



# *A STUDY OF INTANGIBLE ASSETS DISCLOSURE AS FACTOR FOR SUSTAINABILITY: AN EVIDENCE FROM BULGARIAN FURNITURE ENTERPRISES*

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# *Agenda*

1. Introduction
2. Hypothesis development and research methodology
3. Analyses of the factors that have impact on the intangible assets data disclosure
4. Mandatory and voluntary disclosures by Bulgarian furniture enterprises
5. Conclusions

## *Introduction*

- ***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.

# *Hypothesis development*

(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, 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.

# *Analyses of the factors that have impact on the intangible assets data disclosure*

- 54,8% are micro, 38,9% - small, 2,5% - medium and 3,8% are large enterprises.
- Around 37% report figures in the balance sheet regarding intangible assets (externally acquired) and around 3% - internally developed.
- Around 44% disclose significant accounting policies or other relevant textual data regarding their intangible assets while around 9% - regarding the R&D developed resources.

# *Analyses of the factors that have impact on the intangible assets data disclosure*

- 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 policies and annexes.
- Around 41% of enterprises under review do not publish any textual disclosure or significant accounting policies.





# *Analyses of the factors that have impact on the intangible assets data disclosure*



- Around 88% of the analyzed furniture companies report gross accounting profit.
- Around 55% of the annual financial statements in which there are disclosures of intangible assets data are audited by an independent external auditor.
- Around 96% of the entities under review apply NAS.
- 50% of the companies applying IAS have foreign shareholders at the equity of the entity.
- 6% of the furniture companies only make references to the number of the used accounting standard.

# *Analyses of the factors that have impact on the intangible assets data disclosure*

*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
External auditor	30.213	$\alpha=0.05$	n=2	.000	.439	.000

Source: own calculations, n=157.

# *Mandatory disclosures by Bulgarian furniture enterprises*

IAS	NAS
<b><i>All of them - applicable amortization method.</i></b>	<b><i>63% - the applied approach for initial measurement of intangible assets (externally acquired).</i></b>
<b><i>All of them - the impairment policy of the assets.</i></b>	<b><i>21% - of internally generated intangible resources.</i></b>
<b><i>50% - methodology of assessment of the useful life of the resources.</i></b>	<b><i>73% - state the used amortization method.</i></b>
<b><i>17% - the residual value of the assets.</i></b>	<b><i>30% - accounting subsequent expenditures.</i></b>
	<b><i>6% - temporarily idle assets</i></b>

# *Voluntary disclosures by Bulgarian furniture enterprises*

- 41% - the approach for classification;
- 17% - types of intangible assets (17%) owned and used by the companies;
- 52% - materiality thresholds;
- 10% - accounting policy for gains and losses when selling the assets;
- 9% - the moment from when the amortization starts;
- 1,4% - occasions when the amortization method will be changed;
- 1,4% - the used accounts in the accounting system.

# Conclusions

- Bulgarian furniture enterprises publish limited accounting information regarding their intangible assets.
- The only reliably confirmed statistical relationship is between the published textual data in the accompanying notes and the external auditors. It is notable that the voluntary disclosure are richer in the audited financial statements.
- Even though no statistical relationship is calculated between the disclosure and profitability due to its limitation the report cannot explain why companies with good performance are disclosing less or none information.

- Large companies disclose more data compared to micro-entities. This could be partly explained by the legislative requirements micro-entities to be able to prepare and publish only abridged balance sheets and income statements.
- None of the entities fully disclose the mandatory data for intangible assets.
- Disclosures enrich the information environment, prevents the idea of wrong methodologies for presenting intangible assets in the financial statements and help stakeholders to make reliable economic decisions.

- Timely and reliable review and update the data that must and could be disclosed.
- To make more in deep study on the government, accountants and auditors view regarding the value added of disclosure.
- To improve the internal and external control over the annexes to the financial statements (their development, implementation and publication).
- To make more in deep study on the reasons for not disclosing the mandatory data.



*Thank you for your attention!*

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