

# The state aid as a form for financing some transport enterprises in the Republic of Bulgaria

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**Abstract** – The study focuses on state grants provided to some transport companies in the Republic of Bulgaria. The granting of such state aid is related to the social policy pursued by the state. Issues related to the regulation of grants, different types of grants, accounting and reimbursement are discussed. The purpose of the paper is to clarify the theoretical formulations related to grants and to present their practical aspects.

**Keywords** – state aid, transport company, grants, accounting treatment.

## I. INTRODUCTION

Transport is a strategic sector in the economy of every country and plays a key role in enhancing its competitiveness, both because of its binding role with other sectors and because of its own contribution to gross value added and employment. The contribution of the transport sector to the gross value added of Bulgaria is about 7-8% and about 5-6% of all jobs. The main responsibility of the state is the designing, development, financing and construction of the transport infrastructure and the transport system as a whole. This requires considerable financial resources, the sources of which may differ. Individual transport companies, especially those related to the social policy of the country, need state support. In principle, the sources of funding are both internal and external. Internal sources are additional contributions from owners and realized profits. External sources are usually associated with used short and long term bank loans. In practice, however, there is another form of business financing. These are grants from the state, so-called state aid.

The main purpose of state aid for some transport undertakings is to encourage them to take actions that they would not have taken without such assistance. The state pursues a certain social policy, which necessitates it to grant aid to certain transport enterprises (Bulgarian State Railways - Passenger Transport Ltd., Bus companies for passenger transportation of unprofitable inland lines, transport in mountain and other regions).

The purpose of present article is to clarify the theoretical assumptions regarding grants and to present their practical aspects in transport enterprises.

## II. REGULATION AND NATURE OF STATE AID

The conditions and procedures for granting of state aid in the Republic of Bulgaria are regulated by the State Aid Act (SAA), as well as the Rules for its implementation. These two legal acts are fully in line with the regulations of the Treaty for Functioning of the European Union. The State Aid Act defines the conditions and procedure for granting state aid and minimum aid, state aid categories compatible with the internal market, the procedures for fulfilling the obligations for reporting, collecting, recording and storing data, recovery of the unlawfully obtained minimum aid, improperly used state aid, etc.

In the sense of the SAA, the granting of state aid is compatible with the internal market where the aid:

- is social in nature and is provided to individual consumers, without discrimination regarding the origin of the respective goods (promotes the economic development of areas of low standard of living or high unemployment, supports the implementation of a project of significant economic interest to the European Union or for overcoming significant difficulties in the economy of the Republic of Bulgaria, supports the development of certain economic activities or individual economic regions, etc.);

- is designed to remedy damage caused by natural disasters or other emergencies.

The granting of state aid is carried out in compliance with the following principles:

- *Necessity* - directing state aid to areas of activity requiring substantial improvement or development that cannot be achieved under normal market conditions;

- *Expediency* - supporting the achievement of an objective of common interest to the European Union, including when comparing the actual and expected results;

- *Proportionality and efficiency* - the requirements must be appropriate to achieve the objective pursued and must not go beyond what is necessary to achieve it, aiming for the maximum results with the least amount of state aid;

- *Transparency* - providing rules for publicity in the provision and spending of public funds in a way that allows access, use and analysis of financial relationships information and which enables monitoring, coordination and control;

- *Balanceness* - achieving a positive result on taking into account the negative effects on competition;

- *Comparability* - selecting the appropriate way of granting state aid that has the least impact on competition, when achieving the objective;

- *Incentive effect* - a positive change in the behavior and activity of the recipient of the aid so that it can carry out the relevant activity which he would not have undertaken without assistance or would have undertaken, but to a limited extent and in a different way.

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### III. STATE AID REPORTING

The rules for accounting of state aid and the requirements for its disclosure in Bulgaria are regulated by two regulations. These are: National Accounting Standard 20 (NAS 20) - Accounting for Government Grants and Disclosure of Government Assistance and International Accounting Standard 20 (IAS 20) - Accounting for Government Grants and Disclosure of state aid. The application of the international standard or Bulgarian one depends on the accounting base chosen (or compulsory in line with accounting law) for the preparation of financial statements of the enterprise. It can be said that the two standards are almost identical. The difference between them is more terminological than structural. In this sense, the terms "government donations" and "government grants" are used synonymously. The presentation of rules for accounting of grants is in the context of both standards, so the names international and national standard will not be used, but only the Accounting standard (AS) 20 will be discussed. Transport enterprises receiving government grants (respectively government donation) apply the standards of those standards.

When referring to government grants within the meaning of standard 20, they should be construed as government assistance in the form of a transfer of resources to an enterprise in exchange for past or future compliance with certain conditions (with respect to operating activities of the enterprise). Government grants are sometimes called by other names, such as subsidies, grants or bonuses. A requirement of the standard is that state aid is reliably assessed. Forms of state aid that cannot be valued reasonably, as well as government deals that cannot be distinguished from the entity's normal business deals, are excluded from the scope of the standard. In this context, state aid is an action by a government designed to provide an economic advantage to a particular enterprise or to a group of enterprises meeting certain criteria. Benefits provided only indirectly through measures affecting common commercial conditions, such as the provision of infrastructure for development or the imposition of trade restrictions on competitors shall not be considered state aid.

According to accounting standard 20, the term "state" (government) is used in a broad sense and is defined as follows: government, government agencies and similar bodies, which could be local, national or international.

In the context of this definition, it is clear that state aid is not only the funds allocated from the state budget, but also the funds allocated under the various operational programs of the European Funds.

In order for a state aid situation to occur through a transfer of grants, there should be a transfer of resources to the reporting enterprise in return for compliance with certain conditions related to its operating activities. The set conditions may already be fulfilled in the past or may be expected to be fulfilled in the future. According to an explanation of the Standing Interpretation Committee (SIC 10 - state aid - none specific link with operating activities) relating to IAS 20, state aid to enterprises fulfills the definition of a grant, even if there are no conditions specifically related to the operational

activity of the enterprise, except the requirement to operate in particular areas or industries. These grants should not be directly related to equity.

This clarification makes it clear that state aid is treated as such even when the conditions that accompany it do not specifically relate to operational activity. It is sufficient to have a condition for the development of economic activity in a particular area (e.g. economically backward) or in a particular sector.

State aid is the provision of funds to a transport undertaking for a specific purpose - to acquire assets (for capital expenditure) or for day-to-day activity (so-called subsidies). The specific form of aid may be monetary, non-monetary or forgivable loan.

State aid is obtained as a result of contracts concluded which stipulate the conditions for its practical use, as well as its nature (cash, fixed assets, inventories, securities, etc.). Such a contract, together with the primary accounting documents certifying the receipt of the relevant asset in the transport undertaking, is the basis on which the donation should be recognized and accounted.

For example, one of the largest transport companies in Bulgaria - BDZ Passengers Services Ltd. receives state aid (subsidies - current financing) from the state budget on the basis of a long-term contract for the provision of public transport services in the field of railway transport on the territory of the Republic of Bulgaria. The purpose of this subsidy is to provide the necessary level of transport service, taking into account factors of a social nature as well as those related to environmental protection and spatial planning. This contract is concluded for a period of five years and specifies all requirements and conditions that the state imposes on the railway carrier. The amount of the subsidy for each year is approved by the State Budget Act. The subsidy is intended to compensate the difference between the realized revenues and the costs incurred to provide the transport service. The subsidy is provided on an approved monthly schedule. The means of offsetting the value of free and low-cost trips in the country by rail are provided on the basis of the trips made with the respective preferences. The ground for receiving the compensation is the provision of free and low cost transport services to certain categories of citizens, determined by a law or act of the Council of Ministers. This state aid has increased over the years and from 70 million BGN in 2002 reached 175 million BGN in 2019 - i.e. an increase of 150%.

Despite this increase in state aid over the years, for passenger rail transport it has had negative effects. One reason for this is the untimely compensation of costs incurred.

Apart from grants for current needs, to some undertakings in the transport sector grants for capital expenditures (for the acquisition of fixed assets and for major repairs) are also granted.<sup>1</sup>

Of interest is the information on what is the relative share of state aid for the Transport sector of GDP (Gross Domestic

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<sup>1</sup> The transport enterprises receiving state aid for capital expenditures are National Railway Infrastructure Company, BDZ Passengers Services Ltd., BULGARIAN PORTS INFRASTRUCTURE COMPANY.

Product) and of the state budget. Table 1 shows this information for the period 2013-2019.

TABLE I  
STATE AID TO THE TRANSPORT SECTOR

Indicator An hour	GDP (million BGN)	State budget (million BGN)	State aid to the Transport sector (million BGN)	State aid ratio to GDP (%) (%)	Relative share of state aid from the state budget (%)
2013	81 919	18 404	429	0,52	2,33
2014	83 857	19 263	489	0,58	2,54
2015	89 333	18 248	530	0,59	2,90
2016	95 092	20 624	517	0,54	2,51
2017	102 308	21 932	522	0,51	2,38
2018	109 695	23 516	550	0,50	2,34
2019	113 753	25 693	718	0,63	2,79

The data presented shows that state aid (in absolute terms) to the Transport sector has increased over the years. However, as the value of both the gross domestic product and the value of the state budget increased during this period, the relative share of state aid of them remained in near limits. The highest is the relative share of state aid in terms of both the gross domestic product (0.63%) and the state budget (2.79%) in 2019.

Government grants are of two types:

- **Grants related to assets** - State-provided funds, the basic condition of which is that the transport undertaking should purchase, create or otherwise acquire non-current assets. Additional conditions may also apply that limit the type or location of assets or the periods during which they may be acquired or held;

- **Grants connected with revenue** - all funds provided by the government other than those related to assets. Usually, these are funds allocated by the state to cover the current needs of the transportation company.

There are two methods for presenting **asset-related grants** in financial statements. As for the first method, they are shown as revenue for future periods (financing), and are recognized in profit or loss on a systematic basis over the life of the asset. In the other method, upon their receipt the grants are deducted from the value of the asset. In this case, they are recognized in profit or loss in the form of reduced depreciation expense (for depreciable assets). This method can be applied if the value of the purchased asset is greater than the donation received.

The effect on the financial result of both methods is the same. Therefore, both methods are acceptable under AS 20. However, the first method has the advantage of retaining separately the elements of the value of asset and the aid understatement, which facilitates the comparative analysis of asset acquisitions with or without state aid.

Accounting for **revenue-related grants** can also be done in two ways, namely:

- the grants are presented as part of profit or loss individually or under a common heading such as "Other income";

- the grants are deducted from the corresponding expenditure to whose compensation they are intended.

According to AS 20, both methods are acceptable and have advantages. The first advantage is that the separation of the

aid from the expenditure facilitates the comparative analysis with other costs not affected by it.

The advantage of the second method is that the costs could not have been incurred if no state aid had been granted. Therefore, presenting the expense without deducting the aid could create a false impression on the users of the information in the financial statements.

Regardless of the form in which they are received (cash or as a reduction of a debt to the government), grants are accounted in the same way. Accounting for the amounts received as state aid should be carried out in accordance with the requirements of the applicable standard.

In accordance with the provisions of AS 20, a government donation is presented in the annual financial statements as financing - in other words, the so-called revenue approach. This funding shall be closed and recognized as revenue after the period for which it was granted. In this way, the comparability of recognized revenues with the expenses reported for the period is achieved.

In contrast to the national standard, in the international standard there are two approaches to accounting for grants: capital and revenue. Choosing one of the two approaches is a matter of the accounting policy of the transport company.

In the capital approach, grants are directly related to equity (most often to reserves). The equity approach argues that grants are a financial instrument and should not be reflected in the income statement as such. Since they are not earned by the entity and should not be returned, they should be recorded in the statement of financial position rather than transferred to the income statement to compensate the items of expense that they fund.

In the revenue approach, grants are allocated to revenue from one or more periods. The arguments for applying this approach are:

- Grants are awarded upon compliance with certain conditions and the fulfillment of related obligations. This requires that they should be recognized as revenue by reconciling the expenses for which they are reimbursed;

- Grants are receipts other than equity interests, which imply that they are not recognized directly in equity but in profit or loss for the relevant periods;

- Grants are sometimes a continuation of the fiscal policy (when it comes to deferred budgetary liabilities) of the state and it is logical to treat them in the statement of revenues and expenses as revenues.

The main point in the revenue approach is that the government grants are recognized in profit or loss on a systematic basis over the periods in which the enterprise recognizes as an expense the relevant costs that the grants are intended to compensate.

#### IV. RULES ON RECOGNITION OF STATE AID

State aid takes many forms, varying depending on both the nature of the aid provided and the conditions that are usually applied to it. In this connection, there are different rules for their recognition. This article addresses only some of them which are specific to the transport company. They are as follows:

### 1. State aid received in connection with depreciable assets

In this case, revenue is recognized in proportion to the accumulated depreciation of the asset over the relevant period. To understand this rule correctly, we will look at the following example:

A local government body (municipality) is giving a donation of BGN 250,000 to a transport company for the

purchase of 5 minibuses (vans) adapted for high mountain operation. The value of the minibuses is BGN 400 000. The condition accompanying the donation is the company to transport workers to a certain area in the mountain, where a hydroelectric installation of important national importance is being built.

The question here is how will the revenue from the donation be recognized?

We assume that vans will be depreciated using the linear method over a period of ten years. In this case the annual depreciation rate will be 10%. The donation must be recognized as income for a period of ten years. For each year of this period the contribution should be recognized in proportion to the annual depreciation of the buses. This means that BGN 25,000 (250,000 x 10%) will be recognized annually as donation income.

### 2. State aid received in connection with non-depreciable assets

When receiving government grants related to non-depreciable assets - for example land, grants are recognized in the current financial result (profit or loss) over the period that reflects the cost of meeting the conditions associated with the grants. For example, when receiving land as a grant with the condition of building a building on it, the grant received by the state should be recognized in the income statement over the period and in the proportion (ratio) of the useful life of the building itself.

### 3. Grants associated with revenues as a compensation for past expenses

These grants are recognized as income over the period of their receipt. They are usually provided for services whose sale price paid by the recipient of the service is lower than their cost (this is the case of free and low cost travel of certain categories of citizens by rail, road and water). The purpose is to cover the difference to the full cost. For example, BDZ Passengers Services Ltd. in connection with the social policy implemented by the state (free travel and discounts for some categories of citizens) receives state aid in the form of compensation. They are intended to cover the difference up to the full cost of the transport service. These compensations are approved and accepted as a total amount for one reporting year by the State Budget Act. In order to receive this compensation, the company must prove the number of passengers enjoying these privileges. Every month, on the basis of travel documents, invoices are prepared for the value of the performed services, and they are submitted to the Ministry of Finance for payment.

### 4. State aid received to cover specific costs

Such an aid shall be recognized as revenue for the same period as its corresponding expense.

Example:

A transport company receives state aid amounting to BGN 100,000 under an environmental protection program. The concomitant condition of this aid is to replace the old engines of the vehicles with new eco-engines. This program must be implemented for a period of 3 years.

The actual costs that the enterprise will incur over the next three years are as follows:

Year	Cost (thousands of BGN)
1	10
2	20
3	50
<b>Total</b>	<b>80</b>

The total cost is BGN 80,000, while the state aid received is BGN 100,000.

According to the rule, the recognition of the revenue from the aid must be done systematically by matching the costs involved. Therefore, the general aid will be recognized by years as follows (Table 2):

TABLE II  
STATE AID REVENUE

Year	Recognized State aid revenue (thousands of BGN)
1	$100 \times (10/80) = 12,50$
2	$100 \times (20/80) = 25,00$
3	$100 \times (50/80) = 62,50$
<b>Total</b>	<b>100</b>

## V. CONCLUSION

With respect to the receipt of state aid and in accordance with the implementation of Standard 20, transport undertakings shall report the following information in their financial statements:

- the accounting policies adopted for government grants, including presentation methods applied in the financial statements;
- the nature and amount of government grants recognized in the financial statements and an indication of other forms of state aid directly benefited by the enterprise;
- the conditions accompanying the receipt of the state aid;
- unfulfilled conditions and other conditions relating to state aid that has been recognized.

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