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factor for sustainability: an evidence
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A STUDY OF INTANGIBLE ASSETS DISCLOSURE AS FACTOR FOR SUSTAINABILITY: AN EVIDENCE FROM BULGARIAN FURNITURE ENTERPRISES

Daniela Ventsislavova Georgieva

Abstract: In a constantly changing economic and political environment, textual disclosures in the financial statements of enterprises are factors used for measuring the sustainability of the micro-organization and, hence, at the macro-level throughout an industry. Main object of analysis is the disclosed information by Bulgarian furniture enterprises regarding their intangible assets. Main goal of the paper is to analyze some factors that have impact on the disclosures and to outline the published mandatory and voluntary data. Subjects of the study are published financial statements and the accompanying notes. Adopted research methods are logical, deductive and comparative methods, as well as the methods of content analysis and synthesis. The study of statistical relationships and dependencies is based on the Chi - square test. The results of the study support the development of the literature by presenting a more in-depth analysis of the level and the factors influencing the disclosure of intangible assets data by Bulgarian furniture enterprises.

Keywords: intangible assets, disclosure, furniture enterprises

1. INTRODUCTION

The idea of a knowledge-driven economy shifts the focus of the enterprises from seeking future benefits from the use of tangible assets to seeking benefits from intangible assets use. In this respect, enterprises are willing to invest large amounts to obtain and control intangible resources (Jeny, Paugam and Astolfi, 2016, p.3). Intangibles are seen as factors that determine the true value of the entity (Low and Kalafut, 2006, p. 193). Economic literature supports the idea that there is a link between the profitability of enterprises and the number of textual disclosure (Cheng and Zhao, 2018, p. 406). Disclosures are used for the purposes of financial analysis and measure the long term sustainability of the organization. The entity's disclosures could be divided into mandatory and voluntary. The mandatory is dependable on the legislative requirements of the applicable accounting standards while voluntary is any additional information beyond the mandatory one, that enterprises publish in the financial statements. Even though managers can use disclosure data as an instrument improving the market value of equity (Merkley, 2014; Nekhili et al., 2012) it could create information asymmetry (Cheng and Zhao, 2018, p. 405, p. 410) and even may lead to a leak of strategic information (Entwistle, 1999). However, voluntary disclosures are cited as an important mechanism for reducing conflicts and information asymmetry between insiders and outside shareholders (Patelli and Prencipe, 2007, p. 8). This predetermines the need for relevant and reliable information disclosure about intangible resources to financial statements users. A study of the level of digitisation and the use of digital tools by forestry sector enterprises in Bulgaria shows better performance than that on the national average

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(Georgieva and Popova, 2019). Such level of digitisation suggests use of various intangible assets by the companies. From all forestry industries in the country the most developed are the companies operating in the field of design, manufacturing and sales of furniture (Popova, 2019). Based on that the main author's hypothesis is that Bulgarian furniture enterprises have a significant level of disclosure of intangible assets information (internally developed and externally acquired). Main object of analysis are the content of mandatory and voluntary disclosures regarding recognition and account of intangible assets as well as factors that have impact on it. Subject of the study are the published financial statements and the accompanying notes, incl. significant accounting policies, activity reports, auditor reports, references, annexes. Primary purpose of the paper is to study some of the factors that influence disclosures as well as the practice of Bulgarian furniture enterprises regarding the published intangible asset information. In order to achieve the stated goal, the following research tasks are set: (1) to analyze the following factors that have impact on the disclosures: accounting standards; company size; profitability; external auditor; (2) to verify the compliance with the requirements of disclosure on intangible assets demanded by the Bulgarian national accounting standards (NAS) and the international accounting standards (IAS); (3) to point out some current practices of Bulgarian furniture enterprises on voluntary disclosed information about intangible assets. The applied research methods are based on the logical, deductive and comparative methods, and the methods of content analysis and synthesis of texts introduced into the legislation framework and specialized literature.

2. LITERATURE REVIEW, HYPOTHESIS DEVELOPMENT AND METHODOLOGY

According to Bulgarian Accounting Act (AA) enterprises must apply the national accounting standards. Exceptions are the enterprises listed in the law (mainly engaged in financial, pension and investment activities), as well as those that voluntarily choose to apply the IAS. Even though it is believed that all enterprises should have the same level of mandatory disclosure in compliance with the requirements of the accounting standards (Teixeira da Silva et al., 2013, p. 392), the literature provides evidences that the diversity of information disclosure regarding the intangible assets treatment leads to lack of national homogeneity. This reflects a lack of international homogeneity (Stolowy and Cazavan-Jeny, 2001). However, Bulgarian enterprises, applying NAS, lack mandatory textual disclosure or publish limited accounting information (Georgieva, 2019). Therefore, a factor of analysis is the impact of the selected accounting standards on the textual disclosure. Several studies support the idea of a positive relation between the level of disclosure and firm size. In this respect large size companies disclose more rich data compared to smaller ones. This is believed to be due to the fact that large companies have more resources and more benefits from it (Nguyen et al., 2017). However, the literature provides arguments of no relation between company size and the level of compliance with the requirements of disclosure by the accounting standards (Nakayama and Salotti, 2014, p. 278). Considering this possibility the firm size is a second factor under analysis. Companies having more profits are more ambitious and willing to share more textual data with their stakeholders. Such an idea suggests that enterprises with poor performance are trying to hide this from the shareholders by disclosing less information (Nguyen et al., 2017, p. 258). Considering this the profitability is

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the third factor under study. It is argued that prestigious auditor companies require a higher level of disclosure. They associate it as a factor measuring the quality of auditor's services. Because of that, auditors influence their customers to publish more information, by affecting the type, quantity and quality of the data. In this respect, the relation between the level of disclosure and independent external audit is positive (Teixeira da Silva et al. 2013). In order to analyze the outlined factors the following hypotheses are formulated:

(H1) There is a statistically significant relationship between intangible assets disclosure and the use of NAS by Bulgarian furniture enterprises.

(H2) There is a statistically significant relationship between intangible assets disclosure and the size of the furniture enterprises.

(H3) The profitability of the furniture enterprises is statistically related to the disclosure of intangible assets.

(H4) There is a statistically significant relationship between intangible assets disclosure by Bulgarian furniture enterprises and external auditors.

An analysis of the financial statements of 157 furniture enterprises are made, covering the period 2008 - 2018. The content analysis method is used to study the enterprises balance sheet figures for long-term intangible assets, as well as disclosed information about intangible assets and research activities in the notes to the annual financial statements. The study of statistical relationships and dependencies is based on the Chi - square test, and the measure of association is done by the use of Cramer (V) with the program IBM – SPSS Statistics.

3. RESULTS AND DISCUSSIONS

3.1. Analyses of the factors that have impact on the intangible assets data disclosure

From all entities under analyses, around 37% report figures in the balance sheet regarding intangible assets (externally acquired) and around 3% report internal developed intangible assets that results from the development phase of the R&D process. Around 44% disclose significant accounting policies or other relevant textual data regarding their intangible assets while around 9% - regarding the R&D developed resources. Disclosure of information about assets that the entity does not currently own or control can be partly explained by the following two hypotheses. First, the company may plan to acquire such resources in near future. In order to meet the information needs of the shareholders and investors, it publishes such relevant information in advance. However, in order not to violate the materiality principle, accounting data for assets that an organization does not currently own, control and use, should not be an element of its disclosed accounting policy or textual information. Second, the entity may not have reviewed and updated its current accounting policies. This results in publishing data regarding assets that the entity no longer actually owns and it in hand can put into question the applied methodology for filling the statement. The analysis shows another feature. Around 4% of the companies that have figures regarding intangible assets (excluding R&D developed) and around 14% regarding internal developed intangible assets do not disclose any textual data regarding these kinds of resources. Around 3% of the entities publish in their activity reports that during the period they have developed or improved intangible assets but no relevant data is reported in the balance sheets or in the accounting

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policies and annexes. The above contradicts to the aim financial statements to be reliable, prudent, neutral, impartial, complete in all aspects and, above all, necessary for making reliable economic decisions. In terms of applicable accounting standards, around 96% of the entities under review apply NAS. None of the entities applying IAS is currently a subject to a legislative requirement to prepare their financial statements based on the International accounting standards. 50% of the companies applying IAS have foreign shareholders at the equity of the entity. In this respect, the choice of IAS is rather on a voluntary basis that can be linked to international comparability of the statements, or the enterprises were obligated to apply IAS and have not used the legislative opportunity to change their accounting base to NAS in 2016. Based on the analyzes of the collected data (see table 1) it is confirmed the existence of a weak statistical relationship between intangible asset disclosure and the use of NAS by Bulgarian furniture enterprises. Although in this case the null hypothesis is rejected not all conditions for the Chi square test application are fulfilled. This is a prerequisite for being skeptical when accepting such a statistical relationship. Based on the AA requirements, a size classification of the enterprises under review is made. From all companies in the target group 54,8% are micro, 38,9% - small, 2,5% - medium and 3,8% are large. The collected data analysis provides evidence for an average statistical relationship between the size of the entity and the intangible assets information disclosure (see table 1). Once again not all conditions for the Chi square test application are fulfilled. It should be noted that around 41% of enterprises under review do not publish any textual disclosure or significant accounting policies. Only the annual financial statements of micro-entities may consist of abridged balance sheets and income statements (AA, 2019, art. 29, para. 4). However, 80% of the organizations that have not published notes are micro- entities and the other 20% are small sized. Around 88% of the analyzed furniture companies report gross accounting profit for the year under review. Yet, there is no statistically significant relationship between the profitability and the published textual data regarding their intangible assets. A prerequisite for such a conclusion is the presented in table 1 data, which confirms the null hypothesis. Around 55% of the annual financial statements in which there are disclosures of intangible assets data are audited by an independent external auditor. When testing the fourth research hypothesis, the chi square value is calculated 30.213 and with two degrees of freedom, this statistic provides evidence of a relationship at the 0.05 level of significance. This gives us a reason to accept the existence of an average statistical relationship between the external auditor and the disclosures of intangible assets information (see table 1).

Table 1. Chi-Square tests and Symmetric measures data

Variable	Pearson Chi-Square value	Level of significance	Degree of freedom	Asymp. Sig. (2-sided)	Cramer's V value	Approx. Sig.
Accounting standards	7.956	$\alpha=0.05$	n=2	.019	.225	.019
Company size	34.644	$\alpha=0.05$	n=6	.000	.332	.000
Profitability	4.832	$\alpha=0.05$	n=1	.089	.175	.089

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External auditor	30.213	$\alpha=0.05$	n=2	.000	.439	.000
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Source: own calculations, n=157.

3.2. Mandatory and voluntary disclosures by Bulgarian furniture enterprises

Based on content analyses between the disclosures in the financial statements of the target group and the requirements at the NAS and IAS none of the entities fully disclose the mandatory data for intangible assets. Notable is the fact that 6% of the furniture companies only make references to the number of the used accounting standard. Accounting policies must have individual character based on the chosen and applied principles, rules and approaches. In this respect a reference to a standard which is giving opportunity to choose between several accounting treatments (for example the amortization methods) oppose to the main goal of the disclosures to give more prudent and reliable information. From all disclosures required by NAS, 63% of the entities publish the applied approach for initial measurement of intangible assets (externally acquired), while 21% - of internally generated intangible resources. The majority of the enterprises (73%) state the used amortization method, 30% publish data on accounting subsequent expenditures and 6% regarding temporarily idle assets. Relatively low percentage (22%) of the entities disclose any impairment information. Based on the analyses of the companies applying IAS all of them publish the applicable amortization method as well as the impairment policy of the assets. Half of them disclose the methodology of assessment of the useful life of the resources, while 17% - the residual value of the assets. Additional disclosures are the applied approach for classification (41%) and types of intangible assets (17%) owned and used by the companies. More than half of the entities (52%) voluntarily publish data on materiality thresholds. Less data is given regarding the accounting policy for gains and losses when selling the assets (10%), the moment from when the amortization starts (9%), occasions when the amortization method will be changed (1,4%) as well as the used accounts in the accounting system (1,4%).

4. CONCLUSIONS

The analyses of the disclosures to the financial statements of Bulgarian furniture enterprises give us a reason to conclude that they publish limited accounting information regarding their intangible assets. The lack of disclosure is found in the statements of entities applying NAS and IAS, and in this respect does not confirm the author's hypothesis. The only reliably confirmed statistical relationship is between the published textual data and the auditors. It is notable that voluntary disclosure is richer in the audited financial statements. This supports the studies of Nguyen et al. (2017), Georgieva (2019), Teixeira da Silva et al. (2013), but does not explain the existence of missing mandatory data in the published disclosures. The analysis as well confirms that large companies publish more data compared to micro-entities. This could be explained by the legislative requirements micro-entities to be able to prepare and publish only abridged balance sheets and income statements. Even though no statistical relationship is calculated between the disclosure and profitability due to

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its limitation the report cannot explain why companies with good performance are disclosing less or none information. Stakeholders can negatively interpret such lack of disclosure as the companies are trying to hide something. In Bulgarian accounting practices, the development of accounting policies, as a component of the financial statements, is considered as a formal requirement and not as a significant part of the accountability. This could be explained by the fact that the focus of the national revenue agency and other government institutions is on taxation and financial control rather than on the accurate disclosures. Such neglect of the added value of the published textual information is shifted to the auditors and accountants. Even so, disclosures enrich the information environment, prevent the idea of wrong methodologies for presenting intangible assets in the financial statements and help stakeholders to make reliable economic decisions. This in hand shows that the entity is a reliable partner, which gains creditor's trust and is a base for long term sustainability of the organization. Having in mind that disclosure can lead to a leak of strategic information we believe that the risk could be minimized through timely and reliable review of the data that could be disclosed. This in hand could be a better option rather than disclosure of none or less information.

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