

## DISCLOSURE OF INFORMATION ON CONCESSION TRANSACTIONS IN THE ANNUAL FINANCIAL STATEMENTS OF THE ENTITIES IN THE REPUBLIC OF BULGARIA – CURRENT ISSUES

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**Abstract:** *The requirements on the disclosure of information regarding concession agreements have been spelled out in detail in various regulatory acts. The disclosure of information, as stated in the International Financial Reporting Standards (IFRS), has become complicated because of the fact that these requirements have not been systematized in a single document and because there is no form approved in which they might be presented. On the other hand, the national accounting regulatory framework in this field has not been updated and synchronized with the accounting treatment guidelines of IFRS. These circumstances lead to the violation of the requirements to present a true and fair view of the information in the annual financial statements of entities engaged in concession activities. The position of the national regulatory framework, the lack of systematized requirements for the entities applying the International Financial Reporting Standards, and the poor level of control, generate a number of problems outlined in this paper. The author tried to present a solution for some of the issues laid out in the paper.*

**Keywords:** *concession rights, concession agreements, accounting, intangible assets, public private partnership, disclosure in annual financial statements.*

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Concession transactions, being a successful form of public private partnership, are one of the methods to cope with the complex political, social and economic environment both in Bulgaria and in Europe. The limited public goods and the narrow abilities of the public sector are more successfully managed by the more innovative and flexible private business. In Bulgaria, the oldest traditions in the application of public private partnership refer to concession agreements. According to the national legislation, “a concession is the right to operate a facility and/or a service of general interest, conceded by a concession granting authority to a person engaged in commercial activity (a concessionaire), against concessionaire’s obligation to construct and/or manage and maintain the subject of concession or to manage the service at concessionaire’s own risk” (Law on Concessions, 2006, art. 2).

A concession is granted on the basis of a long-term written agreement of a particular material interest executed between the concession granting authority and the concessionaire. The main aim and purpose of a concession agreement is sharing of benefits, risks, responsibilities and control between the parties under the agreement. Depending on its object, the agreement can be concluded for: public works concession, service concession and mining concession. In contrast to the international practice, concessions in Bulgaria granted under the conditions of, and according to the provisions of the national Law on Concessions and the Law on Subsurface Natural Resources are not a public private partnership (Law on the Public

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Private Partnership, 2012, art.3 par.3). Regardless of the regulatory framework and the subject of activities, upon conclusion of an agreement, some rights (intangible asset) originate for the concessionaire, with which the concessionaire is expected to increase the total amount of its assets. Accounting information occurs for both parties in a concession relationship – the concession awarding authority (grantor) and the concessionaire (operator) - and this information has to be presented in a proper form, so that it could ensure publicity and transparency both for the parties under the agreement and for third parties. The significance of the disclosed information for this kind of transactions is also determined by the subject of these agreements, which might affect the welfare of the society as a whole and its sustainable development.

One of the problems which stands out when reflecting concession relationships is connected with the implementation of the requirements on the presentation of accounting information concerning concession transactions in the annual financial statements of concession granting entities and concessionaire entities.

The regulatory framework, which generates guidance on how to present this information about concession transactions, is set out in Table 1.

**Table 1**

Regulatory Acts outlining the disclosure requirements.

Act	Scope of application	Explanation
1	2	3
AS 38 Intangible Assets, 2008.	For the enterprises of the non-financial sector, which apply the NFRSSME.	The standard only gives general guidance on disclosure of information in relation to recognized intangible assets in the enterprise. Since concession rights are treated as externally generated intangible assets, this is the only national legislation associated with the subject.
IAS 38 Intangible Assets, 2010.	For the enterprises of the non-financial sector, which apply IFRS.	The standard only gives general guidance on disclosure of information in relation to recognized intangible assets in the enterprise, similar to the national standard.



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SIC INTERPRETATION 29 DISCLOSURE – Service Concession Agreements, 2002.	For the enterprises of the non-financial sector, which apply IFRS.	Disclosure of information in the annual financial statements of the grantor (supplier of service concession) and the operator (concessionaire) for concession agreements with their concession subject being construction or services.
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1	2	3
IFRS 6 Exploration for and Evaluation of Mineral resources, 2008.	For the enterprises of the non-financial sector, which apply IFRS.	Disclosure of specific information available to the concessionaire with regard to concession agreements with the subject of concession - mining of mineral resources.
IFRIC Interpretation 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds, 2008.	For the enterprises of the non-financial sector, which apply IFRS.	The interpretation outlines some main guidelines on establishing decommissioning, restoration and environmental rehabilitation funds after some activities (such as rectifying pollution of water, restoring mined land, recultivation of land after exploration of mineral resources) on expiration of concession agreements. The interpretation prescribes to segregate assets to fund some or all of the costs for decommissioning plant. Such contributions may be voluntary, however within the context of concession agreements they are rather referred to the group of funds set up by virtue of regulatory acts.
AS 37 Provisions, Contingent Liabilities and Contingent Assets, 2008.	For the enterprises of the non-financial sector, which apply the NFRSSME.	Disclosure of information on provisioning an obligation for restoration and protection of the environment, which is most commonly classified as a provision. A provisioning obligation most often arises in mining concessions.

Continued

1	2	3
IAS 37 Provisions, Contingent Liabilities and Contingent Assets, 2008.	For the enterprises of the non-financial sector, which apply IFRS..	Disclosure of information on provisioning an obligation for restoration and protection of the environment, which is most commonly classified as a provision. A provisioning obligation most often arises in mining concessions.
IPSAS 32 Service Concession Arrangements: Grantor	For enterprises of the public sector, which apply IPSAS. The standard is not applied in Bulgaria.	Accounting standard for accounting treatment of concession agreements in the public sector (with the Contracting Entity).

<p>Directive 2013/34/EU of 26.06.2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC.</p>	<p>For undertakings active in the extractive industry or logging of primary forests of Member States, whose payments to the government surmount 100 000 EUR within a single financial year..</p>	<p>The Directive provides guidance that when certain threshold criteria are exceeded, the payments made to the government shall be disclosed for undertakings operating in the extractive industry or logging of primary forests. The Directive itself aims at facilitating small and medium-sized enterprises in the preparation of their financial statements, while at the same time generating additional disclosure obligations for public-interest entities.</p>
<p>Accounting Law, SG, issue 95 of 08.12.2015, effective as of 01.01.2016</p>	<p>Regulates the accounting system in the Republic of Bulgaria.</p>	<p>This law is new and was worked out in compliance with the requirements of Directive 2013/34/EU.</p>

From the information presented so far, we could make a conclusion that there is a diverse regulatory framework, which should be taken into account by the entities that appear to be parties to concession agreements, when preparing their annual financial statements. It is interesting for us as researchers to learn about the extent to which this regulatory basis is familiar to the entities and applied by them when disclosing the information in their annual financial statements. In order to check the compliance with the regulations, we enquired for some information from the National Concession Register ([www.nkr.government.bg](http://www.nkr.government.bg)) and the Commercial Register ([www.brra.bg](http://www.brra.bg)). From the concession Register, we obtained details on the concession agreements concluded by the current time and we analyzed the annual financial statements of concessionaire entities in the field of mining, services and construction on a casual basis. After that, we checked the information from the annual financial statements published in the Commercial Register of the entities selected by us, in order to see to what extent the requirements on the quality and quantity of disclosed accounting information concerning concession transactions are understood and satisfied. Following the study of the annual statements of the entities selected by us on a casual basis, we arrived at the following conclusions:

- ✓ The entities of the non-financial sector, which apply the National Accounting Standards NFRSSME, publish the reporting forms, approved by the National Statistics Institute, which have been drafted for the purposes of the National Statistics, and not for accounting purposes, at the Commercial Register. The main problem with them is that no textual disclosure is envisaged. In those entities, which make an exception and have submitted statements complying with the provisions of the National Accounting Standards, the information is presented in a template form, and concession rights are indicated only as part of the intangible assets, if recognized as an asset at all. The information on concession agreements concluded is rarely presented, and the information on provisioned liabilities in connection with concession relationships is rarely reported and disclosed;
- ✓ Regretfully, in concessionaire entities applying IFRS/IAS, the information is not exhaustive as well, and it does not satisfy the requirements on the disclosure of concession transactions. These entities' statements are often in line with the requirements of the International Accounting Standards and it is more likely to come upon correct disclosing of provisioned liabilities, however the remaining requirements set out in the above regulatory documents are not satisfied again;
- ✓ Concession granting entities do not publish publicly accessible accounting information about the concession agreements concluded by them. Non-financial information could be

found on the websites of the respective authority, but it is not presented according to standardized and uniform criteria.

For the purpose of reducing the above stated issues, we suggest that consideration should be taken on the question concerning the issuance of a single standard for reporting concession rights, and based on the model of the already developed and adopted accounting standards, the information which is supposed to be obligatory for disclosure in connection with concession rights, should be entered in the standard's contents. It could be possible to consider also the question whether this standard might provide guidance on all forms of private public partnership. For the purpose of facilitating the selection of the most appropriate information for disclosure, a process card (Table 2) could be applied to check the disclosed information. Based on the drafted process card, we have explored the information disclosed by the entities in the three directions of concession activity in Bulgaria – mining concession, construction concession and service concession, for three consecutive years – 2012, 2013 and 2014.

**Table 2**

Process card to check disclosed information

Question	Notes and answers for 20XX	Notes and answers for 20X1	Notes and answers for 20X2
1	2	3	4
1. Has an intangible asset of a concession right been reported in the Balance Sheet of the entity?			
2. Has the following information been disclosed with regard to intangible assets (concession rights) in entity's accounting policy: a) approach for recognizing the initial and subsequent costs incurred on intangible assets; b) approach for recognizing the development costs for the intangible asset; c) value of the liabilities assumed for the acquisition of the intangible asset.			
3. Has any explanatory information been provided about the concession agreement(s) concluded?			
4. Has the information about concession transactions been presented in a clear and straightforward manner?			
5. The disclosure of concession activities: a) has been made separately for each agreement; b) concerns a group of agreements of similar character.			
6. Has the following information about mining concessions been disclosed: - has the accounting policy on the recognition of exploration and evaluation expenses, involving the recognition of exploration and evaluation assets, been provided; - has the classification of exploration and evaluation assets been made in a separate disclosure group; - what is the method of inclusion of search and exploration expenditures in the price of the intangible asset (partial capitalization approach or full capitalization approach).			

Continuation

1	2	3	4
7. Has the information on provisions (liabilities for			

<p>recultivation of land, liabilities under eco programmes, etc.), connected with concession agreements, been disclosed? The content of the information you look for might be in the following directions:</p> <ul style="list-style-type: none"> <li>- short description of the nature of the liability;</li> <li>- specification of insecurity elements;</li> <li>- carrying amount of the provision;</li> <li>- additional provisions made over the period (20XX, 20X1, 20X2);</li> <li>- provisions written off and used during the period (20XX, 20X1, 20X2).</li> </ul>			
<p>8. Has the information about participation in decommissioning, restoration and environmental rehabilitation funds been disclosed in the accounting policy? The information could be searched in the following directions:</p> <ul style="list-style-type: none"> <li>- disclosure of the nature of concessionaire's participation (mandatory or voluntary) in the fund;</li> <li>- agreed contributions to the fund.</li> </ul>			

An interesting issue for us is also the information disclosed by the concession granting entities representing the state. The problems are quite numerous and their solutions require firm and decisive actions. It is not possible to demand detailed information from the concessionaires while the concession granting entities are not controlled in any manner. Even though Bulgaria is a Member State of the European Union, no measures have been undertaken to adopt the International Public Sector Accounting Standards. This is only one of the preconditions for the problems with the information provided by the concession granting entities as representatives of the state authority in concession transactions. Nevertheless, some positive legislative initiatives have been undertaken over the latest years. A New Law on Public Finance was adopted, which also refers to some more advanced solutions on the organization of public sector accounting. What we actually consider most important is the answer to a number of questions such as: How can we be informed about the annual statements of concession granting entities? Who controls the correctness of their statements? How is the publicity and transparency of these statements ensured? Why is not there a register where we could trace the information about the public sector entities?

**Conclusion**

In conclusion, we are going to summarize that a variety of measures for the optimization of the quality and quantity of the information disclosed in the annual financial statements of the entities can be undertaken. From the analysis we made of the published annual financial statements of the entities, it may be concluded that the aim to generate true and fair information for the accounting aspects of concession agreements has not been achieved. It is imperative to undertake measures directed towards improvement of the knowledge and skills of the preparers of annual financial statements in order to generate and publish more reliable accounting information on concession agreements. The major prerequisites to satisfy the established requirements are their popularization and the observance of their implementation.

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