

# POSSIBILITIES FOR OPTIMIZING THE REPORTING OF MONETARY FUNDS IN THE BANK ACCOUNTS OF BUDGETARY ORGANIZATIONS

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**Abstract:** A survey of the used models of accounting reporting of public sector funds in banks has found that it is necessary to achieve a bigger correspondence between the content of the reported item and the definitions established by the theory, practice and legislation in the field of accounting. The study offers effective possibilities for optimization of the reporting of the budgetary organizations monetary funds in banks through the use of an appropriate system of accounts.

**Key words:** budgetary organizations, bank accounts, synthetic accounts, attracted funds, monetary funds.

**JEL:** M 41.

## Introduction

The changes, imposed by the Public Finance Act<sup>1</sup> (PFA) and the issued joint instructions of the Bulgarian National Bank (BNB) and the Ministry of Finance (MF) regarding the banking arrangements of the budget organizations concern the financial reporting of the financial assets in the bank accounts of the public sector organizations. The restructuring of the

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<sup>1</sup> Promulgated in State Gazette, issue 15 of 15.02.2013, last amended and supplemented in State Gazette issue 43 of 7.06.2016.

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individual bank chart of accounts should improve the organization and technology of accounting of the indicated reporting items in the information system of banks.

The **object** of the present research is the accounting of the borrowed capital in the bank accounts of budgetary organizations in trade banks.

The **subject** of the study is the organization of the individual chart of accounts of trade banks in general and in particular that part of it, which deals with the accounts used for reporting the financial assets in the bank accounts of public sector organizations.

The **main objective** of the study is to outline effective suggestions for optimizing the accounting of the financial assets of budgetary organizations through restructuring of the individual chart of accounts of banks.

The supported **research thesis** in the article is that: *using an appropriate inventory of synthetic accounts for reporting the financial assets of budgetary organizations would optimize the overall organization of the accounting reporting process in the banks. This will lead to improvements in the quality of the provided information concerning the accumulation and spending of funds by the public sector.*

The present scientific research is limited to offering directions for optimization of the individual chart of accounts of trade banks with reference to the accounts for reporting the borrowed capital of the budgetary organizations in Bulgaria.

The research is done according to the provisions of the active legislation of Bulgaria as of December 1<sup>st</sup> 2017.

### **I. Current state of the reporting of monetary funds held by budgetary organizations in trade bank accounts**

The servicing of client bank accounts includes opening, handling and closing them as well as carrying out payment operations (including depositing and withdrawing of cash) in accordance with the contract agreement between the bank and the respective bank account owner. The

**relevance** of the present study is based on the provisions of Article 151, paragraph 1 of PFA. These provisions state that “The services related to handling the bank accounts and payments of budgetary organisations shall be provided by the Bulgarian National Bank and other banks as per the procedure and manner set out in joint guidelines of the Minister of Finance and the Governor of the Bulgarian National Bank.” (Public Finances Act, 2013, art. 151, p.1). In servicing the bank accounts of budgetary organizations, the Bulgarian legislation provides for additional conditions and restrictions for the bank account owners as well as special regulations for the reporting related to these bank accounts in the particular bank units.

The financial operations with borrowed monetary fund involving the bank accounts of budgetary organizations are classified as passive bank operations. According to **Vasil Merazchiev**, „The majority of the passive bank operations are operations aiming at the accumulation of monetary funds.” (Merazchiev V. D., 2012, p. 19). The accumulated public finances in the bank accounts of the budgetary organizations require reporting which corresponds to the needs of the institutions of the government and the local authorities that perform managing and monitoring functions. Depending on the purpose and source that provides them, the monetary funds in the bank accounts of the budgetary organizations are classified into:

- budget funds which are entirely related to the budget proceeds and payments of the particular organization;
- funds from the European Union (EU) used for the implementation of projects financed through the programs of the EU funds;
- external funds, which are related to „... receiving, storing, allocating and spending of external funds by the budgetary organizations”. (Public Finances Act, 2013, art. 9, par. 2), and which do not have the nature of budget funds and EU funds.

With reference to bank servicing, the accumulation of funds in the bank accounts of the organizations from the public sector is used for making various payments, which are subject to constant control. The majority of these payments are related to intermediary bank operations since the budgetary organization initiates a money transfer from its bank account to the bank account of another physical and / or legal entity. On the other hand, the funds that are received by the budgetary organizations

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in their bank accounts are transfers of budget funds from the Government or the local authorities, administrators of EU funds, money receivable from contracting parties, etc. These transactions are also part of the intermediary bank operations.

*In general, the purpose of the bank accounts of the budgetary organizations is related to the accumulation of funds from the budget, the programs under the EU funds, and other activities. These funds are used to make payments to the bank accounts of physical and / or legal entities (including other budgetary organizations).*

In line with the provisions of item 9.2.1. of *Guideline of BNB and MF № 03-13009 on Servicing Accounts of Budget Organizations and Budget Payments*, „BNB and the other banks can open bank accounts to budgetary organizations so that they can store their funds and making payments from:

- the budget of the respective budgetary organization;
- funds from the European Union under Article 8 of the PFA;
- external funds under Article 8 of the PFA;
- administrators of public debts (*Guideline of BNB and MF 03-13009 on Servicing Accounts of Budget Organizations and Budget Payments*, 2016, item 9.2.1).

According to the cited by-law *bank accounts for safe keeping funds and making payments from the budget of the respective budgetary organization* are “bank accounts of authorized budget entities”, whose purpose is “... to collect, spend, store and report the budget funds of the budgetary organization...” (*Guideline of BNB and MF 03-13009 “Servicing Accounts of Budget Organizations and Budget Payments”, 2016, item 8.19).*

*The bank accounts for storing funds and making payments with EU funds* are also “bank accounts of authorized budget entities”. *The bank accounts for EU funds* concern the receiving, spending and overall managing of funds financed under the operational programmes of the European structural and investment funds. *The bank accounts for storing funds and making payments with external funds* are used for accumulating, storing, and spending of funds, which are not budget resources and EU funds.

The specified types of bank accounts can be kept in both BGN (Bulgarian leva) and foreign currency. Their analytical reporting can be organized according to the purpose of the accounts themselves.

According to the paragraphs of the Guideline of BNB and MF 03-13009 "Servicing Accounts of Budget Organizations and Budget Payments", the accounts of the "authorized budget entities":

- *accounts for funds available*, whose purpose is "...to store funds for cash operations in cash, buy currency or other operations, determined by MF and are subject to periodic official centralization by the servicing bank to an account in BNB determined by MF" (Guideline of BNB and MF 03-13009 "Servicing Accounts of Budget Organizations and Budget Payments", 2016, item 8.18);
- *transit accounts* are used to "... collect receivables in BGN which are subject to official centralization by the servicing bank to an account in BNB determined by MF" (Guideline of BNB and MF 03-13009 "Servicing Accounts of Budget Organizations and Budget Payments", 2016, item 8.21).

*The bank accounts for storing funds and making payments by administrators of public receivables* have completely different nature. They are used to "... collect cash receipts which are subject to current official centralization by the servicing bank to an account in BNB which is determined by MF" (Guideline of BNB and MF 03-13009 "Servicing Accounts of Budget Organizations and Budget Payments", 2016, item 8.20).

The main reason, which is also the basis of this paper, is the current model of reporting for the above-mentioned bank accounts owned by budgetary organizations. The majority of the trade banks in Bulgaria use an individual chart of accounts, which is developed on the basis of the National Chart of Accounts (Promulgated in State Gazette issue 36 of 31 March 1998, revoked in State Gazette issue 22 of 27 February 2002)<sup>2</sup>. The individual bank chart of accounts consists of the following subgroups of

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<sup>2</sup> The author's findings are based on practical studies of the chart of accounts used by the trade banks operating in Bulgaria. Due to the confidential nature of the information and adherence to the provisions of Chapter Eight of the *Credit Institutions Act* (Zakon za kreditnite instituzii, 2006), the names of these banks are not mentioned.

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synthetic accounts for reporting the monetary funds of budgetary organizations:

- *subgroup 172 Accumulation accounts of budgetary organizations in BGN;*
- *subgroup 176 Current accounts of budgetary organizations in BGN;*
- *subgroup 182 Accumulation accounts of budgetary organizations in foreign currency;*
- *subgroup 186 Current (extra - budgetary) accounts of budgetary organizations in foreign currency;*
- *subgroup 187 Budget accounts of budgetary entities in foreign currency (Natsionalen smetkoplan , 1998).*

The bank chart of accounts may add to the above-mentioned subgroups the following structure of synthetic accounts for registering the incoming and outgoing cash flows of public sector organizations, including the state budget, ministries and agencies, regional administrations, local budgets, the National Social Security Institute (NSSI), other social security organizations, the judicial system, the state higher education institutions, the Bulgarian Academy of Sciences, the Bulgarian Academy of Sciences, etc.

The purpose of the presented accounts is to account for the available public funds. The accounts have the nature of liabilities accounts. They are credited when the available cash increases after a cash and / or non-cash transfer of funds. They are debited after registering a reduction in the funds due to cash withdrawals, outgoing cash transfers or centralization of the funds to accounts in BNB.

It should be emphasized that the indicated subgroups of synthetic accounts do not comply with the provisions of the current instructions, rules, and regulations of BNB and MF regarding the accountability of and payments from the bank accounts of the budgetary organizations. With reference to this, *Guideline of BNB and MF 03-13009 on Servicing Accounts of Budget Organizations and Budget Payments* does not include in its provisions the “fund raising” accounts, which means that the offered subgroup of synthetic accounts of the budgetary entities does not reflect the regulations of the normative act. On the other hand, the enforcement of the *Public Finances Act* and the implementation of the *Guideline of MF*

*Treasury Directorate № 14/30.12.2013 on the Chart of Accounts of Budgetary Organizations* eliminates the concept of “extra-budgetary accounts and funds” and replaces it with the concept of “EU funds accounts” and “external funds” (Guideline of MF Treasury Directorate № 14/30.12.2013 on the Chart of Accounts of Budgetary Organizations, 2013, item 12. – 14.). Based on this, the “extra-budgetary” accounts in the individual bank chart of accounts should be replaced by accounts for reporting the EU funds and the external funds.

Other subgroups of accounts used for financial reporting of the cash inflows and outflows of the budgetary organizations, under the provisions of the individual chart of accounts of banks, include:

- *subgroup 630 Expenditures from the budget of budgetary enterprises;*
- *subgroup 634 Extra – budgetary expenditures of budgetary enterprises;*
- *subgroup 730 Revenues in the budget of budgetary enterprises;*
- *subgroup 734 Extra – budgetary revenues in the budget of budgetary enterprises.*

The above-mentioned subgroups of synthetic accounts are used for the financial reporting of budget and extra-budgetary revenues and expenditures of the state budget, ministries and agencies, regional administrations, local budgets, the National Social Security Institute (NSSI), other social security organizations, the judicial system, the State Higher Education Institutions, the Bulgarian Academy of Sciences, etc., as well as funds from / under the budget of the State Social Security.

The accounts for financial reporting of expenses have the characteristics of assets accounts. They are debited when there are payments from the budget, respectively extra-budgetary, activities to contracting parties. The accounts are credited against debiting the accounts for funds available when reporting the decrease in public funds.

The accounts for financial reporting of revenues have the characteristics of liabilities accounts. They are credited when there are revenues from public receivables. They are debited when they are centralized to the accounts of the central, local and / or other (of the

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judicial, social security, educational, etc. systems) budgets or to accounts about reporting extra-budgetary cash inflows.

*Account 7311 Distributable revenues of the State and local budgets* is also included in the listed subgroups of accounts for reporting the monetary budget funds of the budgetary organizations deposited in banks. This account also has the characteristics of a liabilities account. The turnovers of the account are used to allocate the revenues, part of which has to be centralized to an account of the State budget in BNB, while another part of them has to remain at disposal of the organization – owner of the account or to be transferred to an account for funds available that is owned by the same and / or another budgetary organization.

It should be emphasized that the bank accounts for reporting the expenses incurred and revenues accrued of budgetary organizations from *Chapter 6 Expense Accounts* and *Chapter 7 Revenue Accounts* used in the individual bank chart of accounts do not comply with the provisions of the of the *Conceptual Framework of the International Financial Reporting Standards*<sup>3</sup>. *First*, the purpose of the synthetic accounts is to report the borrowed capital, which is at the disposal of the budgetary organizations and not to account for revenues and expenses in favour of the bank. *Second*, these accounts do not comply with the definitions of revenues and expenses outlined in § 4.29. – § 4.35. of the *Conceptual Framework of the International Financial Reporting Standards* as well as with the requirements for recognition of revenues and expenses according to § 4.47. – § 4.53. of the same conceptual framework (Commission Regulation (EC) № 1126/2008 of 3 November 2008<sup>4</sup>, 2008).

For this reason, the author supports the idea that the individual bank chart of accounts should be optimized by adding bank accounts of budgetary organizations for reporting budget funds, EU funds, external funds, and the administrated public funds receivable in *Chapter 1 Capital Accounts*. The outlined thesis is justified by the argument that the nature

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<sup>3</sup> Banks in Bulgaria prepare their financial documents on the basis of the International Financial Reporting Standards.

<sup>4</sup> Commission Regulation (EC) № 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) № 1606/2002 of the European Parliament and of the Council.



and purpose of the indicated accounts is to account for borrowed capital and their place in the chart of accounts is exactly in the mentioned chapter. This, in turn, will result in improving the quality of the information used for preparing the financial reports of the banks, monitoring the spending and management of the public funds of particular budgetary organizations, and consequently will enhance the main functions of the Electronic Budget Payments System (SEBRA)<sup>5</sup>.

## **II. Possibilities for optimizing the accounting of monetary funds in banks accounts owned by budgetary organizations**

This part of the article presents the possibilities for optimizing the accounting of monetary funds in bank accounts owned by budgetary organizations by offering ideas for supplementing and restructuring of the individual chart of accounts used by banks. Changes in the structure of this chart of accounts made by adding and restructuring subgroups of accounts and synthetic accounts may lead to improvements in the accounting process so that it can start providing systematized, adequate and objective enough information that can be used for preparing financial reports, analyzing accounting data and facilitating the managing, supervisory and control organizations.

The next part of the study represents the author's ideas and their realization may result in completing the following tasks:

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<sup>5</sup> According to item 8.15. of *Guideline of BNB and MF 03-13009 on Servicing Accounts of Budget Organizations and Budget Payments*, SEBRA is „...a system for monitoring payments initiated by budgetary organizations included in it and for managing payments within pre - set limits. SEBRA may also be used for payments from the central budget, from EU funds accounts and from external funds accounts for the recovery of overpayment of revenues from administrators of public receivables as well as in cases of payments under Art. 154, par. 15 and Art. 156 of the Public Finances Act. SEBRA is not a payment system as defined in Art. 79 of the *Payment Services and Payment Systems Act* (Guideline of BNB and MF 03-13009 on Servicing Accounts of Budget Organizations and Budget Payments, 2016, item. 8.15.).

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- ✓ Optimization of the process of reporting monetary funds hold in bank accounts owned by budgetary organizations in terms of the accounting theory and practice;
- ✓ Facilitating the work of supervisory and control institutions involved in the utilization and management of public funds including budget funds, EU funds, and external funds at the disposal of public sector organizations;
- ✓ Achieving better adherence to the legal regulations and improving the effectiveness of the administration of public finances hold in bank accounts owned by budgetary organizations.

The optimization in the process of accounting for monetary funds in the bank accounts of budgetary organizations is related to the establishment of an appropriate structure of synthetic accounts in the individual bank chart of accounts, which complies with the premises of item 9.2.1 of *Guideline of BNB and MF 03-13009 on Servicing Accounts of Budget Organizations and Budget Payments*.

**First**, for the accounting of **bank accounts for storing funds and making payments from the budget** of particular units of budget organizations, **sub-group 172 Current budget accounts in BGN** can be included in the individual bank chart of accounts, as suggested by **Vasil Merazchiev** (Merazchiev V. , 2007). The following synthetic four – digit – code accounts have to make up the subgroup:

- *account 1721 Current budget accounts of the Central budget in BGN;*
- *account 1722 Current budget accounts of ministries and agencies in BGN;*
- *account 1723 Current budget accounts of the regional administrations in BGN;*
- *account 1724 Current budget accounts of the municipalities in BGN;*
- *account 1725 Current budget accounts of the National Social Security Institute in BGN;*
- *account 1726 Current budget accounts of the National Health Insurance Fund in BGN;*

- *account 1727 Current budget accounts of the judicial system in BGN;*
- *account 1728 Current budget accounts of State Higher Education Institutions, The Bulgarian Academy of Science, the Bulgarian National Television, the Bulgarian National radio, and the Bulgarian Telegraph Agency in BGN;*
- *account 1729 Current budget accounts of other budgetary organizations in BGN.*

The analytical accounting of the suggested bank accounts can be organized depending on their purpose. According to the paragraphs of Guideline of BNB and MF 03-13009 on Servicing Accounts of Budget Organizations and Budget Payments, analytic groups of “accounts for funds available” and “transit accounts” can be introduced in the individual chart of accounts. With the help of synthetic and analytic accounts both current funds available and the expenditures incurred due to budgetary and extra – budgetary activities of the budgetary organizations can be accounted for.

The current budget accounts can only be kept in national currency, which implies that it is not necessary to introduce foreign currency accounts in the bank chart of accounts for reporting budget funds.

**Second**, the reporting of the financial support received by the budgetary organizations from the EU can be done by introducing the separate **subgroup 173 Current accounts of budgetary organizations for EU funds in BGN**, which can have the following structure of synthetic accounts:

- *account 1731 Current accounts for EU funds of the “National Fund” Directorate in BGN;*
- *account 1732 Current accounts for EU funds of State Fund “Agriculture” – Paying Agency in BGN;*
- *account 1733 Current accounts for EU funds of the managing authorities / intermediate bodies in BGN;*
- *account 1734 Current account for EU funds of the municipalities in BGN;*
- *account 1739 Current account for EU funds of other budgetary organizations in BGN.*

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According to the current provisions of *Guidelines of MF Treasury Directorate № 06/04.04.2008*, *Treasury Directorate № 07/04.04.2008* and *Treasury Directorate № 08/04.04.2008* only the beneficiary municipalities are entitled to opening bank accounts for managing EU funds. Other institutions / organizations, which have the right to administer similar bank accounts, are the “National Fund” Directorate of the Ministry of Finance and the Paying Agency of the State Fund “Agriculture”, which are the certification authorities<sup>6</sup> of the EU funds for Bulgaria, as well as the authorities involved in the direct management and monitoring of particular operational programs, namely the managing authorities and the intermediate bodies. The remaining budget organizations utilize and spend EU funds by using their budget current accounts.

Beneficiary municipalities and the authorizing officers of the budget under their jurisdiction are allowed to open and keep one account for utilizing and spending the funds that are administered by the “National Fund” Directorate and one account for the funds that are administered by the Paying Agency of the State Fund “Agriculture”. Based on this, it is also possible to introduce analytical reporting of the above presented accounts.

It should be noted, that the presented accounts are kept only in local currency, which means that it is not necessary to include a respective subgroup of accounts in foreign currency in the individual chart of accounts of banks.

**Third**, the bank accounts for external funds of the budget organizations shall account for the money received from “... judicial guarantees, guarantees for securing temporary importation, deposits for participation in tenders and auctions, other guarantees, deposits and funds temporarily held by the budget organization at the expense of other individuals, including the collection, spending or temporary storage of funds at the expense of budgets or accounts for EU funds.” (Public Finances Act, 2013, Additional provisions, item 42).

The listed items can be accounted for with the help of a subgroup of synthetic accounts in the individual chart of accounts of banks, namely

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<sup>6</sup> A certification authority is a public sector institution, which is responsible for receiving, allocation, managing and monitoring of EU funds.

subgroup **174 Current accounts of budgetary organizations for external funds in BGN**, which can have the following structure:

- *account 1741 Current accounts for external funds of the Central budget in BGN;*
- *account 1742 Current accounts for external funds of ministries and agencies in BGN;*
- *account 1743 Current accounts for external funds of the regional administrations in BGN;*
- *account 1744 Current accounts for external funds of the municipalities in BGN;*
- *account 1745 Current accounts for external funds of the National Social Security Institute in BGN;*
- *account 1746 Current accounts for external funds of the National Health Insurance Fund in BGN;*
- *account 1747 Current accounts for external funds of the judicial system in BGN;*
- *account 1748 Current accounts for external funds of State Higher Education Institutions, The Bulgarian Academy of Science, the Bulgarian National Television, the Bulgarian National radio, and the Bulgarian Telegraph Agency in BGN;*
- *account 1749 Current accounts for external funds of other budgetary organizations in BGN.*

The outlined accounts for external funds in BGN are opened when the necessity arises. The funds under these accounts are paid and spent in compliance with the requirements of the Ministry of Finance and the Bulgarian National Bank. Budget organizations are allowed to open one similar bank account. Exceptions for the opening of additional accounts are allowed upon explicit permission of the Ministry of Finance.

The analytic reporting under the accounts of subgroup **174 Current accounts for external funds of budgetary organizations in BGN** can be organized according to the type, purpose, source, etc. of the external funds.

The public sector organizations can also open current accounts for external funds in foreign currency. For this purpose, the chart of accounts can also include **subgroup 184 Current accounts for external funds in**

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**foreign currency**, whose structure will be analogous to the structure of **subgroup 174 Current accounts for external funds in BGN**.

**Fourth**, for the purposes of trade banks servicing the administrator of public funds receivable, their individual chart of accounts may include **subgroup 175 Current accounts for administering public funds receivable in BGN**, which can have the following structure:

- *account 1751 Current accounts for administering public funds receivable of the Central budget in BGN;*
- *account 1752 Current accounts for administering public funds receivable of ministries and agencies in BGN;*
- *account 1753 Current accounts for administering public funds receivable of municipalities in BGN;*
- *account 1754 Current accounts for administering public funds receivable of the National Social Security Institute in BGN;*
- *account 1755 Current accounts for administering public funds receivable of the National Health Insurance Fund in BGN;*
- *account 1756 Current accounts for administering public funds receivable of the judicial system in BGN;*
- *account 1759 Current accounts for administering public funds receivable of other budgetary organizations in BGN.*

These accounts are used for reporting not only cash revenues from taxes, duties and fees administered by the National Revenue Agency, National Customs Agency and the municipality authorities responsible for collecting local taxes and fees but also the revenues from state fees in favour of ministries and agency, public receivables of the judicial system, and collected social – securities and healthcare contributions. These bank accounts are kept only in the national currency, i.e. BGN.

The process of analytical reporting involving the outlined synthetic accounts can be organized depending on the type of public funds receivable, respectively the type of the budget funds receivable, i.e. budgetary and extra – budgetary, in favour of the particular budgetary organization, on one hand. On the other hand, analytical accounts should be provided to account for the administrated public receivables to be allocated between the particular budget organization holding the account and the Central Budget and / or the budgets of other public sector organizations.

The suggested structure of subgroups of synthetic accounts for reporting the monetary funds of budget organizations are **liability** accounts. They are credited when registering the increase in mobilized funds in the form of cash deposits, incoming money transfers and receiving of interests. The accounts are debited when registering the decrease in the mobilized funds of the budget organizations, which consist of cash withdrawals, outgoing money transfers, centralization of funds to BNB accounts and payment of bank service charges. By organizing appropriate analytical reporting of the synthetic accounts for reporting the monetary funds of budget organizations, banks optimize the information needed for the current and periodic financial reporting. This greatly improves the quality of the accounting information, presented in financial reports.

The outlined possibilities for optimizing the reporting the monetary funds of budgetary organizations in trade banks, with the help of liability accounts, provide greater consistency between the content of the reporting entity and the definitions established by the accounting theory, practice and legislation. In addition, the accountability of these funds at the synthetic and analytical level is directly related to the implementation of more effective supervision and control processes by banks. As a result, this leads to closer cooperation between the servicing banks, budgetary organizations and the supervisory and control organization.

### **Conclusion**

The outlined subgroups of accounts for reporting the monetary funds of budgetary organizations in banks should facilitate the spending, management and monitoring of public sector funds. By introducing particular subgroups of bank accounts, which the particular budgetary organizations can use to handle budget, EU, and external funds as well administered public receivables, it is possible to achieve clarity and detailed reporting of all received and spent public resources. The latter in turn implies improving the functions of SEBRA and enhancing the banking supervision and control of the Bulgarian National Bank, Ministry of Finance and Bulgarian National Audit Office regarding the spending of public money.

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All possibilities for optimizing the accounting of monetary funds in the accounts of budget organizations in banks are not exhausted. The development of electronic and communication technologies nowadays contribute to improving the process of providing information, including the generated accounting information in banks.

This also implies the continuous development of more sophisticated accounting models for the reporting of particular accounting items in banks.

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# **BUSINESS** management

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