

BUSINESS DISCIPLINES DEVELOPMENT ON THE BASIS OF APPLIED FINANCIAL ECONOMICS

*Business disciplines development on the basis of
applied financial economics has been disclosed in the article*

Under the conditions of transitional economy in Bulgaria a new strongly balanced system “*Optimization management assets and liabilities analysis*” was built, i.e. one that puts emphases on the optimization issues of the structure in both sides of the firms’ balance sheet. In some Bulgarian scientific works the new system “*Optimization management assets and liabilities analysis*” already is constructed as a conglomerate of the concepts of both Russian mathematical economics and Anglo-Saxon theory of optimum capital structure. The suggestion for a relative system is accompanied by a complete clarification of its expected knowledgeable influences and utilities for the realization of useful business management. Nevertheless there are additional problems linked with the full realization of the above mentioned analytical system for assets and liabilities’ optimization for the aims of the firm’s current and budgeting activity. Having been taught for several years on university level the system “*Optimization management assets and liabilities analysis*” is already important component of Bulgarian model for business ruling. Its development however faced a lot of methodological troubles and strange misunderstandings whose knowledge will prevent future adequate investigations from similar very unpleasant mistakes. The presentation of the system is realized on the basis of historic and logic methods – nucleus of the sophisticated dialectic, and the development of economic theory.

1. Pre-war Bulgarian marginalism – eliminated fundament for development of management accounting and corporate finance. The economic science’s main characteristic of development in 20th century is the *Theory for economic optimization’s* formation with both main directions – production and financial. The major results in the relative area are, as follows:

1. Building since 1930s of the theory for company resources’ optimization from American and Russian macroeconomists. The Russian achievement was the “*Theory for optimal planning and management (TOPM)*”, authored by L. Kanthorovitch, V. Novojilov, V. Nemchinov and others. Developed were the ideas and approaches of the “Economics of production optimization”.

2. Anglo-Saxon theory for optimization of company capital sources’ formation since 1950s, whose core is the “*Theory for capital structure (TCS)*” with well known representatives F. Modigliany, M. Merton and others. Developed were the ideas and approaches of the “Economics of financial optimization”.

The impact of the optimization concepts on the applied business disciplines like accounting and finance is as follows: the economics of production optimization undergoes the possibility to optimize the resources (assets); the economics of financial optimization undergoes the possibility to optimize the capital (liabilities). In our days these directions for business optimization are object of learning in the specific disciplines *Management Accounting (Comptabilite analitique, Kostenrechnung)* and *Corporate Finance*. It sharply contributes for the actual business culture making sense to speak for their development as part of the contemporary *applied economics*. The disciplines are

already with strong positions in the economic teaching in Bulgaria. But appears the problem for clarifying the reasons for management accounting and corporate finance knowledge's missing in the light of century old ideas and approaches for economic optimization. In this relation as a substantial reason is shown the embarrassment regarding the methodological base of the business (accounting and financial) knowledge. Theoretic clarifying of the applied economics methodology has a crucial role for future of the business disciplines. Generally a fundament for their conceptualization is the economics as a synthesis of the evolutionary formed paradigms for value. More of the glorified economists expressed their views about the value nature's essence, forms and turnover. This was the concept of the British marginalism's creator, namely **the topic "Influence of the progress on value, i.e. the research of the century old value dynamic."**¹ Another achievement of the relative evolutionary process is the neoclassical synthesis of P. Samuelson. However it can not be said that the application of world economics' ideas and approaches into the Bulgarian business disciplines for company ruling had been satisfactory. Some efforts in the relation are made following the concepts of Elinor Omstrjom, Nobel prize winner in economics for 2009.²

Analogical conclusion for the situation is done on the basis of the corresponding circumstances in the world scientific works. Particularly for the link between economics and management accounting is written: **"...very weak intellectual link exists between economists and accountants on professional level... greater are the errors from the part of economists... Very rarely can be found an economist who study accounting literature... and rarely can be found an accountant who knows well economics."**³ Due of the relatively short development of Bulgarian management accounting and corporate finance the mentioned poor intellectual link in an international scale definitely should be multiplied.

The influence of economics on the accounting and financial thought is studied through different methods but the largely applied is through a mixed use of theoretic-value and history-sophisticated approach. Particularly this is realized on the basis of following economic paradigms: 1. Mercantile; 2. Classic (objective) – including a clarification under conditions of the pre-war market economy and under the command economy; 3. Marginal analysis; 4. Neoclassic synthesis. These paradigms accentuate on theoretic value essence's clearing out, while the business disciplines emphasize on quantitative value measurement. It should be outlined the efforts of some Bulgarian economists to investigate the connection between the theoretic and applied economics for a disclosure of the value unity of the mentioned business disciplines. In this relation they are facilitated by the opportunity under the contemporary democracy freely to use Bulgarian pre-war business literature sources that enlightens the questions for the influence of value paradigms on the business knowledge. The economic paradigms had

¹ Маршалл, А (1983). *Принципы политической экотомий*. Москва, с. 67.

² In our days we learned the concept of E.Omstrjom (Nobel prize winner, 2009) with her main contributions: She outlined the role of the general behavior's identification under non-clear situations; She assessed the necessity of studying the ruling of the common resources pools, used from all individuals; However they have no interest for the effect of their activities over the common resources pools and use to full end the different kinds of resources; She defines that the self-management is better then the bad informed and lousy ruling, that egoistically is kept close to the old rules for the use of resources. E.Omstrjom developed her ideas without mathematical models but with summation of the conclusions from the accumulated real situations – cases study. She **"uses methods and analysis from areas whom the economists do not enough well understood: detailed real situations."** ("Reality bites", *The Economist*, October 17th, 2009.) In fact the ideas of the American economist should be considered as a part of the so called theory of economic behaviorism.

³ Boulding, K.E. (1976) "Economics and Accounting: the uncogential twins", *Studies in Accounting Theory*, UK, p. 44.

different impact on the quantitative value measurement. The effect is researched into following directions: 1. Understanding of the value thesis in the light of development of the object and methods of the business-applied disciplines; 2. Investigation of the heritage in the management accounting and corporate finance area since during 20th century depending on the available economic concepts; 3. Formation of new vision for development of the managerial accounting corporate finance research in accordance with the value's contemporary views. The few available scientific works of the pre-war Bulgarian accountants and financial men made hard the succession in the business deed. However even in their earlier books there is a striving to enlighten the business disciplines' value essence.

Under contemporary inclusion in Bulgarian business sciences of the respective world achievements weakened is the interest towards the classic economic development of the applied business economics. This is not a positive feature under the democratic changes with possibilities for a free use and citation of the Bulgarian business works since the beginning of 20th century. Particularly instructive for Bulgarian scientific heritage is the mentioned for the achievements in field of financial economics: **“Like all scientists we too stand on the shoulders of giants, on the selective accumulation of prior knowledge.”**⁴

Mercantile paradigm was put down by the classic political economy. The problem of later had been the quantitative measurement of labor as a value nature: accepted had been that the adequate measurement is conditioned by the necessary labor quantities for a commodity creation. The labor measure is the working time that measures the expensed quantities labor independently of their qualification. But because the labor can be indirectly expensed for a new commodities (especially for a durable ones), ignored had been the circumstances that into the theory of value's categories there is no common denominator for comparison of the results from the expensed past and current labor. For the 20th century economics this idea is possible only through far away from the reality multiple abstractions. The classic theory influence on the business-applied disciplines is their emphasis on the indicators' average magnitudes (their full amounts are understood by themselves). Since 1870s the marginalism appeared but without immediate effect on the European business scholars' works.⁵ The business works investigation discloses that since the end of 19th century marginalist ideas had no specific effect on the development of business disciplines. The later and the economics still have had separate directions of development. The marginalism is a transition to creation of economics as an analogy to the precise natural sciences, whose quantitative instruments are built on the basis of functional mathematical analysis. The later is a ground of the future economic optimization and investigation of production factors' influence on economic growth and it was considered as main scientific progress towards the business optimization. In 1950s it was written: **“Since the time of A. Smith and Curnaut economic theory has been connected with the problems of maximum and minimum. The modern “neoclassical marginalism” is a culmination of this interest.”**⁶. Accordingly the concepts of utility and value Bulgarian pre-war scholars outlined the important role of money measurement and its accounting and finance utilization in the business management. The need of a new economic fundament for the

⁴ “Merton Receives Nobel Prize”, *HB School Bulletin*, vol. 74, no. 2.

⁵ The school of marginal utility maintains the subjective paradigm for the value with emphasis on the least benefit that the commodities produce.

⁶ Samuelson, P. (1982) *The Collected Scientific Papers of Paul Samuelson*, Ed. J. Stiglitz, M.I.T. Press, p. 245.

applied business disciplines is clearly noted. Eliminated is the classic idea for accounting and financial sciences' concentration on the revenues accumulation: **"It could not be accepted the views of outstanding authors like A. Smith... regarding the costing problems' separation from the financial science because they had not been connected with the problems of money accumulation."**⁷ The author does not link the business sciences development with the marginalism but in the context of the J.M. Keins' ideas from 1930s pleads for state regulation of the financial policy. The Bulgarian scholars in the area of accounting and finance in the enterprise has largely noted in their works the marginal concepts.

Since 1945 the efficient synthesis between the theoretic economists and applied business economists on the basis of the last fundamental economic thought's achievements had been definitely cut. The Marxists claim that the marginalism is a component of the vulgar bourgeois political economy eliminated the understanding that the business disciplines' theoretic base is the 20th century microeconomics. The formation of the respective business disciplines is an example how discoveries of crucial economic dependences into the value movement rationally lead to the birth of the most quickly progressed disciplines during the previous century.

2. Development of the applied business disciplines for asset ruling on the basis of economics for financial optimization. Since the midst of 20th century the financial economics influence's on the business knowledge mainly is specified by the creation of *Theory for capital structure* (TCS) initially through two papers for so called "MM" models.⁸ However for a long period of time for the Bulgarian accountants and financials TCS remained totally unknown. The main reason for this was that as a based on the marginalism TCS did not correspond to the dogmas of Marxist political economy. Under the democracy TCS is already represented as part of lot of Bulgarian scientific works in the economic area and the problems is for its efficient comprehension and future application on a corporate level. The leading directions into development during the last thirty years in the area of the applied business financial knowledge are as follows:

a) The progress of business disciplines' evolution may be considered through the replacement of learning the valuation impacts of alternative methods for sharing *given* net profit (incoming cash flow) by learning the influence of used procedures for adequate sharing of profit. This means a specification of typical hypothesis for *ceteris paribus* about "MM" models for the construction of the capital structure into accounting statements. The authors of "MM" models treated net profit as ultimately known. Thus the question is for the influence of its sharing (between equity and foreign investors) on the total value of profit. The applied business economists accentuated on the effect of the equity and foreign investors' claims on the incentives of managerial decisions that influence the profit. Recognition of the role of investor expectations' structure for the company profit led to the renewed interest about the meanings of the different types of capital investments – equity or liability (debt) capital sources.

b) Recognition was given to the concept that capital investment contracts are not perfection and not able to constrain the future decisions which in turn led to the next investigations from accounting and financial analyzers. The accounting specialists investigated the rules for investment decisions that different investors must follow taking into account their interests which impact the left (assets) side of the company balance

⁷ Kashev, S. (1943) Grounds of financial science, Sofia, 1943 (Kashev, S. Osnovi na finansova nauka), p. 4.

⁸ Modigliani, F. & Merton, M. (1958) "The Cost of Capital, Corporation Finance and The theory of Investment", *American Economic Review*, June.

sheet. The financial specialists researched the sharing of monitoring and responsibility among the two major kinds of investors – for the internal problems in the right (liabilities) side of the balance sheet. Also the comparing of companies with different capital structures led to the conclusion that the old analytical approach was static by its nature, while the actual business disciplines are characterized by considerably sharper dynamism in this regard. Thus the dully investigations in the corporate framework were focused on specific phenomena in the general company activities like the subsequent acquirement of equity and external capital to increase the general business welfare.

c) The methodology of the business-applied disciplines, including the management accounting and corporate finance, as conditioned by the different economic paradigms (particularly the marginal one) encompasses its specific investigated objects in three main groups that respond to the main theoretic achievements of the world managerial thought, namely: the theory of efficient capital market; the dependence between basic categories like return and risk on envisaged investments; the arbitrage pricing theory (the theory of option pricing). The specified major achievements of the international applied business science are logically linked. They form chainlike linked elements of a unified scientific theory for the business analysis; consecutively build up and in a gradually ascending way in the process of the scientific knowledge for the financial-accounting activity. The relative knowledge is based on the concepts for the efficient capital market, historically considered as the first built hypothesis that lately evolved into a scientific theory.

For Bulgarian business practice a work of big meaning is that the efficient capital market concept is elaborated and cleared out the modern explanation of the objective dependence between the efficiency on invested capital and the risk that is inevitably run with an investment. On the other hand the explanation of the link “efficiency - risk” further positively reflects on development of the theory for assets valuation (popularly known as “option pricing”). Taking into account these particularities a specific meaning deserves the updating of the evergreen purposes staying before the different business sciences, namely the most efficient cost and revenue matching in order precisely to establish the net profit.

The shifting ideas for rational adequate matching in Bulgarian business units under the command economy led to the differentiation of the next phases:

a) Averaging matching for the aims of internal operational and financial control. The extensive use of production forces and the dominant Marxist theory up to 1970s conditioned the only measurement of the average magnitudes. In our days the once established system “*Averaging business analysis*” is conceived as quite backward in comparison with the particularities of the pre-war business measurement. According to Bailey⁹ the ex-USSR business accountancy after the 1917 did not achieve any substantial development. Even lately the “*Averaging business analysis*” missed whatever methods for economic-mathematical modeling because of the imposed accounting system of Full costs and revenues matching with its background – the classic (labor) theory of value.

b) After 1970s was (at least theoretically) promoted optimization matching for managerial decisions. It was a natural respond to the appeal for dully transition towards an intensive development of Bulgarian command economy. It was grounded on the Russian economic-mathematical school conditioning the immediate integration of optimization’s concepts and approaches. Free-minded Bulgarian business scholars dully promoted the system “*Optimization management assets analysis*” totally

⁹ Bailey, D. (1991) “The Problem of Accounting Reform in East European Countries”, *Bulgarski schetovoditel (Bulgarian Accountant)*, no. 3.

grounded on the created knowledge from the ex-USRR economists, especially “*Theory for optimal planning and management (TOPM)*”. Understandably it was lately treated as an important alternative to Anglo-Saxon system of “Marginal costing”. The outstanding new elements of this business matching system were: the full costs differentiation on fixed and variable; the identification of production cost uniquely with the total variable (production, marketing and administrative) costs; the introduction of a new business knowledgeable indicator like “Marginal profit”. But the reasonable notes of the Bulgarian scholars with liberal business thinking that trustfully followed ex-USRR investigators of the optimal economic plan’s structure and its internal dependences were not at all herd.¹⁰ Also out of the circumstance that the system “*Optimization management assets analysis*” was the financial-accounting fundament for the modern application of new optimization methods for adequate decision process like Mathematical programming. According to A.Katzenelinboigen¹¹ in 1930s the worldly recognized Russian economists successfully solved the state owned companies’ local business problems with relatively simple mathematics. But even up to 1990s the internationally accepted ideas of L.Kanthorovich and other economists for many scholars in the area of management accounting remained unknown due to their lack of efforts to update their already backward adequate knowledge and at the same time specific ideological prejudices from the near past.¹²

The new ideas for the optimal managerial categories and approaches however gradually were integrated that reflected in all elements’ re-evaluation of the existed orthodox financial-accounting knowledge. Thus the period of 1970-1990s in Bulgaria could be described as a new phase of the conventional business thinking, corresponding to the relevant economic concepts. Also not for underestimation were the strong ideological contradictions that emerged between the adepts of the orthodox costs and revenues matching and the new “*Optimization management assets analysis*”. These circumstances were natural consequences of the macroeconomic debate quite well known in the international macroeconomic literature as “*L. Kantorovich versus K. Marx*”. Some Russian economists tried in vain to reconcile Marxist political economy and the marginalism just writing: “**To oppose to the contemporary marginalism.... is lawfully and necessary, but at the same time it would be rough mistake to see.... in the methods of marginal analysis a contradiction with Marxism. The serious use of mathematics in economics is impossible without using marginal magnitudes.**”¹³ Some Bulgarian orthodox accounting and financial academicians with ruling academic positions did not accepted at all some important aspects of the socialist business disciplines (for example about the nature and magnitude of production cost) to be formally victimized in the name of the optimization concepts after 1970s in ex-USRR. This exercised strongly negative impact on the advance of Bulgarian business thought and created a deep misunderstanding between the adherents and opponents of then teaching activity of the different business subjects. At this epoch even the most modest acquaintance of Bulgarian accounting and financial scholars with the undisputed

¹⁰ Trifonov, T. (1982) “Methodological problems of costing under conditions of optimal microeconomic management”, *Economic thought*, no 8. (Trifonov, T. “Metodologichni problemi na sebestoinosta v uslovijata na optimalno upravljenje na mikroikonmikata”).

¹¹ Katzenelinboigen, A. (1997) “L.V.Kantorovitch: Political dilemma in the scientific activity”, *Economic and mathematical methods*, Moskva, vol. 33, no 3. (“L.V.Kantorovitch: Politicheskaja dilema v nauchnoi dejatolnosti”).

¹² In accordance with the opinion of A.Katzenelinboigen due to ideological suspicions even the life of L.Kanthorovich had been endangered and only his exclusively useful scientific engagement into the mathematical modeling of nuclear reactions in the ex-USSR saved him.

¹³ Kotov, I. (1972) *Mathematical methods’ use in economics and the political economy of socialism*, Leningrad university, no 20 (Kotov, I. *Primenenie matematicheskikh metodov v ekonomike i politicheskaja ekonomija*).

achievements of international management accounting was not at all easy. Even in the middle of 1970s there was no almost any appropriate information for what was happening in the international accounting science. In this relation positive role played a symposia in 1972 of the ex-socialist countries, where were in due time were revealed some parts of the Anglo-Saxon marginal costing in the papers of some ex-socialist theorists.¹⁴ An emblematic scientific negativism was proclaimed from some leading Bulgarian applied economists as regard the achievements of the ex-USRR economic-mathematical science. However in this relation it is difficult to agree with some Anglo-Saxon scholars (Mueller *et al*)¹⁵ for example that what is known as “Management accounting” all over the world was not promoted at all in the accounting field in orthodox Eastern Europe. It was naturally these alternative forms of Western management accountancy and corporate finance to be developed and rationally applied in the business activity of the ex-socialist countries in East-Europe. However due to the ones backward misunderstandings they faced no any kind of possibilities for large popularization and practical economic use.

The substantial and complex efforts to promote the university lectureship of the “*Optimization management assets analysis*” under the command economy in Bulgaria were in full conformity to then state enterprises’ actual business necessities. Mainly theirs cost composition was built up in accordance with the pre-war Bulgarian costs diversification and its influence on the Income statement’s content of the different firms. Initially it was looked for a full building of the optimization matching process grounded on the understanding of microeconomic theory for the optimization. But comparatively soon it was conceived that this had been a complex process with some degree of economic naivety. Lately the true business sense of the “*Optimization management assets analysis*” was conceived and properly used. In fact that was a realistic subjective illustration about the concepts of ex-USRR methodology for optimal planning and management on firm level. Recognized was that the evergreen matching questions are very difficult for realization in theoretically irreproachable way in the real economic process, strictly following the mentioned ex-USSR methodology or its marginal counterpart. And that is why this conclusion was confirmed at the beginning of the new millennium by Russian economists¹⁶ proving that the optimization methods could be no more than 5% helpful for improving the business results. Thus the involvement of some Bulgarian scholars in the field of accounting and finance with the liberal business thought within the mental power of ex-Soviet economic school enriched the content of the previous socialist business subjects, but under the command economy this fact had no any positive influence on the business lectureship and moreover on the relative practice.

3. Evolution of the applied business subjects for liability ruling, grounded on the economics of financial optimization. There are well proved opinions in the international business literature that in the area of financial economics the crucial change took place after 1950s. For the business discipline in Bulgaria is important that the

¹⁴ For example the Polish management accounting advance became known from the scientific works of A.Yaruga (1988) and others, clearly outlining the difference between the conventional Full costing and the advance Marginal costing. (Jaruga, A. (1988) “The Accounting Evolution in East European Nations”, *Collected Papers of the Fifth World Congress of Accounting Historians*, A.T.Craswell (ed.) The University of Sydney, Accounting and Finance Foundation.)

¹⁵ According to the authors in the middle of 1990s the basic accounting systems in some socialist countries were fully consistent with Marxist principles and it was expected that the command economy accounting will start to wither away, if market economy concepts ever gain upper hand.

¹⁶ Astahov, A. (2000) “Did the economic values become precise with the development of methodology?”, *Economics and mathematical methods*, Moscow, vol. 36, no 4 (Astahov, A. “Stali li ekonomicheskie stoimosti bolee tochnie s razvitiem metodologija?”).

relative kind of economics exercised very sharp influence. Under the market conditions the scientific deduction (as a recognized approach of Hegelian dialectic) about that influence provoked Bulgarian accounting and financial sciences to progress with the building of integrated business system for optimal value measurement. The efforts of Bulgarian accounting scholars to find effective solution of this quite unusual challenge was the construction of the system “*Optimization management liabilities analysis*” under the conditions of market economy. This was a fully lawful method whose emergency was caused by the heavy business crisis and the necessity of continuing business optimization process.

The principal reason was the complete neglects of the conventional analyzers to questions of the financial structure and especially for the so called “capital lever”, namely the relation between the equity and debts into the side of liabilities into the firm’s balance sheet. (Under the centralizing planning the popular vision was that the socialist state always ensure its companies with financial resources and defend them against cash shortcomings. That is why the education in the area of business sciences simply missed the hard topics for liquid assets financing of the state firms.) Terms like operational and financial gearing and equity costs, debt costs and weighted average capital costs were not an integral part of the existing vocabulary of the accounting and finance.

One even more meaningful reason was the general and very hard indebtedness among the Bulgarian companies after 1990s. This considerable financial problem stimulated the liberal Bulgarian scholars to take care about the capital structure estimation and its accompanying costs. In our days the question for the optimum capitalization continues to be meaningful and even far more important for the business ruling, compared with the production “costs – volume” optimization. That is why since 1990s some Bulgarian applied economists directed their efforts to the system “*Optimization management liabilities analysis*” construction. The initial phase was the formal clarification of how accounting and financial scholars ought to mix the given domestic and foreign capital sources just to balance out the expected efficiency and risks, that led to the understanding of the real forces influencing the company value. The actual state of sophisticated statistic approaches’ application to analyze the dichotomy “risks – efficiency” in Bulgarian enterprises is the same (if not worse) as that in 1970s in a study for major UK firms that only 25 % of the corporations used statistic methods in their analysis.¹⁷

The methodological base of the “*Optimization management liabilities analysis*” was the Anglo-Saxon theory of capital and the famous “MM” models for the optimum composition of the company capital from 1960s. It is a nucleus of the current financial economics, which in turn is an integral component of the contemporary and fundamental macroeconomics. Some Bulgarian applied economists were substantially involved into the concepts of Hicks¹⁸, namely: 1. Notion of capital is linked with the cash value that is numerically reflected into the firm accounting statements. 2. The company’s optimization problem should be solved into the framework of the theory of capital and its accumulation. This had a great meaning for the acceptance of the company capital’s financial concept, namely to maintain the firm’s capital and direct the searchers’ attention towards the optimization of long- and short term liabilities. In

¹⁷ Grinyer, P. & Wooller, J. (1975) *Corporate Model Today*, Institute of Chartered Accountants in England and Wales.

¹⁸ Hicks, J. (1939) *Value and Capital* (Cited by the Russian translation *Stoimost i kapital*, Moscow).

such a way after antagonistic and fruitless discussions in 1970s about the firm's assets optimization the advanced Bulgarian accountants and financials during transitional time could face the capital structure optimization without endangering any kind of useless ideological contradictions. Presently the liabilities' investigation in accordance with "MM" models is realized in the light of two types of enterprisers: 1. Non-taxable and taxable; 2. Non-g geared and geared. In both aspects are established the three well known basic indicators:

- * Total corporate value as unity of equity and foreign capital.

- * In the light of dichotomy "risk – efficiency" the equity capital cost is represented by the dividends paid out, while the foreign capital cost is conditioned by the paid out interest on the respective external loans. Or as Nita formulates "**cost of capital is the rate that compensates investors for the perceived risk.**"¹⁹ For the aims of the business analysis the relative costs are taken as studied by the financial accounting, i.e. in their direct economic meaning and formal reflection in the firm's Income statement. On the other hand the weighted average capital cost is an amount of equity capital's cost weighed with the share of equity to invested capital and the interest cost weighed with the share of debt to invested capital.

Financial analysis is done with a specific alternative form of the financial economics' formulae and graph using the important category "*Profit before Interest and Taxes*". The indicator's knowledgeable meaning of this category is equivalent to relative role of the well-known indicator "*Marginal profit*" in the formal firm's Income statement. However while the indicator "*Marginal profit*" serves for the establishing of *Production* break-even point, the indicator "*Profit before Interest and Taxes*" is used for establishing of *Financial* break-even point. The conventional business analyzers going ahead with their archaic thinking opposed the building of the "*Optimization management liabilities analysis*" with the following arguments:

- * The suggestion for optimal capital structure is possible under a perfect or at least well-developed capital market. This is not characterized for Bulgarian transitional business picture, so it could not influence market valuation of the local firms.

- * There is no information that such a type of methodology is used in Western business ruling practice nevertheless that the concept for optimal capital structuring and the applied financial economics have been formed by Anglo-Saxon macroeconomists. And very amazing question was: If the theme about the equity and external capital optimization is not typical for the business financial management's textbooks why it has to be an integral part of the coresponding Bulgarian textbooks? The reply of this misunderstanding is the thought of Mattessich: "**Perhaps every age must find its very own answer.**"²⁰

The orthodox Bulgarian theorists however ignored the theme of hard capital costs for native firms and their optimal magnitudes that must be taken into account within the financial analysis of the company. As concerns the lack of clear theoretic clarification of the optimization aspects of the firm capital into Western textbooks for the business ruling the proposed explanation is that the problems for insolvency and indebtedness are not first-rate care for the western companies. The real fact is that the Anglo-Saxon

¹⁹ Nita B. (2004) "Pricing decisions in the context of corporate value creation", Report on international conference General Accounting Theory towards Balancing the Society, Poland, p. 294.

²⁰ Mattessich, R. (2004) "Reality and Representation in Accounting", report on the international conference General Accounting Theory towards Balancing the Society, Poland, p. 36.

proposition for the optimal capital structure under perfect capital market is without any impact on market valuation of the companies. According to Modigliani his works from 1950s had been written just to upset his learning colleagues in the field of financial economics by arguing that the capital's optimum structure was not at all methodological problem.²¹ Moreover the creators of the concept for optimal capital structuring pointed out with sense of humor that the main aspect that greater theoretic attention, namely discovering what exactly is the capital's optimum structure was not at all any problem. However in our days judging impartially the humorous viewpoint of the outstanding authors it is thought that almost half a century old Anglo-Saxon theory of capital structure with the relative costs is quite perfection and practically proved. By this way its concepts and methods can adequately be applied as logic fundament of the "*Optimization corporate liabilities analysis*".

As it was said at the beginning finally it become possible to construct under the transitional conditions the new sharply balanced system "*Optimization management assets and liabilities analysis*" with its accentuations on the optimization aspects of the asset and capital structure into the company's balance sheet. The adequate system represents a conglomerate (logical unity) of the ideas of both ex-Soviet macroeconomics and Anglo-Saxon concept of capital's optimum structure. The methodology of the system includes complete clarification of its expected knowledgeable impacts and utilities for the effective decision- making process. Of course there are new emerging methodological problems in connection with the complete realization of the considered analytical system for assets and liabilities' optimization for the purposes of the company's actual and incoming activity. But being taught for several years on university level the system "*Optimization management assets and liabilities analysis*" already appeared as a very meaningful element of Bulgarian model for business management. Presently it is considered as deserving its useful application in the accounting and financial company's practice. The ending methodological conclusion is that the modern fundamental economics' content is a rich source of ideas and approaches for development of a contemporary and efficient managerial analysis with great practical usefulness. The contemporary functional business disciplines – accounting and finance, can develop effectively uniquely on the basis of the deep and clear understanding of the paradigms of well built up economic theory, namely the modern economics.

²¹ Modigliani, F. & Merton, M. (1958), op.cit.