

SUSTAINABILITY OF THE ALOGICAL APPROACH IN THE REGULATORY FRAMEWORK OF PUBLIC SECTOR ACCOUNTING IN BULGARIA

Daniela Feschiyan*

University of National
and World Economy,
Sofia, Bulgaria
d.feschiyan@gmail.com

Radka Andasarova

University of National
and World Economy,
Sofia, Bulgaria,
r.a-georgiva@unwe.bg

* corresponding
author

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ABSTRACT

Background: The transition to sustainable reporting in the public sector in Bulgaria requires a principle-based approach to the recognition, accounting treatment, and disclosure of assets and liabilities that determine the financial position of public sector entities, as well as contingent assets and liabilities. **Aims:** This paper critically analyses the regulatory framework of public sector accounting and its impact on the choice of an applicable model for the recognition of non-current assets, as well as on the accounting treatment and disclosure models for contingent assets and liabilities. **Methods:** A theoretical analysis of the regulatory framework of public sector accounting in the Republic of Bulgaria, focusing on its application to the accounting treatment and disclosure of contingent assets and liabilities, and an empirical comparative study of current accounting practices in selected Bulgarian museums. **Results:** The study identifies key differences compared to the conceptual model of public sector financial reporting. **Conclusions:** The lack of timely and complete accounting information on contingent liabilities may lead to an underestimation of entities' future financial commitments, which in turn affects their capacity for sustainable development and raises doubts regarding the going concern assumption. **Implications:** It also outlines the implications and challenges facing the public sector accounting system in Bulgaria in relation to the application of sustainable financial reporting models.

Keywords: Non-current Assets, Contingent Assets, Contingent Liabilities, Financial Reporting, Public Sector

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Introduction

The materiality principle has both quantitative and qualitative dimensions. Setting materiality thresholds limits an entity's freedom to reflect its understanding of materiality in its accounting policies from both a quantitative and a qualitative perspective. For example, the standards for asset recognition adopted in the document issued by the Ministry of Finance of the Republic of Bulgaria (2004) are, in the authors' opinion, unacceptable to the extent that they restrict the entity's freedom to quantitatively define materiality in its accounting policies. At the same time, the failure to disclose in the financial statements of public sector entities accounting information regarding contingent receivables and contingent liabilities arising from pending (unresolved) legal proceedings in which the budgetary entity is a plaintiff or defendant and for which no court decision has been rendered as of the balance sheet date, the failure to disclose or the lack of detailed disclosure of commitments for expenses, taking into account their materiality, maturity structure, including by counterparty, with a view to transparency of future cash flows, are poor practices that violate the principle of materiality in a qualitative sense.

A contingent liability is a potential obligation that may become an actual liability if a specific future event occurs. The realization of significant contingent liabilities can impose substantial fiscal costs on governments and may contribute to financial crises. Their management is particularly challenging because both the magnitude of the liability and the timing of its realization are often uncertain and difficult to predict. (Burnside, 2004). Given these risks, the importance of monitoring contingent liabilities was recognized in the Guidelines for Public Debt Management (IMF–World Bank, 2001). Nevertheless, they often remain outside the framework of conventional public financial analysis, as their realization depends on future events and they are generally treated as off-balance-sheet items (Arslanalp & Liao, 2014).

Limitations. The study is limited to the recognition of non-current assets, contingent assets, and contingent liabilities and their disclosure in the financial statements of general-purpose public sector entities in Bulgaria. For the purposes of this study, we follow Daniela Feschiyan's (2023) thesis that the cash budget execution report is not considered a component of the content of general-purpose financial statements.

Theoretical background

Regulatory approach to the recognition of non-current assets in the public sector

For more than 25 years, Daniela Feschiyan has advocated in her research for the standardization of public sector accounting in Bulgaria and adherence to the accrual basis of accounting, placing our country at the forefront of nations conducting research arguing for the necessity of accrual accounting in the public sector and prioritizing the accrual principle over the cash principle. In 2011–2012, Daniela Feschiyan conducted the first empirical study in Bulgaria dedicated to existing problems in the organization of public sector accounting and to models for reporting fixed assets in the public sector, the results of which demonstrate the need for urgent reforms in the organization and methodology of public sector accounting (Feschiyan, 2013). At present, the aforementioned studies regarding the need for standardization of public sector accounting and models for the accounting treatment of fixed assets remain highly relevant and of significant public importance due to the lack of an adequate solution within the regulatory framework of public sector accounting. Moreover, the changes that have occurred in the regulatory framework of public sector accounting, and more specifically in the area of accounting for fixed assets, not only fail to overcome existing shortcomings, but to a certain extent exacerbate the problems in the organization and methodology of their accounting and create additional uncertainty regarding their recognition. The application of a standardized, consistent model for the recognition of tangible fixed assets could help overcome the shortcomings of the regulatory approach and improve consistency in the application of accounting policies and the comparability of financial information.

When identifying a given asset, the entity should determine whether it meets the recognition threshold defined in the accounting policy, while also complying with the value thresholds for recognizing property, plant, and equipment outlined in a document of the Ministry of Finance of the Republic of Bulgaria (2004), for the recognition of tangible fixed assets, whose minimum thresholds range from 500 to 1,000 euros. The regulatory introduction of value thresholds limits the ability of enterprises to exercise and apply their own judgment in their accounting policies regarding the materiality of assets, both in quantitative and qualitative terms. Such a regulatory approach is at odds with the conceptual principles and rules for the recognition of assets, specifically fixed tangible assets in

the public sector, which require the application of professional judgment in determining materiality in the context of the specific characteristics of the entity's operations.

The regulatory minimum value threshold (500 leva) was also applied to tangible fixed assets functioning as a set of interrelated assets, regardless of the individual value of each separate component in their configuration. With the changes in public sector regulations, effective as of 2026, this requirement was eliminated for computer configurations, replaced by the application of the materiality threshold defined in the entity's accounting policy. In other words, it is permissible to recognize fixed assets with a value below the adopted materiality threshold, provided they function as an interconnected system of assets. It is assumed that in such cases, the value of the entire computer configuration should exceed the materiality threshold defined in the accounting policy. In the authors' opinion, the wording in the relevant Ministry of Finance of the Republic of Bulgaria guideline (2025) creates conditions for differing interpretations and applications in accounting practice. It is not sufficiently clear whether the adopted materiality threshold should be applied to the entire computer configuration or to the value of the individual components. In addition, the issue arises regarding the accounting treatment of all other tangible fixed assets that function as a set of interrelated elements. In the absence of clarity in the regulatory framework, it is unclear whether the approach introduces a minimum requirement of 500 euros or the relevant materiality threshold adopted in the accounting policy (between 500 and 1,000 euros). The inconsistency in the regulatory framework creates conditions for inconsistent accounting treatment of assets that are similar in their economic nature and calls into question the comparability of accounting information and the consistency in the application of accounting policies.

Model for the Recognition and Disclosure of Contingent Assets and Contingent Liabilities in Public Sector Entities in Bulgaria

From an international perspective, research on the accounting treatment and disclosure of contingent assets and contingent liabilities in public-sector entities is very limited. Most of the existing empirical studies focus on private-sector entities, particularly publicly traded companies. The results of these studies confirm the existence of limitations in the disclosure of information regarding contingent liabilities and the associated risks arising from future economic events (Hennes, 2014; Espindula & Souza, 2018; Burnside, 2004; Albuquerque, 2024). Despite the existing difficulties in assessing contingent liabilities, the disclosure of non-financial information regarding these items is essential for assessing risk and potential future losses of the enterprise (Hennes, 2014). Another group of authors analyzes the requirements of international accounting standards and applicable accounting practices regarding the recognition of provisions and the presentation of contingent liabilities in financial statements through the lens of creative accounting (Lopes & Reis, 2019).

The recognition of contingent assets and contingent liabilities, as well as their disclosure in financial statements, continues to pose a significant challenge for public sector entities. The requirement for a fair presentation of information in the financial statements of public sector entities is achieved through the key characteristics of a complete, neutral, and error-free description of ongoing economic events or processes (IPSASB, 2023). A complete presentation of accounting information requires the recognition, accounting, and disclosure of both the assets and liabilities constituting the financial position of public sector entities and contingent assets and liabilities. The neutrality of information, as an aspect of fair presentation, precludes the requirement for asymmetry. The issue of asymmetry in accounting information takes on particular significance about the disclosure of contingent liabilities. Contingent liabilities represent potential obligations arising from past events, the existence of which cannot be confirmed due to uncertainty regarding the occurrence of a future outflow of economic benefits or the inability to reliably estimate the amount of the obligation (Ministry of Finance of the Republic of Bulgaria, 2004). Contingent liabilities are not recognized as actual liabilities in the financial statements, as they do not meet the recognition criteria under the conceptual framework in the public sector. There is insufficient certainty regarding the existence of a present obligation that the entity has no practical ability to avoid, as well as regarding the likelihood of a future outflow of resources embodying economic benefits (IPSASB, 2023). "The circumstances of uncertainty regarding the timing of the event's occurrence and the inability to determine a reliable value for the liability and the resources required to settle it are grounds for not recognizing contingent liabilities as actual liabilities" (Andreev, 2011).

Some of the potential obligations initially recognized as contingent liabilities may subsequently be presented as current liabilities in the form of provisions when, as of the date of preparation of the annual financial statements, they can be reliably estimated and when the entity has assessed that their settlement is likely to require a future outflow of resources embodying economic benefits. This necessitates that the contingent liability be recognized as a provision in the amount of the best estimate

of the expected liability, while simultaneously recognizing an expense for the current reporting period. The contingent liabilities must be monitored, as the chances of their occurrence may become probable and thus become provisions that should be recognized in the income statement (Jesus & Souza, 2016, cited in Espindula & Souza, 2018). This process illustrates the predictive nature of accounting information, as an aspect of relevance, which is reflected in the creation of an initial, approximate estimate of those contingent liabilities that have the potential to commit the entity to an outflow of economic benefits. The question arises as to what extent these requirements are applied in practice in the financial statements of public sector entities in Bulgaria.

Given that contingent liabilities are not presented as a separate line item in the financial statements but are disclosed in the notes thereto, there is a risk that this information may be concealed by management, driven by a desire to avoid publicity and transparency, from users of financial statements, in violation of the public interest. Such a practice exacerbates information asymmetry and limits the transparency of accounting information. It is considered that the existing interrelationship between contingent liabilities, provisions, and obligations implies an expansion of the scope of disclosures in annual financial statements, which would contribute to improving the quality of financial reporting to provide relevant and reliable information on public sector activities. For each contingent liability, the entity should disclose a brief description of its nature, as well as an assessment of its potential effect in accordance with the applicable measurement rules (Espindula & Souza, 2018). A research study on the disclosure of contingent legal liabilities emphasizes the role of non-financial information as an essential requirement that complements the quantitative data on contingent liabilities and contributes to their more complete presentation in the notes to the general-purpose annual financial statements (Hennes, 2014).

The regulatory framework for public sector accounting in the country does not prescribe a mandatory approach to the disclosure of contingent liabilities and, accordingly, contingent assets, but rather treats such disclosures as recommended (Ministry of Finance of the Republic of Bulgaria, 2004). As a result, the accounting policies of public sector entities lack clearly defined criteria for both the recognition of contingent liabilities and their reclassification as provisions. The applicable format of the balance sheet for public sector entities until 2021 provided for the presentation of information on contingent assets and contingent liabilities in quantitative terms under the line item “off-balance-sheet assets and off-balance-sheet liabilities.” This ensured a certain degree of transparency in the financial statements regarding potential rights and obligations arising from past events. In addition to their quantitative presentation in the balance sheet, information on contingent assets and liabilities was also partially included in the notes to the annual financial statements. With subsequent changes to the regulatory framework, the requirement for quantitative disclosure of contingent assets and contingent liabilities was repealed. Accounting practice in the public sector shows that the removal of this requirement leads to a significant reduction in qualitative disclosures in the notes to the financial statements, and in many cases, this is accompanied by the discontinuation of the presentation of this information.

Accounting aspects of the recognition of contingent assets and contingent liabilities in public sector entities in Bulgaria

According to the concept of materiality, information is considered material and should be disclosed in general-purpose financial statements when its omission or misstatement could influence the process of making economically sound decisions (IPSASB, 2023). As previously noted, materiality can be defined in both quantitative and qualitative terms; however, when disclosing contingent assets and contingent liabilities in accounting practice, its qualitative aspect takes precedence. This is driven by the need for accounting information regarding the entity’s potential rights or obligations to be presented fairly and completely in general-purpose financial statements when it is capable of influencing the management of financial risks in the public sector.

The going concern principle is also of significant importance for the recognition of contingent assets and contingent liabilities in public sector entities. The existence of a given budgetary entity and the scope of its activities depend on the decision of the relevant funding budget, which in turn depends on the cost of maintaining the budgetary entity (Feschiyan, 2018). Regardless of the accounting basis applied, the going concern concept forms the basis for the preparation and presentation of general-purpose financial statements (Hristov, 2025). In the Accounting Act, as well as in AS 1 Presentation of Financial Statements, the going concern assumption applies when the entity has neither the intention nor the need to liquidate or significantly reduce the scope of its operations. In the Conceptual Framework of the IPSAS, the going concern concept is also central to the preparation and presentation of general-purpose financial reports from the perspective of the significance of projected accounting

information for the long-term sustainability of public sector entities. The deviation from the going concern principle in the public sector has been demonstrated in the academic literature (Feschiyan, 2012). In addition, we can note that a prerequisite for the emergence of doubts regarding the going concern assumption in the public sector is the limited financial resources, which put at risk the performance of the core functions for which the entity was established. The recognition and disclosure of accounting information regarding contingent liabilities is a key factor in the analysis and assessment of these risks. The lack of adequate accounting information regarding contingent liabilities creates conditions for underestimating the entity's potential financial obligations. This may result in significant future expenses associated with the outflow of economic benefits. An example is legal or regulatory proceedings brought against the entity that are pending as of the financial statement date, which, if resolved unfavorably, could result in liabilities that the entity is unlikely to be able to settle.

Another accounting principle that is of significant importance for the recognition of contingent assets and contingent liabilities in public sector entities is the principle of prudence. In conditions of uncertainty, every judgment must be based on prudence, which ensures the reliable presentation of information in the financial statements (IPSASB, 2023). In today's environment, the analysis of the factors and circumstances that enterprise management should consider when assessing future risks—with a view to their prevention, including through the use of forecast information in general-purpose financial reports—is becoming increasingly important. The application of a risk-based approach regarding the timely recognition of potential liabilities mitigates the risk of default. In this sense, contingent liabilities and the resulting contingent risks requiring provisioning may be recognized and reported at an earlier stage compared to an optimistic approach, which would lead to an underestimation of contingent liabilities. Contingent liabilities matter suggests that country authorities should pay more attention to them, including by disclosing more information about them in government financial accounts, as recommended by GFSM, 2001, which could help reduce sovereign spreads or, at least, reduce market uncertainty (Arslanalp & Liao, 2014). On the other hand, the application of the prudence principle in the context of the requirement for fair presentation excludes the requirement for asymmetric information. Lopes and Martins (2005) affirm that the lack of accounting disclosure in companies can generate information asymmetry, in many cases resulting from conflicts of interest between the internal and external users (cited in Espindula and de Souza, 2018).

The decision to recognize a provision is also linked to the general rules and criteria for reclassifying contingent liabilities into provisions, as adopted in the accounting policy of the relevant budgetary entity. Some of the potential obligations, initially recognized as contingent liabilities, may subsequently be accounted for as current liabilities in the form of provisions when, as of the date of preparation of the annual financial statements, they can be reliably estimated and when the entity has assessed that their settlement is likely to require a future outflow of resources embodying economic benefits. The lack of accounting information regarding contingent liabilities creates a risk of underestimating the entity's contingent liabilities. This could lead to delays in or failure to recognize provisions when the conditions for their recognition are met, which in turn results in a violation of both the principle of prudence and the principle of the accrual basis of accounting for provision expenses.

Methodology

A theoretical analysis of the regulatory framework of public sector accounting in the Republic of Bulgaria and the requirements of International Public Sector Accounting Standards (IPSAS)

From an international perspective, including in Bulgaria, there is a lack of research dedicated to the accounting treatment and disclosure of contingent assets and liabilities in the financial statements of public-sector entities. It is believed that this study could contribute to furthering research within the academic community, as well as to laying the groundwork for a public debate involving representatives of the state administration and professional organizations in the Republic of Bulgaria regarding the challenges associated with adopting a standardized model for the accounting treatment of contingent assets and liabilities.

The research methodology includes a comparative analysis of Bulgarian public-sector accounting legislation and the requirements of IPSAS regarding the accounting treatment and disclosure of contingent assets and liabilities. Empirical data are presented to support the conclusions drawn from the comparative analysis of applicable accounting practices in Bulgaria's public sector and existing international practices regarding the application of standardized models for the accounting treatment and disclosure of contingent assets and liabilities. Based on the results of the empirical study, recommendations are formulated for improving financial reporting in Bulgaria's public sector, which

will contribute to enhancing the quality and transparency of financial and non-financial information in financial statements.

Table 1: Comparative Analysis of the Prescriptive Approach and the Standardized Approach to Accounting for Contingent Assets and Liabilities

Field of Research	National Accounting Legislation		International Public Sector Accounting Standards (IPSAS)
	National Accounting Standards (NAS), which also apply to public-sector entities in Bulgaria	Documents of the Ministry of Finance of the Republic of Bulgaria	
Definition of a Contingent Liability	A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or A present obligation that arises from past events, but is not recognized because: (a) It is not probable that an outflow of resources embodying economic benefits, or (b) The amount of the obligation cannot be measured with sufficient reliability.	Based on the definition in NAS	A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or A present obligation that arises from past events, but is not recognized because: (a) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or (b) The amount of the obligation cannot be measured with sufficient reliability.
Definition of a contingent asset	A possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.	Based on the definition in NAS	A possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
A Model for the Accounting Treatment of Contingent Assets and Contingent Liabilities	Contingent assets and contingent liabilities are not recognized in the financial statements but are subject to disclosure in the notes to the annual financial statements.	Contingent assets and contingent liabilities are not recognized in the financial statements but are subject to disclosure in the notes to the annual financial statements.	Contingent assets and contingent liabilities are not recognized in the financial statements but are subject to disclosure in the notes to the annual financial statements.
Disclosure of Contingent Assets	- Description of the nature of the contingent assets;	A recommended disclosure approach based	- A brief description of the nature of the contingent assets, where

	- Assessment of their financial impact, where an inflow of economic benefits is probable.	on the requirements of the National Accounting Standards is applied.	an inflow of economic benefits or service potential is probable; - An estimate of their financial effect, measured using the principles set out for provisions (where it is practicable)
Disclosure of Contingent Liabilities	- A description of the nature of the contingent liabilities; - An estimate of their financial effect, where practicable; - An indication of the elements of uncertainty relating to the timing of cash flows; - The likelihood that amounts will be recovered from third parties.	A recommended disclosure approach based on the requirements of the National Accounting Standards is applied.	- A brief description of the nature of the contingent liability; - An estimate of its financial effect, using the principles set out for provisions (where it is practicable); - The possibility of any reimbursement (where it is practicable).

Source: *International Public Sector Accounting Standards, National Accounting Standards, Documents of the Ministry of Finance of the Republic of Bulgaria*

Applicable model for accounting, valuation, and presentation of contingent assets and liabilities in the financial statements of museums in Bulgaria – an empirical study

This study is a continuation of the research project conducted by Prof. Daniela Feschiyan, Ph.D., in 2025, which focused on the presentation of on-balance-sheet and off-balance-sheet assets in the general-purpose financial statements of museums in Bulgaria. The aim of this study is to conduct a comparative analysis of existing accounting practices in Bulgaria and to assess the effect of the adopted regulatory approach on the recognition, measurement, and disclosure of contingent assets and liabilities in the financial statements of public sector entities.

The results confirm Daniela Feschiyan’s conclusions regarding the lack of published financial statements for museums (as exemplified by the National Historical Museum of Bulgaria, the National Archaeological Museum at the Bulgarian Academy of Sciences, and the Regional Archaeological Museum – Plovdiv), as well as the lack of off-balance-sheet accounting information regarding contingent assets and liabilities in the museums’ budgetary activities.

This empirical study was conducted among museums in the Republic of Bulgaria and focused on the accounting treatment and disclosure of contingent assets and liabilities in public-sector entities. The study was designed to be comprehensive, covering all 176 museums listed in the official register of museums in the Republic of Bulgaria. Primary data was collected between January and March 2026 through standardized interviews with the museums’ chief accountants. The authors of this study are members of Working Group No. 27, “Accounting Policy and Independent Financial Audit,” of the Council on European Affairs under the Council of Ministers of the Republic of Bulgaria, which created the necessary organizational conditions for conducting the study and ensuring direct access to the respondents. As part of the empirical study, responses were received from 110 museums, with a predominant participation of museums holding the status of secondary budget administrators. In parallel with the survey, a separate empirical study was conducted on the most significant museums in the Republic of Bulgaria based on their published annual financial reports for the past five years.

Table 2 lists the museums in Bulgaria included in the scope of this study, as well as the applicable accounting policies for the recognition, measurement, and presentation of contingent assets and liabilities in financial statements.

Table 2. Applicable Model for the Accounting, Valuation, and Disclosure of Contingent Assets and Liabilities in the Financial Statements of Museums in Bulgaria

Museum	Presentation of contingent assets and liabilities on the balance sheet	Assessment of contingent assets and liabilities	Disclosure of Information in the Notes to the Annual Financial Statements
<p>National Military History Museum (NMHM)</p> <p>(The NMHM is a state museum under the Ministry of Defense of the Republic of Bulgaria. It is one of the largest museums, housing more than 1,000,000 cultural artifacts that bear witness to Bulgarian and European military history.)</p>	<p>There is a lack of financial information regarding contingent assets and liabilities.</p> <p>The museum's balance sheet and the consolidated financial statements of the primary budget authority have not been published.</p>	<p>There is no information regarding the criteria used to assess contingent assets and liabilities.</p>	<p>No information is published regarding the accounting policies applied at either the secondary or primary budget authority levels.</p>
<p>Etar Regional Open-Air Ethnographic Museum – Gabrovo</p> <p>(the only open-air museum of its kind in Bulgaria, modeled after Skansen. The institution serves as a center for the study of the traditional culture of the Balkan peoples from pre-industrial society to the present day. A secondary budget administrator under the Municipality of Gabrovo).</p>	<p>There is no accounting information available regarding contingent assets and liabilities.</p>	<p>There is no information regarding the criteria used to assess contingent assets and liabilities.</p>	<p>No information is published regarding the accounting policies.</p>
<p>Regional History Museum – Sofia</p> <p>(one of the most modern museums in Bulgaria, and a key institution for the history of the Bulgarian capital. The museum maintains an electronic registry of Sofia's immovable cultural heritage. A secondary budget administrator under the Sofia Municipality).</p>	<p>There is no accounting information available regarding contingent assets and liabilities.</p> <p>The museum does not publish a balance sheet.</p> <p>The museum is part of the Sofia Municipality, which publishes a consolidated financial statement. There is no accounting information available regarding contingent assets and liabilities.</p>	<p>There is no information regarding the framework used to assess contingent assets and liabilities</p>	<p>No information is published regarding the accounting policies applied at either the secondary or primary budget authority level</p>

<p>National Museum of Natural History at the Bulgarian Academy of Sciences</p> <p>(the only national institution directly involved in the preservation of scientific collections of living and non-living nature from Bulgaria and around the world. A secondary budget administrator under the Bulgarian Academy of Sciences (BAS).</p>	<p>There is a lack of financial information regarding contingent assets and liabilities.</p> <p>The museum does not publish a balance sheet.</p> <p>The museum is part of the Bulgarian Academy of Sciences (BAS), which publishes a consolidated financial statement</p>	<p>There is no information regarding the framework used to assess contingent assets and liabilities</p>	<p>There is no information available regarding the museum's accounting policies.</p> <p>The published accounting policies of the primary budget administrator do not disclose information regarding the accounting treatment of contingent assets and liabilities</p>
<p>Ethnographic Museum at the Bulgarian Academy of Sciences</p> <p>(one of the most important museums dedicated to Bulgarian traditional culture and ethnography. The museum building has been designated a cultural monument of national significance. It is a secondary budget administrator under the Bulgarian Academy of Sciences (BAS).</p>	<p>There is a lack of financial information regarding contingent assets and liabilities</p> <p>The museum does not publish a balance sheet.</p> <p>The museum is part of the Bulgarian Academy of Sciences (BAS), which publishes a consolidated financial statement.</p>	<p>There is no information regarding the framework used to assess contingent assets and liabilities</p>	<p>There is no information available regarding the museum's accounting policies.</p> <p>The published accounting policies of the primary budget administrator do not disclose information regarding the accounting treatment of contingent assets and liabilities</p>
<p>"Old Nessebar" Museum</p> <p>(The museum operates within the Old Nessebar Architectural Reserve, which is included on the List of World Cultural Heritage Sites. It is a secondary budget administrator under the Municipality of Nessebar.)</p>	<p>There is a lack of accounting information regarding contingent assets and liabilities.</p> <p>The museum does not publish a balance sheet.</p> <p>The museum is part of the structure of the Municipality of Nessebar, which publishes a consolidated financial statement. There is no accounting information available regarding contingent assets and liabilities.</p>		<p>There is no information available regarding the museum's accounting policies.</p> <p>The published accounting policies of the primary budget administrator do not disclose information regarding the accounting treatment of contingent assets and liabilities.</p>

<p>National Museum "Earth and People" (a specialized museum covering the Earth's mineral kingdom. A secondary budget administrator under the Ministry of Culture of the Republic of Bulgaria).</p>	<p>Lack of accounting information on contingent assets and liabilities. The museum's balance sheet is not published, nor is the consolidated financial report of the primary budget administrator.</p>	<p>There is a lack of information regarding the adopted basis for the valuation of contingent assets and liabilities</p>	<p>Information on the accounting policies applied is not published at either the secondary or the primary budget administrator level.</p>
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Source: Author`s own construction based on the financial statements of public sector entities

Results

Based on the comparative analysis of Bulgarian public sector accounting legislation and the requirements of IPSAS regarding the accounting treatment and disclosure of contingent assets and liabilities, the following theoretical findings, conclusions, and observations can be summarized:

□ A high degree of consistency in the definition of contingent assets and liabilities in the provisions of the National Accounting Standards (NAS) and IPSAS. Under the applicable financial reporting framework for the public sector in Bulgaria, in addition to business organizations, public-sector entities may also apply the National Accounting Standards. However, the country-specific national accounting regulations for the public sector include the application of rules contained in the Accounting Act, the Public Finance Act, and numerous documents issued by the Ministry of Finance. This is the reason for the existing conceptual difference in the definition of contingent assets and liabilities in the context of IPSAS, compared to the national regulatory framework for public sector accounting, which stems from the specific nature of the public sector, introducing the requirement for “service potential” alongside the concept of “economic benefits in the form of inflows of cash or a reduction in outflows of cash.”

□ An identical approach to the accounting treatment of contingent assets and liabilities, in accordance with the provisions of national and international accounting standards, namely, their non-recognition in the financial statements when the criteria for recognizing an asset or liability are not met. The so-called off-balance-sheet accounting model applies, as do requirements for their disclosure in the notes to the annual financial statements. Disclosures include both qualitative information regarding the nature of contingent assets and liabilities and quantitative information regarding their potential financial impact, when it is possible to reliably estimate such impact.

□ Significant differences regarding the regulatory approach to disclosing contingent assets and liabilities in the financial statements of public-sector entities compared to the applicable standardized approach. Unlike NAS 37 Provisions, Contingent Liabilities, and Contingent Assets, and IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets, the applicable documents of the Bulgarian Ministry of Finance do not establish mandatory minimum requirements regarding the content, scope, and structure of disclosures for contingent assets and liabilities.

The empirical study, which focuses on the models for accounting, valuation, and presentation of contingent assets and liabilities in the financial statements of museums in Bulgaria, allows for the following results, findings, and conclusions to be drawn:

□ The vast majority of museums in Bulgaria do not publish individual financial statements; instead, financial information is consolidated at the level of the primary budget administrator. A significant portion of the entities surveyed lack publicly available information regarding the accounting policies adopted at the level of the primary budget administrator, including the models for initial recognition, initial and subsequent measurement, and disclosure of contingent assets and liabilities in the financial statements. Publicly disclosed information is limited primarily to annual reports on the entity's activities, cash-basis budget execution reports, and audit reports by the National Audit Office on the financial audit of the consolidated financial statements.

□ There is a significant discrepancy between the information contained in the internal registers and the information in the financial statements of museums in Bulgaria. This calls into question the reliable presentation of information on contingent assets and liabilities in the financial

statements and highlights the need to apply a conceptually based, standardized model for its accounting treatment.

□ Despite the significant volume and high public importance of these assets and their analytical reporting, there is a lack of accounting information in the financial statements of public sector entities regarding contingent assets and liabilities.

□ The regulatory approach adopted for the accounting treatment of contingent assets and liabilities does not meet contemporary requirements for public accountability and transparency. This approach limits the ability to present information regarding the commitments for expenses that the museums in Bulgaria undertake.

Conclusion

At the national level, there is no conceptual framework for disclosing contingent assets and liabilities in public-sector entities, which affects the transparency and usefulness of the information in general-purpose financial statements. For public-sector entities in Bulgaria, the accounting treatment of contingent assets and liabilities is governed by the National Accounting Standards applicable to public-sector entities and guidelines issued by the Ministry of Finance. The current National Accounting Standards, which also apply to public sector entities, regulate the accounting models for contingent assets and liabilities, as well as the requirements for their presentation in general-purpose financial statements. The Ministry of Finance's documents, which are mandatory, lack specific requirements for disclosing information in the notes to the annual financial statements, resulting in an underestimation of both financial and non-financial information. The lack of legally mandated minimum requirements regarding the content and structure of disclosures creates conditions for varying accounting practices, limits the transparency of accounting information, and reduces the comparability of financial statements among individual public-sector entities. There is a lack of academic research dedicated to the accounting treatment and disclosure of contingent assets and contingent liabilities in public-sector entities. The majority of existing empirical studies focus on private-sector entities, particularly publicly traded companies. The application of a standardized, concept-based model for the recognition of property, plant, and equipment in the public sector will ensure consistency in accounting policies and standardized reporting across all public sector entities in Bulgaria. Adopting such an approach will contribute to enhancing the comparability, transparency, and reliability of accounting information, while simultaneously creating the conditions for developing sustainable models for the subsequent measurement, depreciation, and impairment of tangible fixed assets.

The study examines the effects of applying the national regulatory approach to accounting for contingent assets and liabilities on financial risk management in the public sector. The results of the empirical study confirm the existence of limitations in the disclosure of information regarding contingent liabilities and the associated risks arising from future economic events. The lack of timely and complete accounting information on contingent liabilities may lead to an underestimation of enterprises' future financial commitments, which in turn affects their capacity for sustainable development and raises doubts regarding the going concern assumption. The application of the materiality concept, which is of key importance, determines the scope and extent of disclosure of information on contingent assets and contingent liabilities in general-purpose financial statements. The lack of a mandatory approach to disclosing contingent assets and liabilities fails to meet the requirements for the quality of management's disclosure of accounting information and leads to insufficient transparency of financial statement information to the public. The accurate and fair presentation of this information is essential to enhance transparency, accountability, and the effective management of financial risks in the public sector in Bulgaria.

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