**

Central Bank will require **the Central Budget to** use the **accounts 5007 and 5008** as well in the manner stated above for **accounts 5001 and 5002**.

61. **Subgroup 501** is to account for the cash availability and bank accounts and deposits **in the country**, while **subgroup 502** is to account for those **abroad**.

62. The accounts in subgroup **508 "Payments in Process of Settlement"** are analogous to **§ 95-14 of the Uniform Budget Classification** – they will be used only by budgetary entities – beneficiary of amounts transferred or interest-free loans from other budgets, accounts or funds in the case when the payment orders have been initiated at the end of the reporting period and have been received in the beneficiary account in the beginning of the next reporting period. It is necessary to use these accounts in order to compare the information on transfers and temporary interest-free loans between budgetary entities on a consolidated level /these transactions should be eliminated as being intra-system operations with regard to the consolidated group/. In such cases the beneficiary budgetary entity should **debit *the past reporting period operations*** in these accounts while crediting the respective accounts in group **46 or 75**. This posting will be accounted for on the basis of the banking statement of account of the beneficiary budgetary entity at the beginning of the next reporting period and in the process of aggregation of the reports and the accounting information of the entities that come into the respective scope of the consolidation. In the new period, when the payment is effected to the beneficiary's bank account, the respective account from **subgroups 500, 501 and 502** will be **debited while crediting** an account from **subgroup 508**. Regarding to leva payments, at the end of the calendar year ***no floats*** should exist, as the terms defined for payment transfer to budgetary entities' bank accounts in the annual closing regulations of the MoF provide for the execution of the payments within the calendar year.

63. The accounts in subgroups **500, 501 and 502** are not classified as ***budgetary, non-budgetary and accumulation accounts*** as in group **52 of the NCA,** because with the application of the reporting unit concept they will come under the respective reporting group (business area).

64. Subgroup 52 "Acquired Government Securities" accounts will be used by those budgetary entities, which by virtue of a law or other regulation are granted autonomy for managing their financial resources and payments (the National Insurance Institute, the National Health Insurance Fund and others). Securities issued by the Government of Bulgaria or the municipalities and acquired at the primary or secondary market will be accounted for in these accounts. The accounts of **subgroup 521** similar to those of group **15** reflect the **GS/MS at** their face value, while those of **subgroup 522** are used to adjust the face value to the acquisition price. GS/MS repurchased on the part of the issuer – the Central bank/municipality are not posted into these accounts. The respective accounts of **group 15 (see item 32,33,34)** are used for this purpose.

65. The balances on these accounts are considered analogous to those on accounts 1517, 1518, 1527 and 1528 in the accounting data consolidation process. The consolidation procedure of reclassification from assets into liability adjustments (debt in securities) should be applied to the balances on these accounts at the highest consolidation level (the whole public sector), because the public sector has effectively

purchased out (through accounts, budgets or funds different from those of the initial issuer) a part of this debt before the maturity date.

66. The account of group **51** will be applied to a rather limited number of budgetary entities – mainly the Central Budget and the municipalities. Share participation reported in the accounts of **subgroups 511 and 512** are classified in accordance with the definitions given in the National Accounting Standards for control, joint control, major and minor participation. The municipalities and the state's share participation in health institutions transformed into commercial societies is accounted for also in **subgroup 511**. In cases when the state/municipality keeps only minority participation in the privatised commercial society, but exercises post-privatisation control through the **"golden share" rule**, it is classified as minority share participation. For public finances accounting purposes it is suggested that such kind of control be considered rather as control over observation of contracts and regulations related to the privatisation of a given enterprise than to associate it to a shareholders' or partners' control.

67. The **accounts of subgroups 531, 581 and 582** reflect the nominal value of receivables from loans extended and temporary financial aid. **The temporary financial aid** represents interest-free amounts lent to third-party entities or individuals, subject to redemption in a predetermined time. Temporary interest-free loans to other budgetary entities are not reflected in this subgroup (accounts of **group 46** are designated for this purpose). Allowances made to adjust the receivables from loans and temporary financial aid and are accounted for in subgroup **539 and 589.**

XI. Expense accounts

68. The expense accounts are classified by economic type only. No accounts of the type of **groups 61 and 64** in the NCA for accounting expenses on an accrual basis by functions and activities have been envisaged in Section 6. Accounts of **group 65 "Own account capital formation and repairs"** make the only exception to that. It is assumed that the classification of expenses on an accrual basis by functions, groups and activities, similar to the classification of the cash flows, is not a part of the double entry system. In future a unified coding of expenses on cash and accrual basis by functions, groups and activities based on the UBC will be applied. The year 2001 being the first year, it is not envisaged that the budgetary entities to classify expenses on an accrual basis by function this year (except for the accounts of group 65). Instead, they should present in their execution report for the budget, the extra-budgetary accounts and funds, such classification for expenses on cash basis only (as they have done up to now).

69. Expenses should be accrued only in the period they have arisen no matter if they have been paid or not, or if there are resources available for their payment.

70. All the expense accounts from **Section 6 of the CABE**, with the exception of **group 65,** will be closed only into the respective accounts from **groups 12, 13 and 14**. ***Expense accounts can not be closed into revenue accounts.***

71. In this respect, the CABE presents different position to that in the **National Chart of Accounts and current accounting practice.** This difference concerns accounting for sales of assets and services, the cost of assets sold and expenses of sales as well as the distribution of the administrative, managerial and other direct expenses through the accounts from **groups 70, 71 and 74 in the NCA**. ***Cost of assets sold*** charged off as an expense is reflected in the respective expense accounts from **group 61 of the CABE**, which are closed under the usual procedure, with no posting into the respective accounts of **section 7.** Similarly, the expenses related to the sale, as well as for the administrative, managerial and other indirect expenses are not debited into the respective sales revenue accounts.

72. The accounts of **subgroup 606** reflect the taxes and fees expenses in this country and abroad incurred by the budgetary entities, including the expenses for taxes and fees that form part of an individual asset's cost **(see item 73)**. VAT, excises custom duties and fees and all other types of taxes and custom's fees **for import**, **the export** taxes and custom's fees as well as **refunded excise for export of excise goods** carried out by the budgetary entity.

The following payments will not accounted for with subgroup 606:

- *VAT incurred by the assets and services suppliers, excises and other indirect taxes;*
- *VAT accrued by the budgetary entities and other indirect taxes on sale;*
- *VAT according the VAT Return due to be paid / refunded;*
- *insurance contributions on the account of the employer* – those are posted into the respective accounts in **subgroup 605**;
- *insurance contributions accrued and deducted as well as taxes on the employees' account;*
- *other taxes accrued and deducted on third parties' account;*
- *refunded amounts of taxes, duties fees and contributions overpaid by third parties* – posted into accounts of **group 70.**

The advance payments of the profit tax for the Central Government and the municipalities are posted currently **not into the accounts** of **subgroup 606**, but into account **4512 "Profit tax Account" and 4544 "Account for municipal Taxes and Fees"**. The **Accounts 6064 and 6065** have to be ***debited*** while ***crediting*** the **accounts 4512 and 4544 *for the reporting year* after having assessed the annual amount of those two taxes.**

73. Similarly to the NCA regulations, in the cases of **acquisition of assets from outside suppliers** the related expenses /outside services and other/ **which form the asset's cost are not posted to the expense accounts.** Instead, they ***directly debit*** the respective account for asset acquisition while ***crediting*** the respective suppliers/deposit/cash accounts. **The only exceptions** of this rule are **the accounts from subgroup 606**. In cases when the taxes and fees due on the part of the budgetary entities should be included in the cost of the acquired asset, the taxes and the fees will be **initially** posted into **subgroup 606**, afterwards they will be posted to the acquired asset's account to form the acquisition cost. Such treatment of taxes and fees expenses forming the cost of the acquired asset is stipulated by the purposes of the public sector data consolidation, and with regard to the foreign taxes and fees - by those of the balance of payments purposes.

74. **For assets acquisition overhaul and current repairs using local means / For own account capital formation and repairs**, the expenses are initially posted into **accounts of group 60,** and afterwards posted to the respective accounts of **group 65. The accounts of group 65 (with the exception of 6504, 6506 and 6508)** are closed into the respective account of **group 20, 21 and 30.** When **work in progress, <u>inventory/materials in stock and construction in progress using local means/ for their own account</u>** exists, *at the end of reporting year* these accounts **must** be closed into **accounts 2071 and 3010.** In the following period amounts posted into 2071 and 3010 (work and construction in progress) form the balances on these accounts and will not be posted back to the accounts of **group 65**. The accounts 6504, 6506 and 6508 are closed *under the accepted rule* into the accounts of **group 12,** respectively.

75. Transfers, such as pensions, aids, subsidies and funds gratuitously granted to households and other sectors of economy are posted into the accounts of **group 64**. They are classified in **three aspects:**

- **according to beneficiary** - households, enterprises, NGOs, non-residents;
- **according to the type of the transfers – capital and current transfers**. **The capital transfers** are all funds granted by the budgetary entity, earmarked for **acquisition and overhaul of fixed assets**, as well as payments of principal debt. **Current transfers** are all the rest (non-capital) transfers as well as **interest paid by the entity on behalf of the original debtor – with no recourse to the original debtor.**
- **according to the way of extending** – in money, in kind and in imputed transfers.

Subsidies and transfers between budgetary entities are not accounted for here (accounts of **group 75** will be used for that purpose). *International organisations membership dues* **will not be accounted for** in **subgroup 648,** but posted into **account 6091 ″Expenses for Membership Dues, Quotas and Other Contributions″**

76. When transfer of pensions, aids and scholarship contributions appears to be **an irrevocable obligation/liabiliy** of the budgetary entity under **regulated conditions of granting transfers, such as amount, time and beneficiary** (and these cannot be changed by the entity)**, then the expense is to be accrued for the period the obligation/liability has occurred**, no matter whether the payment has been executed during the same period or are there funds available.

77. **The accounts from group 643 will be used only by the National Health Fund.** Where the budgetary entity has concluded a medical service contract for the staff, account 6029 “Expenses for Other Services” is to be used.

78. The expenses for the two types of provisions: **the adjustments of receivables and the approximate accounting estimates for liabilities generated,** are reported in a way different from the current practice. The difference is in the way **the writing off and the reverse of provisions/allowances (balance-sheet items)** are treated in the expense accounts, regardless of the fact, whether it is done during the current reporting period or during the period **following the one** when the allowances

have been posted as expenses and balance-sheet items (adjustment of receivable and estimate liability). The accounting operations for initial and consequent additional accrual of allowances have not changed: the respective expense account for allowances is *debited with the corresponding credit to the respective* balance-sheet account for allowances (adjustment of receivable and liability assessment).

79. In any case of **writing off and reverse of allowances – adjustments of receivables**, no matter what the causes for that have been, the respective balance-sheet account for allowances should be *debited* **(subgroups 491, 539 and 589)** *with the corresponding credit to* the accounts in subgroup **672 "Reversed /Refunded/ Provisions and Allowance for Uncollectable Receivables"**. This means, that when a receivable already provided for is due to be written off from the balance-sheet because of uncollectablity (**expired maturity, closed insolvency procedure and so on**), this receivable will be posted into the respective account in **group 691 in its whole amount, and not only up to the unprovided part of the amount.** That means, that no corresponding posting will be made into the account for the adjustment of the provision, and the amount from this account will be entered to the *credit* of the accounts of **group 672:**

-1-
Debit account 691 'Written off receivables'
Credit accounts for allowances for receivables

-2-
Debit account 491,539, 589 ″Allowance for Receivables″
Credit account 672 ″Reversed Allowances and Provisions″

This approach permits to accumulation of **the whole amount of receivables written off for the respective period to subgroup** 691 – both provided and not provided, in the same time observing and applying the accountancy principles and procedures for providing for receivables. As a matter of fact this approach also permits the set off of the written off receivables already provided for. This happens **indirectly** though: **at an expense accounts level** (the credit amount of account 672 sets off the debit amount of account 691), **instead of a direct correspondence between the balance-sheet account of the receivable and its adjusting amount – the provision.**

80. The approach applied to **providing of liabilities** is similar - when the specific **type, term and the amount of expenses and the corresponding liabilities are identified, the** balance-sheet accounts for provisions is written-off while **the corresponding account for reversed provisions**, and a second posting is done through *debit to the respective expense account with the corresponding credit to the respective liability account*. Such an approach permits showing of the expenses by their type during the **same reporting period of the reversal of the allowance**, without changing the expense amounts for the two reporting periods (the period of the accrual of the allowance and the period of the reversal). These expenses may not have been identifiable by type or amount as at the moment of initial alignment of the accrual. The reversal of the provision **offsets** the corresponding accrued expense. Differentiation of the accounts for provision from the accounts of expenses and

liabilities determinable by type and amount is required for the budgeting purposes, with a view to comparison and analysis of the **specific expenses** at different stages of the budget's execution – **commitment, accrual of the specific liability/expense and payment.**

81. **The accounts 4230 ″Provisions for Employees' Benefits″, 6047 ″Expenses for Provision for Employees' Benefit″ and 6048 ″Reversed Provisions for Employees' Benefits″** are envisaged to reflect the staff expenses and liabilities. They will be used in a way similar to that of the other accounts for provision for liabilities. They will reflect approximate accounting assessments of the staff's claim under National Accounting Standards regulations **(NAC 19)** (assessment of expected claims for leave, sick leaves, special allowances, staff's long-term income and so on).

82. Instead of the above-stated accounts for reversal of provision for liabilities, **deferred income** representing amounts for warranty support and other similar deferred revenues will be reported through the **corresponding revenue accounts** during the reporting period, when the warranty amounts are used/expire.

83. **All the realised loss as from securities and foreign currency operations,** as well as **the unrealised loss as derived from revaluation of assets and liabilities will be subject to accounting in Section 7**.

<u>**Revenue accounts**</u>

84. **The group 70** is envisaged for reporting of tax and fee revenues. **Subgroups 701 and 704** will be mainly used by the **Central Budget, municipalities and insurance institutions – National Insurance Institute, National Health Insurance Fund and Professional Qualification and Unemployment Fund**, as well as by these budgetary entities into whose budgetary and extra-budgetary accounts such tax revenues are paid. Profits from state-owned (municipal-owned) enterprises in cases when revenues exceed the expenses as well as the dividend for the state/municipality **will not be reported** in these accounts (the respective accounts from **subgroup 717** are used for this purpose).

85. Unlike other revenues, for tax revenues as a whole it is practically impossible to apply consistently and fully the principle of current accrual. The tax revenues and receivables due to the state/municipality derive from transactions and events where the public sector is not directly involved and has no access to the pertinent information. In practice, the information on amounts due from taxes and for insurance becomes available only as a result to the returns submitted. In a number of cases the application of the current accrual principle is possible, such as tax on buildings and garbage fee, customs duties on imports, etc. In this regard, the Budgetary Chart of Accounts envisages, in general, tax revenues to be recognized on ***modified cash basis – cash proceeds from taxes, customs duties and insurance contributions are adjusted by declared amounts payable/refundable (liable to refunding).*** When the information necessary for taxation becomes available for the respective reporting period the principle of current accrual becomes applicable in practice.

86. For this purpose, during the year cash revenues from taxes and contributions (including advance payments) will be currently posted to accounts **7011 and 7041**. Taxes and insurance contributions actually recovered / deducted will also be posted to these accounts. ***At the end of the reporting period***, based on tax and insurance returns for amounts due at the end of the period, for the respective budgets and funds accounts **4301 and 4302** will be ***debited*** while ***crediting*** **accounts 7012 and 7042**. When amounts subject to recovery have been declared, **accounts 7013 and 7043** will be ***debited*** while ***crediting*** accounts in **subgroup 431**.

87. Given the fact that receivables and payables accrued at the end of the reporting period are subject to payment during the next reporting period and that the reporting basis adopted is ***modified cash basis*** as well as with a view of avoiding double counting of income, accounting entries made as per paragraph **86** will be **reversed at the beginning of the next reporting period**. At the end of the next reporting period, based on data from returns and other information available to the tax authorities (for example data for past due payments), the procedure from the previous paragraph is carried out again – but now in terms of payable/recoverable amounts at the end of the next reporting period. In this way, within the current year, ***tax, customs duty and insurance income reported*** on a cash basis are adjusted twice – at the beginning of the period for reversal of amounts which are expected to be paid and reported on cash basis during the year, and at the end of the reporting period for payable/recoverable amounts subject to effective cash execution during the next reporting period.

88. Accounts in **subgroup 704** are envisaged to reflect fees, which are, in their essence, taxes. Such are fees for waste, municipal fees for dogs. These accounts exist because of **the principle of the substance over form**. The Ministry of Finance will give additional detailed instructions about which fees are subject to reporting through these accounts.

89. Account 7014 "Assessed Tax Expenditures" (as well as account 7044) are supposed to be used in cases when, under the law, taxes due are transferred to a non-budgetary enterprise for investment and utilization – for example, under the provisions of ***Chapter 10 of the Law on the Corporate Income Tax***. Based on tax returns, in the Central Budget (or the municipal budget) **account 7014** will be ***credited*** while ***debiting*** the respective expense accounts for transfers in **subgroups 644 and 645**. The adoption of this approach allows the incorporation of a part of the so-called "**fiscal expenditures**" category in the reporting system (state expenses in the form of tax revenue forgone based on tax alleviation, etc.), through their simultaneous representation as both tax income and transfer/subsidy granted. In this way, reported tax income will also include amounts which will not reach the budget as cash. Transfers and subsidies will include amounts, which are not provided directly in cash.

90. On accounts from **subgroup 705** revenues from governmental, municipal and court fees are reported, which are defined as such under the ***Law on State Fees*** and the ***Law on the Local Taxes and Fees***. In cases when fees, in their essence, represent taxes, they are reported as per paragraph **88** through the accounts from **subgroup 704**.

91. Regarding the reporting of ***privatization revenues***, there is certain difference from the general terms of reporting of sale of securities – **subgroup 731 Privatization Revenues – Net** contains two accounts - **account 7311** for reporting the ***gross amount of privatization revenues*** and **account 7319** for reporting the ***carrying value of privatization stocks, shares and specified objects***. Before the annual closing **account 7311** will have a ***credit balance***, and **account 7319** will have a ***debit balance***. When the payment is rescheduled, the revenues on account 7311 do not include interest (they are reported on accounts from **subgroup 729)**. On **account 7311** the total contractual payment amount (without interests) should be reported, including cases when ***non-cash payments are used (compensation/privatization certificates, investment certificates, etc***.). When using such instruments, the receivable from privatization (accounts in **subgroup 437**) is charged off ***debiting*** the corresponding accounts payable for transfers from group **64**. It should be taken into consideration that privatization revenues are reported on an ***accrual basis***.

92. On **account 7119** only the carrying value of privatization shares, stocks and separate parts are reported. Privatization expenses are reported through the **respective accounts payable from Section 6**. When consultation fees are paid in advance they are reported as advance to suppliers and are posted as an expense to the respective account payable after the provision of the service. The overhead expenses of privatization bodies are reported as current expenses for the period when they are accrued to the **respective accounts payable from Section 6**.

93. The sales of ***fixed assets, intangible assets and inventory, included on the balance sheet of budgetary enterprises*** are not reported as privatization revenues – for this purpose accounts from group **71** and their corresponding accounts payable from group **61** are used. ***The sale of financial assets*** outside the terms and conditions of the Law on Transformation and Privatization of State-owned and Municipal Enterprises are reported through the accounts from **subgroup 738** – the *carrying value of the financial asset sold* is *debited* to these accounts, and the *sale revenues are credited* to them. Depending on the result of these operations, different accounts are used to report the gains or losses from securities transactions. Other expenses (commissions, taxes, etc.) related to these operations are reported through the respective accounts payable. FX sales are reported in a similar way.

94. Accounts from **subgroup74** are used to report the grants and donations received by the budgetary enterprise from inside the country and abroad, and the classification is similar to that used for the accounts from **subgroup 64**. In the **Budgetary Chart of Accounts** ***there are no accounts*** *similar to* ***account 131 "Funding of Long-term Assets" and 132 "Working Capital" in the National Chart of Accounts***. Unlike the provisions of ***the National Accounting Standard 20 Reporting of State Donations and State Aid***, a ***new approach*** is envisaged to be adopted, under which all revenues from donations, aids and other grants will be reported as income at the moment of their receipt. When the amounts are refunded because they are not disbursed or the terms are not complied with, these amounts are ***debited*** to the accounts from group **74**.

95. Accounts from group *75* (**except for subgroup 759**) are similar to the paragraphs for transfers between the Central Bank, budgetary and extra-budgetary accounts **§§ 30-00, 31-00, 60-00, 61-00, 62-00 and 63-00 of the Uniform Budgetary**

Classification and are similarly used – they are ***debited*** when ***transfers are made***, and ***credited*** in case of ***transfers received***.

96. Account 7500 "Payments made from 1st level spending unit's bank account under Bank Unified Standard 1302000" will be used by budgetary entities for accounting payments, initiated through a second-level spending unit applying a budgetary payment order against the first level spending unit's bank account after they are made part of the ***SEBRA System (A system for electronic payments in the budgetary area).*** The ***first-level spending unit*** will ***debit*** **account 7500** with all such payments made by the respective second-level spending units (except for the transfers at the expense of the second-level spending unit initiating the budgetary payment order) while ***crediting the bank account with the BNB (account 5001 of the Budgetary Chart of Accounts)***. On the other hand, the ***second-level spending unit*** will ***credit*** to **account 7500** all its payments made through the account of the upper-level spending unit while ***debiting the respective accounts payable for suppliers, expense, etc***. After consolidation of the reports within the first-level spending unit system this account should be ***balanced out to zero*** – i.e. this account ***plays the same role*** as the ***account for internal transfers within the system of the first-level spending unit in the Uniform Budgetary Classification (UBC).***

97. Accounts from **subgroup 76 "Properties and Liabilities Transferred between the Central Government, the Municipalities and Other Sectors of the Economy"** are, in fact, accounts for reporting of current revenues. Basically, they are used to report the transfer of separate assets and liabilities resulting from structural and organizational changes in the public sector.

98. Accounts from **subgroup 761 "Property and Liability Transferred between the Central Government and the Municipalities"** will be used when a municipal budgetary enterprise on the basis of a regulation is transferred into the structure of a ministry or into other public institution and vice versa – for example, when certain school at the Ministry of Education and Science is taken out of its structure and transferred with all its assets and liabilities into certain municipality. In this case, in the **reporting of the Ministry of Education and Science*, at the date of taking the school out*** of its structure, ***account 7611 will be debited with the total of*** its assets while ***crediting the asset accounts***, and ***account 7612 will be credited*** by total of its liabilities while ***debiting the respective liabilities accounts***. In the **reporting of the municipality** corresponding accounting entries will be made through **accounts 7617 and 7618** – ***asset accounts are debited*** against ***credit of account 7617***, and through a second accounting entry ***liabilities accounts will be credited*** while ***debiting the account 7618***. In this case, in the initial balance sheet of the school, *being a new organizational unit at the municipality*, the difference between assets and liabilities (net assets) *will not be presented through equity accounts from groups 10, 11 and 12*, but through **accounts 7617 and 7618**. Only after the annual closing of these accounts, their balances, together with the other revenues and expenses for the reporting period, will be posted under the general terms and conditions to the respective accounts for disposable capital and accumulated growth of net assets. Accounts from this subgroup, besides cases of administrative and organizational changes between municipal and governmental spending units, will be used to transfer/assume individual assets and liabilities between the government and municipality. Cash transfers, temporary interest-free loans and payments between

public and municipal institutions are not reported on these accounts (the accounts from group*s 45, 46 and 75* are used), nor are the public and municipal receivables written off (the appropriate accounts are *accounts 6917, 6918 and 7917, 7918*).

99. Accounts from **subgroup 769** will be used in a similar way **in cases when individual units having proprietary and organizational relations are incorporated in or taken out of the public sector to other sectors of economy**. For example, these accounts will be used when the budgetary enterprise is transformed into a commercial company – from the transformation date on it will be outside the scope of the public sector, as a result of which the transfer of assets and liabilities to other sectors of the economy should be reflected in the reporting by the budgetary enterprise. It should be borne in mind that on these accounts current or capital transfers in cash or in kind made or received between the public sector and the sector of the economy cannot be reported (the respective accounts payable or receivable from group*s 64 and 74* are used), as well as receivables and payables written off balance sheet (accounts from *subgroups 691 and 791* are used).

100. Accounts from **subgroups 762 and 764** will be used in a similar manner as **accounts 761**, when such operations are:
Only *between* budgets, accounts and funds of the government (accounts from subgroup 762 are used);
Or
Only *between* accounts, budgets and funds of municipalities (accounts from subgroup 764 are used).

The accounts are used both in cases when assets and liabilities are transferred between individual budgetary enterprises and in cases when assets and liabilities are transferred within one budgetary enterprise ***between*** separate reporting groups (business areas) – ***Budgets, Extra-budgetary Funds and Accounts and Other Accounts and Activities.*** Cash transfers, temporary interest-free loans and payments between budgetary organizations are not reported on these accounts (for this purpose accounts from the *groups 45, 46 and 75* are used).

101. Accounts from **subgroups 762 and 764** will very often be used for extra-budgetary accounts for donations and loans under the terms and conditions of **Art. 45, § 2 of the Organic Budget Law and Art. 42, § 1, item 2 of the Law on Municipal Budgets**. Such accounts are temporary and designed to fund particular programs and expenses in accordance with the donors' will and the terms of the agreements. In such cases, long-term assets and inventory acquired with these funds and designated for the activity of the budgetary enterprises, will not *treated be as assets* of the reporting unit – extra-budgetary account under Art. **45, § 2 of the Organic Budget Law**, but will be included in this reporting unit and reporting group (economic area), where the asset will be actually used, regardless of the fact that the asset is not acquired with funds of the reporting group (economic area) using the asset. In such cases, the extra-budgetary account is only a temporary means to acquire assets and no continuous operations are conducted through it relative to the usage of the assets acquired. In this respect, in the reporting group (economic area) which will actually use these assets, the accounts for these assets should be ***debited*** to the ***credit of account 7621*** (***account 7641*** for municipalities), and within the reporting unit – the extra-budgetary account, upon the acquisition of the asset ***account 7621 (account***

7641 for municipalities) will be ***debited*** to the ***credit*** of ***accounts receivable, bank accounts, accounts from the group 74, etc***. A possible alternative way of reporting is initially for all acquired assets to be reported under the respective extra-budgetary account, with the funds of which it has been acquired, and later for these assets to be transferred for reporting to the respective reporting group through accounts in **subgroups 762 and 764**. However, the application of these reporting rules has to be made based on analysis of the terms of donations, agreements and international programs, as long as there are such terms (for example, the account is opened for a long and indefinite period, there are self-generating funding sources, the assets will service a real activity deriving from this account, etc.) and it would be more reasonable to continue to report the purchased assets under this extra-budgetary account.

102. In a number of cases, extra-budgetary accounts are opened under the terms and conditions of **Art. 45, § 2 of the Organic Budget Law, on which funds from loans are paid**. In most cases, these extra-budgetary accounts are only "**beneficiaries**" of the funds, while the interest and principal payments are made from a certain budget, and often the beneficiary and payer of a loan can be different budgetary enterprises. Under such circumstances – when the beneficiary of a loan is in one reporting group (economic area) and payer of the loan is in another one, or when beneficiary and payer are different budgetary enterprises, **account 7622** (**account 7642** for municipalities) is used. In the budgetary entity-beneficiary of the funds, in the reporting group (economic area) **Extra-budgetary Funds and Accounts** from the **group 50** are ***debited*** with the ***credit*** to **account 7622** (**account 7642** for municipalities). In the budgetary enterprise-payer of the loan, in the reporting group (economic area) **Budgets account 7622** will be ***debited*** (**account 7642** for municipalities) with ***credit to*** the respective account from the **group 16**. In cases when beneficiaries of the loan are municipalities, and the payer is the government budget or an account or fund of a public institution, accounts from subgroup 761 are used.

<u>Imputed revenues, expenses and transfers</u>

103. Within the structure of the accounts receivable and payable there are accounts for reporting the so-called "***imputed***" revenues, expenses and transfers. These revenues, expenses and transfers, which do not represent an explicit transaction or **explicitly reported amounts in primary accounting documents, but rather represent the hidden result of it, are called "*Imputed*"**.

104. For example, when **interest-free temporary financial aid** is granted from the budget to an enterprise, there is also a hidden transfer, extended from the government to the enterprise in the amount of the interest assessed, if the financial aid was granted in the form of a loan under the usual market conditions. In this case the public sector will be reported as imputed revenue – the amount of the interest assessed – and as an imputed expense of the same amount – the imputed current transfer to the enterprise. For accounting purposes, in order to comply with the principle of priority of content over form, the transaction of granting temporary interest-free loan is restructured in such a way, as if the budget had granted also a transfer to the enterprise, with which it repays the interest accrued on the loan.

105. Another example where there are imputed revenues, expenses and transfers is the provision of ***§22 of the Transitional and Final Provisions of the Law on the State Budget of the Republic of Bulgaria for 2000***, according to which public institutions located in municipal buildings do not pay rents. In this case there is a ***hidden transfer*** from the municipality to the public institution to the ***amount of the rent assessed by the municipality***. In this case, for the budgetary institution using the municipal building the imputed expense equals the amount of the rent, which it would have paid under normal conditions, and imputed revenue – the imputed transfer received from the municipality. Vice versa, for the municipality, the extended imputed transfer represents the imputed expense, and the rent assessed represents the imputed revenue.

106. The implementation of the concept of accounting for imputed revenues, expenses and transfers will contribute to a more credible representation of public sector operations, in particular assessment of revenues and expenses. By virtue of additional instructions and standards the **Ministry of Finance will specify the cases of specific application of this concept**, as well as specific rules for recognition and measurement of imputed revenues, expenses and transfers.

107. In the Budgetary Chart of Accounts imputed revenues, expenses and transfers are accounted for through **subgroups 608, 628, 718, 728 and 759**, as well as **certain accounts** in the **groups 64 and 74**. The ***imputed expenses and transfers***, posted as expenses, ***may correspond only to the imputed revenues and transfers accrued, and in the cases of commissioned tax (transferring) – against accounts 7014 or 7044***. For example, for the case described under **item 105** the following accounting entries will be made:
In the public institution:

Debit account 6087 "Imputed Lease and Rental Expenses"

Credit account 7594 "Imputed Transfers from the Municipal Budgets"

In the municipality

Debit account 7594 "Imputed Transfers from the Municipal Budgets"
Credit account 7181 "Imputed Revenues from Sale of Goods and Services"

The accounting for imputed revenues, expenses and transfers by individual accounts, which can correspond only between themselves, aims at distinguishing these accounting operations and estimates from the other items in order to control and analyse budgetary indicators – revenues and expenses on a cash and an accrual basis. The closing of these accounts will be made in line with the general rules applicable to the revenue and expense accounts.

Off-balance-sheet Assets and Liabilities

108. In the **group 91 “Third Parties’ Fixed Assets”** all assets of other parties should be reported, which the budgetary entity has leased under the conditions of an exploitation-leasing contract, consignment of assets, as well as assets subject to administration or distribution. For example, donations in kind should be reported here when the will of the donor has specified particular persons as beneficiaries of these donations, and the budgetary entity acts only as an intermediary for the administration and distribution of these donations.

!corections introduced to all items before item 69.

109. In account **9200 “Commitments”** the amounts committed on concluded contracts with suppliers of assets and services should be recorded before delivery and posting of these amounts to the appropriate balance-sheet accounts for assets, expenses and payments with suppliers. The account will be credited with the amount under the contract. Upon receipt of assets and services (they are invoiced and posted to the appropriate balance sheet accounts) the amount on ***account 9200 is written off***. The budgetary entities included in the FMIS apply the procedure in accordance with the software functions without having to keep this account on an on-going basis. The Ministry of Finance will issue additional instructions on the terms and conditions of accounting for commitments undertaken under contracts.

110. The public (municipal) guarantees granted are accounted for through the accounts in **subgroup 922**. These accounts are ***credited*** upon **granting of a guarantee** and are ***debited*** **when a guarantee is called or has expired**.

111. Accounting for past due payables and receivables is a new requirement. ***Past due payables and receivables are those which are not settled within the contractual (legal) term.*** Before the expiration of the term the accrued and non-paid receivables and payables are not considered past due. When there is no explicit term for settlement/payment. The receivables and payables that are not settled/paid within the commonly accepted term are considered past due.

112. Accounting for import and export conducted by budgetary entities is a new requirement. The accounts from **subgroups 995 and 996** are envisaged to reflect these activities. The registration of import and export on these accounts should be done on an ***accrual basis***. On the completion of the transaction, in case of import the **accounts from subgroup 995** are ***debited***, and in case of export the **accounts from subgroup 996** are ***credited***. The accounts are kept with **net turnovers** (in case of refunding amounts from import or export the reverse red posting is applied) and are closed at the end of the reporting year – subgroup 995 is closed against **account 9981**, and **subgroup 996** – against **account 9989**. The Ministry of Finance will further regulate the terms and procedures of accounting for import and export through these accounts.

C. CLOSING OF THE FISCAL YEAR AND CONSOLIDATION

XV. Annual closing of the accounts

113. During the reporting year no current procedures on closing the revenues and expenses accounts are carried out. The closing of the accounts can be done only at the end of the reported fiscal year.

114. Accounts from section 6 are closed as follows:

The groups 60, 61,62 and 64 as well as accounts 6504, 6506 and 6508 are closed into the respective accounts of **subgroup 120,** with regard to the reporting group (business area) where these accounts are maintained;

The group 65 (**without accounts 6504, 6506 and 6508)** whose balances will indicate **work in progress**, construction in progress and overhaul in progress before starting the annual fiscal closing procedure are closed as follows: **account 6501 is closed into account 2071, account 6502 is closed into account 2109, account 6503 into account 3010 and account 6507 into account 1039.**

115. Accounts from section 7 are closed as follows:

The groups 70, 71, 72, 73, 74 and 75 are closed into the respective accounts of **subgroup 120,** with regard to the reporting group (business area) where these accounts are maintained;

The group 76 is closed into **account 1309**;

The group 78 is closed into account **1301**;

The group 79 is closed into account **1309**.

116. **Accounts from the group 14** are closed into the respective accounts of **subgroup 120** depending on the reporting group (business area) where these accounts are maintained;

117. **Off-balance accounts from subgroup 995** are closed into **account 9981** and those from **subgroup 996** into **account 9989.**

118. After completing the above mentioned procedures on closing the accounts from section 6 and section 7, subgroups 995 and 997 as well as the group 14, the amounts on accounts from the **group 12** are closed into the respective accounts from the **group 11 – accounts 1101, 1102 and 1108** depending on the reporting group (business area) where these accounts are maintained, while the accounts balances from the **group 13** are closed into **account 1109**.

119. The annual closing of the budgetary entities accounts included in the FMIS is carried out in accordance with the standard functions and procedures of the system.

XVI. <u>Preparation and presentation of a trial balance</u>

120. The preparation of the **aggregate trial balances in the first level spending unit system** for the needs of the Finance Ministry when consolidating the accounting data will be changed in two aspects – the number of trial balances and the timing of preparation (the accounts' balances).

121. The first level spending unit has to prepare and submit **three separate aggregate trial balances of its whole system**, representing **the three accounting groups (business areas) – "Budgets", "Extra-budgetary Accounts and Funds", and "Other Accounts and Activities".**

122. The second change, which is a deviation from the standard accounting practice in the country means **preparation of the trial balances containing data for the accounts balances before their closing according to section XV.** For the purposes of the consolidation and analysis of the revenue and expenses accounts the annual closing is considered a purely technical procedure, which does not reflect actual transactions and events influencing the financial state and the outcome. Therefore, it should not take place in consolidating the information from the accounts. Otherwise, the debits and credits of the revenues and expenses accounts will not reflect the actual amount of the revenues and expenses.

123. Moreover, the reverse red posting procedure should not be applied with regard to the maintenance of information on a gross basis for the revenues and expenses entered as well as for reimbursed revenues/expenses, pursuant to the approach in section III of this document for the accounting for reimbursed revenues and expenses.

124. The reverse red posting procedure concerning revenues and expenses accounts has to be applied only currently through the year. It is mandatory in cases of mathematical and technical mistakes during the revenues and expenses posting, i.e. when the amounts on the debit or the credit exceed in error the actual reporting amounts.

125. The aggregation of trial balances and other statements and information for the first level spending units included in FMIS will be carried out through additionally determined technical requirements and formats of FMIS interfaces.

XVII. <u>Consolidation</u>

126. The consolidation of the public sector reporting data will be made on the grounds of generally applicable principles and posting procedures. However, there are two substantial differences from the accepted practice regarding the scope and structure (hierarchy and levels) of consolidation determined by the specifics of public finances.

127. Only budgetary entities fall in the consolidation scope – i.e. the entities forming the public sector and public finances in compliance with the classification stated in this paper, paragraphs 23 and 24. The statements of State/municipality-owned commercial entities are not subject to consolidation. Non-government organizations (NGOs), foundations and other institutions of the kind, funded by the Government or the municipality also remain outside the consolidation scope.

128. In this way, the consolidation scope will make the differentiation between the public sector assets, liabilities and activities and the other economic sectors possible, in compliance with the SNA's principles (System of National Accounts 1993).

129. Limiting the consolidation scope only to the entities structuring the public sector requires that budgetary entities in the future should account for their participation in joint ventures applying only the method **of Net Capital Value.** The method of proportional consolidation should be applied only with regard to participation in joint assets and activities.

130. The statements of entities with State/municipality participation will be aggregated separately for statistical purposes and for the needs of fiscal analysis outside the consolidation procedures applied to the public sector.

131. The second substantial and distinguishing feature in consolidating public sector data is that the consolidation process runs not only on hierarchical and organizational level (from low-level spending units to higher and first-level ones) but also along the separate accounting groups (business areas).

132. In the process of consolidation, operations and settlement between budgetary entities and accounting groups in the respective consolidation scope (level) are subject to elimination. For the fulfillment of these procedures, the budgetary entity should determine currently for the purposes of the consolidation the operations between the different groups (business areas) within the entity as well as its transactions with other budgetary entities. There a number of accounts defined in CABE, where activities between budgetary entities can be posted. It is necessary to have in mind that all settlements – receivables and payables **between** budgetary entities have to be entered **only** into the respective accounts from the groups 45 and 46. Thus, for example, the receivables and payables between two budgetary entities arisen by common commercial relationship of the type **consumer – supplier** have to be entered **only** into the respective accounts from the group 45. In such cases, accounts 401 and 411 as well as other accounts from section 4 cannot be used.

133. The identification of the activities between two budgetary entities is done according to the classification shown below, stipulated by the three reporting groups (business areas) as well as the structure of public finance:

Classification of transactions with entities of **"Budgets"** reporting group:

100 – internal settlements in "Budgets" reporting group
101 – central Government budget
102 – budgets of ministries
104 – budgets of municipalities
105 – budget of Social Security Fund 106 – budgets of other social insurance funds (National Health Insurance Fund and Professional Qualification and Unemployment Fund)
107 – Judiciary System's budget
108 – budgets of State Universities, Bulgarian Academy of Science, Bulgarian National Television, Bulgarian National Radio

Classification of transactions with entities of **"Extra budgetary Accounts and Funds"** reporting group:

200 – Internal settlements in the "Extra budgetary Accounts and Funds" group
202 – extra budgetary accounts of ministries and institutions
204 – extra budgetary accounts of municipalities
205 – extra budgetary accounts of National Social Security Institute (NSSI)
206 – extra budgetary accounts of other social security institutions
207 – extra budgetary accounts of the Judiciary System
208 – extra budgetary accounts of State Universities, Bulgarian Academy of Science, Bulgarian National Television, Bulgarian National Radio

Classification of transactions with entities of **"Other Accounts and Activities"** reporting group:

300 – Internal settlement in the "Other Accounts and Activities"
301 – Central Government budget
302 – ministries and institutions
304 – municipalities
305 – NSSI
306 – other social security institutions
307 – judiciary system
308 - State Universities, Bulgarian Academy of Science, Bulgarian National Television, Bulgarian National Radio

The codes shown are the same as in FMIS for identification of those operations and should be applied compulsorily by the budgetary entities included in FMIS. The budgetary entities not included in FMIS will have to present information for operations subject to elimination, under arrangements, conditions, technical requirements and terms defined additionally by the Ministry of Finance.

134. Another distinguishing feature in the consolidation process of public sector reporting data is that **budgetary entity's expenses for mandatory social insurance contributions (for the Social Security Fund, National Health Insurance Fund and Professional Qualification and Unemployment Fund) are not subject to elimination with the reciprocal income from the contributions accounted with these insurance funds.** This applies to the highest level of consolidation, i.e. the whole public sector, as well as to the insurance funds themselves, with regard to the amounts calculated by them for expenses and their reciprocal income from social contributions for their staff, when they enter their budget (for instance, the expenses and the income from contributions for Social Security Tax, calculated on NSSI staff). This exception is conditioned by the acceptance of the SNA methodology with regard to the staff's expense treatment. The social contributions calculated at the expense of the employer (insurer) are considered an element of the staff's remuneration. In this respect, for these operations on a consolidated level the so-called rerouting technique is applied, i.e. the social contribution expenses on the employer's part (the budgetary entity) are redefined for accounting purposes as calculated amounts for the staff's remuneration. Then, they are deducted and contributed as income to the respective insurance fund.

D. OTHER ISSUES

XVIII. Identification of assets, liabilities, revenues and expenses by reporting groups (business areas) and additional requirements for posting

135. Allocating the assets, liabilities, revenues and expenses in the three reporting groups (business areas) requires their unique identification – a certain asset, liability, revenue or expense may fall/ be entered only into one reporting group (business area).

136. Regarding the financial assets and liabilities, there are not any serious practical difficulties for their identification with a certain reporting group as a whole, because the cash flows originating from them are subject to incoming/payment on a certain bank account – budgetary, extra-budgetary or accumulation.

137. The type of the bank accounts used strictly determines their identification and relation to the respective reporting group (business area):

The budgetary banking account falls into the **"Budgets"** reporting group;

The extra-budgetary banking account falls into **the "Extra-budgetary Accounts and Funds"** reporting;

The accumulation banking account falls into the **"Other Accounts and Activities"** reporting group.

All the cash flows through these accounts are posted in the reporting group (business area) where the bank account belongs. Similarly, the time deposits and letters of credit fall in the reporting group of the current bank account, whose cash has been used to make the deposit/ the letter of credit. The amount available in cash is included in that reporting group (business area) where the bank account belongs and from which account they have been drawn out or are liable to payback.

138. Practical concerns may arise mainly in the case of non-financial assets – goods and inventory (materials in stock) and fixed tangible and intangible assets. As it was stated in paragraph **101**, cases exist, when a certain non-financial asset is acquired by the means of one reporting group but will be used in another. In these cases, the analysis of the respective account/budget will help to identify such assets – when purely financial flows circulate through the respective account/budget and receivables and payables are generated, without utilization of these means, they should be posted in the reporting group of their actual utilization.

139. In the process of the transformation of accounts and transition to the **new CABE,** budgetary entities should identify assets and liabilities in the respective reporting groups. With respect to non-financial assets, during their first allocation in the reporting groups, the leading principle should be the activity they will support, not the way they have been acquired. If there are any difficulties upon their identification, first, they all will be entered into the “Budgets” reporting group and subsequently be transferred into the respective reporting group.

140. The Ministry of Finance will also issue regulations and procedures for identification of assets, liabilities, revenues and expenses between the reporting groups.

141. The accountancy of operations and balance sheet status of the budgetary entities in each reporting group calls for additional requirements in the process of recording and issuing bookkeeping documents. They should include data not only for the legal entity, i.e. the budgetary entity, but for the accounting entity and the respective reporting group to which it belongs as well.

XIX. Regulatory Framework and Transition to CABE

142. In the draft of the Government Budget Law 2001 of the Republic of Bulgaria, the Ministry of Finance has put forward a suggested text in the transitional and final regulations. According to it, budgetary entities should apply the chart of accounts and accountancy standards approved by the Minister of Finance, who should also determine the system and the way of transition and implementation.

143. In the draft of the new Accountancy Act, similar regulations have also been suggested. There is a provision that the budgetary entities’ chart of accounts should be a separate autonomous part of the National Chart of Accounts approved by the Minister.

144. In relation to the budgetary entities’ reporting, there is a provision for application of the National Accountancy standards to issues not regulated in the accountancy standards for budgetary entities. A number of accounting principles and procedures are of common practice for the budgetary entities as well, and for that reason provision of supplementary accountancy standards for regulation of these issues would cause duplication. Bearing in mind the adopted public sector accountancy framework, the subject of the standards would be the accountancy concepts, principles and rules that are specific only for public finances.

145. The order, the term and the procedures of transition of budgetary entities to the **new CABE** will be regulated additionally by the Ministry of Finance taking into consideration the specifics of individual budgetary entities, their hardware and software equipment, the volume of operations and other factors influencing their level of readiness to make the transition to the CABE.