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IMPROVING COMMUNICATION THROUGH FINANCIAL STATEMENTS: SOME EFFECTS OF APPLYING THE INTERNATIONAL ACCOUNTING STANDARDS BOARD INITIATIVE

FİNANSAL TABLOLAR YOLUYLA İLETİŞİMİN GELİŞTİRİLMESİ: ULUSLARARASI MUHASEBE STANDARTLARI KURULU GİRİŞİMİNİN KULLANILMASININ BAZI ETKİLERİ

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Abstract

The purpose of this paper is to analyze the effects of the IASB Initiative on Improving Communication through Financial Statements and the resulting changes to IAS 1, IAS 7 and IAS 27. The most debatable issues related to presentation, disclosure and over-disclosure are analyzed, as well as the search for reasonable solutions to optimize the volume and usefulness of the information disclosed in financial statements. Two samples of Bulgarian enterprises from different industries, listed on the large taxpayers and insurers list, were studied: the first covers 12 enterprises applying IAS/IFRS and the second - 6 companies which switched back to the National Accounting Standards (NAS) in the 2015-2018 period. Our results suggest that the problem of the complexity of IFRS, which is combined with increasing disclosure requirements, is one of the leading reasons for some Bulgarian companies to move back to the National Accounting Standards.

Keywords: IASB Disclosure Initiative, Changes to IAS/IFRS, Complexity of IFRS, Communication, Financial Ftatements, Transition from IFRS to NAS.

Öz

Bu yazının amacı, IASB Girişiminin Finansal Tablolar Yoluyla İletişimi İyileştirme üzerindeki etkilerini ve bunun sonucunda ortaya çıkan UMS 1, UMS 7 ve UMS 27 değişikliklerini analiz etmektir. Sunum, açıklama ve fazla açıklama ile ilgili en tartışmalı konular analiz edilir, mali tablolarda açıklanan bilgilerin hacmini ve kullanışlılığını optimize etmek için makul çözümler arayışının yanı sıra. Büyük vergi mükellefleri ve sigortacılar listesinde listelenen farklı endüstrilerden iki Bulgar işletmesi örneği incelendi: ilki IAS / IFRS uygulayan 12 işletmeyi ve ikincisi - 2015'te Ulusal Muhasebe Standartlarına geri dönen 6 şirketi kapsıyor. -2018 dönemi. Sonuçlarımız, artan ifşa gereklilikleri ile birleşen IFRS'nin karmaşıklığı sorununun, bazı Bulgar şirketlerinin Ulusal Muhasebe Standartlarına geri dönmesinin başlıca nedenlerinden biri olduğunu göstermektedir.

Anahtar Kelimeler: IASB İfşa Girişimi, IFRS'nin Karmaşıklığı, Mali Tablolar, Yönetim İletişimi, IAS / IFRS'deki Değişiklikler.

GENİŞLETİLMİŞ ÖZET

Çalışmanın Amacı

Bu çalışmanın amacı, IASB girişiminin Finansal Tablolar aracılığıyla iletişimi geliştirmeye olan etkilerini ve UMS 1, UMS 7 ve UMS 27'deki değişiklikleri analiz etmektir. Sunum, açıklama ve aşırı açıklama ile ilgili en tartışmalı konular analiz edilmekte ve finansal tablolarda açıklanan bilgilerin hacmini ve kullanışlılığını optimize etmek için makul çözümler aranmaktadır.

Araştırma Soruları

Bulgar şirketleri faaliyet raporlarında UMS 1 (2016), UMS 7 (2017) ve UMS 27 (2016) değişiklikleriyle ilgili yeterli bilgiyi ne ölçüde açıklıyorlar? Bu standartların yeni şartlara uygun bağlılık eksikliği gibi görünüyor gibi, çalışmanın etkileri Ulusal Muhasebe Standartları yolunda Bulgar şirketlerinin geriye dönük bir geçiş için temel sebepler nelerdir ve bu dönüşümün Bulgar şirketlerinin IFRS (ifşa etme – ortaya çıkarma), davranışlarında nasıl bir değişikliğe sebep olduğu sorgulanmaktadır.

Literatür Araştırması

Son üç yıldır bu konuyla ilgili gözden geçirdiğimiz literatür doğrultusunda, son yıllarda kurulan muhasebe standartlarının aşırı karmaşık olduğu, uygulamaları için işletmelerden çok fazla zaman ve kaynak ayırmaları gerektirdiğini göstermiştir. Finansal tablolarda bu türden uygulamalar zayıf yatırımcılar için zorluklar yaratmaktadır. Bu, yanlış yatırım kararlarına ve dolayısıyla şirketler için daha yüksek sermaye maliyetlerine yol açabilmektedir.

Yöntem

Belirtilen araştırma sorularını yanıtlamak için 12+6 büyük Bulgar kuruluşunun- vergi mükellefleri ve sigortacılar- yıllık mali tablolarının nicel yöntemlerini ve nitel yaklaşımlarını uyguladık.

Sonuç ve Değerlendirme

Sonuçlarımız, UFRS'nin karmaşıklığı sorununun, artan açıklama gereklilikleri ile birleştiğinde, bazı Bulgar şirketlerinin Ulusal Muhasebe Standartlarına geri dönmesinin önde gelen nedenlerinden biri olduğunu göstermektedir. UFRS'nin gerekliliklerinin resmi olarak uygulanması kaçınılmaz olarak finansal bilgilerin kalitesini ve kullanıcıların bu bilgileri kullanma yeteneğini etkileyecektir. Genel sonuç, IAS/UFRS'nin son yıllarda aşırı karmaşıklığının, bazı şirketlerin yerel, ulusal Muhasebe Standartlarına geçişi de dahil olmak üzere, gereksinimlerinin çok resmi (hatta kalitesiz) bir uygulamaya yol açtığıdır.

1. INTRODUCTION

In the last few years (since 2014), the International Accounting Standards Board (IASB) has published several new financial reporting standards - IFRS 9 Financial Instruments, IFRS 15 Contracts with Customers, IFRS 16 Leases, IFRS 17 Insurance Contracts, as well as a number of changes to existing standards (IAS 1 Presentation of Financial Statements, IAS 7 Cash Flow Statement, IAS 27 Individual Financial Statements, etc.) (and some of them have come into force). These new standards and changes are the result of the Board's longstanding efforts to provide an adequate response to the reporting problems posed by the 2008 financial crisis (Ball, 2016), (Kusano & Sanada, 2019). They are also the result of an effort to improve the quality of the financial statements prepared in accordance with International Accounting Standards / International Financial Reporting Standards (IAS/IFRS) and for better communication with the users of financial statement information.

The research question addressed in this study is - To what extent do Bulgarian companies disclose sufficient information related to the changes of IAS 1 (2016), IAS 7 (2017) and IAS 27 (2016) in their annual reports? As there seem to be lack of relevant adherence to the new requirements of these standards, the study raise one more question as: what are the underpinning reasons for a backward transition of Bulgarian companies towards the National Accounting Standards, and what impacts such a transition may have on clarity and accuracy of reporting economic transactions and whether this is motivated by the increasing complexity and multiple disclosure requirements specific to IFRS (over-disclosure) in recent years?

Research Methodology: We have applied quantitative methods (calculation of Gray's conservatism index of equity and profit; Return on Equity, Financial Autonomy and Financial Indebtedness) and qualitative approaches (content analysis) of the annual financial statements of 12+6 large Bulgarian enterprises - taxpayers and insurers, to answer the stated research questions.

Limitations of the study:

- Not all the requirements of IAS 1, IAS 7, IAS 27 are commented on and analyzed, but only some of the most significant and debatable changes made in recent years (effective from 2015) that are relevant to the subject matter of the study;
- The size of the two samples (those that apply IAS/IFRS - 12, and those which switched back to the NAS - 6 in the 2015-2018 period) in a total of 18 Bulgarian enterprises is not large, despite the fact that these are large taxpayer companies and insurers from differing industries.

2. CONCEPTUAL AND LEGAL BASIS OF THE STUDY

Currently (2019-2020), the IAS Board continues to work on a project related to the principles of disclosure and assessment of relevant information to be presented and disclosed. Discussions, research and publications continue (Saha, Morris, & Kang, 2019) (Hellman, Carenys, & Gutierrez, 2017) (KASB, 2018) relating to the problem of over-disclosure and its resolution. The prevailing view, including that of leading accounting bodies such as the IAS Board and the American Accounting Standards Board (FASB), is that there is a need to improve disclosure requirements, optimize their size, structure and relationship to other parts of financial statements, and any accompanying information. A leading finding by the IAS Board as a result of an analysis of practitioners' views is that a more comprehensive definition of the concept of “materiality” is an effective way of dealing with the problem of over-disclosure and its application with respect to useful disclosure information in the judgment of the compilers. However, the complex question is how to regulate this qualitative characteristic of information in the context of the IFRSs that claim to be based on a principle-based approach. The difficulties are compounded by the fact that management often has a motive for not adequately disclosing or even not disclosing certain material information at all. At the same time, there is a certain difference between the degree and effectiveness of control over IAS / IFRS compliance across countries. For this reason, some authors have rightly concluded that, with respect to disclosure requirements, it is inappropriate for the IAS Board to adopt a principle-based approach (Hellman, Carenys, & Gutierrez, 2017). Most of the current IASs and IFRSs contain specific disclosure requirements and some formulate more generally the objectives of the disclosure (IFRS 7, IFRS 8; IAS 7). But, even with this regulation, many studies show that businesses do not fully comply with the disclosure requirements (both more general and specific). In their study Christensen et al. also find that firms that resist IFRS adoption have closer connections with banks and inside shareholders, consistent with lower incentives for more comprehensive accounting standards (Christensen et al., 2015). The overall results indicate that reporting incentives dominate accounting standards in determining accounting quality. Therefore, it is legitimate to fear that the introduction of a wholly principled approach to disclosure and the right of compilers themselves to decide (formally from a materiality point of view) what company-specific information to disclose would make the problem even worse. According to the authors of this study, the effectiveness of disclosure in the financial statements would be better achieved if there is greater control by audit committees, auditors and regulators on compliance with specific disclosure requirements (which should remain in IAS/IFRS) (Brouwer et al., 2015). In 2014 Macve stated that a different kind of conceptual framework and standards are needed (Macve, 2014). Of course, the IASB needs to carefully review and reduce (where necessary) the specific disclosure requirements in the individual standards. IASB should set requirements for disclosure of information that can be verified, controlled, audited, and achieved in compliance with the cost-benefit balance. In this regard Knappstein describes that decreases in disclosure come along with statistically and economically significant increases in information asymmetry. But the information asymmetry effect depends on the extent of the actual decrease in (specific types of) disclosures (Knappstein et al., 2020). The question remains: how can all this be done, given the change in IAS 1 (effective from 2016), which allows an entity not to disclose information required by a standard to be disclosed if management determines that it is immaterial. Should the entity have the power to judge what material is and what it is not based on the minimum disclosure required, or should this be the sole responsibility of regulators and auditors?

The change in IAS 1 Presentation of Financial Statements (effective from 1 January 2016) related to the Disclosure Initiative is quite significant. It gives flexibility and discretion to businesses when arranging and structuring annotations (notes, appendixes); grouping or presenting separate lines about accounting objects that the entity considered that they were material. This change gives guidance to preparers of the financial statements when it is necessary to make an assessment of the materiality of certain information and its presentation in financial statements - whether or not to include any information; approach to presentation in a statement of financial position and in a statement of comprehensive income - aggregation or self-presentation; an annotation (note) layout approach, as well as the presentation of some specific items in the statement. This change would make it easier for users of financial information to calculate a number of key performance indicators.

Amendments to IAS 7 Statement of Cash Flows (effective from 1 January 2017): By adding paras. 44 A through E, the IASB has implemented part of its Financial Statement Improvement Initiative. This change is the result of users' requests for more information related to the change in liabilities (loans, leasing liabilities, etc.) presented in financial activity section, including the resulting cash flows, as well as non-monetary changes related to liabilities arising from currency differences and revaluations. The purpose is to provide information through which the users of financial statements can improve their understanding of the entity's liquidity and financial operations.

Amendments to IAS 27 Separate Financial Statements (effective from 01/01/2016): On 12 August 2014, the IAS Board published amendments to IAS 27 related to the application of the Equity Method in separate financial statements. Their purpose is to allow entities, when accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements, to use the equity method as described in IAS 28 Investments in Associates and Joint Ventures. An approach is introduced whereby, when entities prepare their individual financial statements, with regard to accounting for investments in subsidiaries, joint ventures or associates, they can choose between the following three approaches: (a) to count them at cost (acquisition cost); (b) in accordance with IFRS 9; or (c) using the equity method as described in IAS 28. By adding the ability to apply the equity method when accounting for investments in subsidiaries, associates and joint ventures in separate financial statements, the IASB responded to the request to representatives from countries where local law requires that not only consolidated but also individual reports be prepared.

At this stage, the main focus of the IAS Board on improving the general purpose (primary) financial statements is directed towards the Statement of Comprehensive Income (SCI). Obviously, the IASB's work on improving communication through general purpose financial statements is focused on the structure and format of the components of those statements, not on the content of them, which includes the recognition and measurement of accounting items (Barker et al., 2020; Kulkarni & Aanand, 2017). The last is achieved by the IASB through the development of individual IFRSs. A clear definition of amounts and sub-amounts (sub-totals) (as a part of the structure and format of the components of financial statements) is essential in relation to the digitalization of financial statements and their processing and analysis through artificial intelligence technologies.

An important issue arising from the content and requirements of the new IFRS 9, 15 and 16 is the problem of the increasing complexity of standards. Therefore, the research questions posed by the authors of the study are:

1. Does the IAS Board Initiative (that reflects changes in IAS 1 and IAS 7) and the change to IAS 27 (reversing the equity method in the individual financial statements of an entity), achieve the goal of communicating more effectively with the financial statements?
2. Does the complexity of the latest new IFRSs - IFRS 9, IFRS 15 and 16, including the complexity of the model of the expected credit loss are not part of the reasons for the backward transition from IAS / IFRS to Bulgarian National Accounting Standards (BNAS) by the Bulgarian enterprises surveyed?

It is clear to professionals that the complexity of business and the environment inevitably leads to a complication of accounting rules. This complexity must be properly assessed, dosed so as not to lead to unexpected and negative results. However, for the vast majority of IFRS entities, the new IFRS 9, 15 and 16 are expected to be super-complex! This will inevitably affect the quality of the financial information as well as the ability of users to use this information. Of course, definitive conclusions on this matter can be drawn from the analysis of empirical data relating to the application of these standards over a period of at least 2-3 years. At present (2020) this is impossible to accomplish.

The complexity and difficulty of applying the concepts laid down in accounting standards in recent years has also been confirmed by the fact that in a letter to the Financial Accounting Standard Board (FASB) dated May 13, 2019, representatives of the American Institute of Certified Public Accountants (AICPA) request that the introduction of the new ASC Topic 842 Leases reporting regulation for non-public companies be postponed. According to a Deloitte survey, only 29.9% of them were able to meet the deadline. And in September 2019, under pressure from companies and the inability to deal with the overly complex rules of a number of new standards in a timely manner, FASB began deliberating the postponement of the coming into force of 4 key accounting standards: leasing, impairment of financial assets by the model of the expected credit loss; hedge accounting and long-term insurance contracts (Tysiac, 2019).

The deadlines for effective implementation of these standards are expected to be extended by an average of 1 to 4 years (2019 to 2023). The main reasons for the delay are: the complexity of the new rules; the need to replace or change the enterprise software systems; the need for staff training. Given that companies in powerful economies such as the US face such difficulties, it can be suggested what a big challenge are facing Bulgarian companies that apply the new IFRS 9, 15, 16! The above confirms the view that the accounting standards established in recent years are overly complex and require too much time and resources from enterprises for their initial implementation and applying. Similar conclusions are shared by Nurunnabi et. al., (Nurunnabi et. al, 2020) and Shulga (Shulga et. al, 2019) according to which the main problems include the complexity of the practical application of standards.

Addressing the complexity of standards requires:

1. The development of IFRSs must indeed be based on the understanding that these are standards by which general-purpose financial statements are prepared and not that IFRS rules are intended to serve the specific interests of a particular subset of users.
2. There should be clearly defined, generally accepted limits as to the scope of financial accounting and financial statements themselves. The continued attempts and actions of accounting legislators and regulators over the past 10-15 years to unjustifiably and conceptually incompatible expand of their scope have led to the large number of IFRSs, which are very complex and are an incomprehensible mix of principles and concepts, that are characterized as for accounting, but also for finance, risk management (e.g., the pattern of expected credit loss); economics, financial planning and forecasting (recoverable value, discounted value); management (business model and business activities, segment reporting), business valuation (e.g., fair value), economic and mathematical modeling, etc. In this context Pelger finds that the revision of conceptual framework of IFRS does not seem to entail a revised conceptual thinking of the IASB in all chapters of the framework (Pelger, 2020).

Therefore, these amendments are mainly intended to enhance the usefulness of disclosures and encourage companies to exercise professional judgment when determining what information to disclose in their financial statements in accordance with IAS 1. Similar findings are described by Downes, Kang, Kim & Lee which state that IFRS allow managers to exercise their judgment to provide specific information (Downes et al., 2019).

Poor communication through disclosure in financial statements creates difficulties for investors. (Abad et al., 2020) It may lead to wrong investment decisions and hence higher capital costs for companies. This prompted the IASB to launch its Financial Statement Improvement Initiative in 2013. Nuraini & Linda find out that IFRS implementation improved financial reporting quality, but 51,52% of respondents would not implement IFRS if not required by the Regulation because the process is costly (Nuraini & Linda, 2016). This is a fairly comprehensive project consisting of several smaller, interconnected projects (Core Financial Statements, Disclosure Initiative, IFRS taxonomy, Management commentary), some of which have already been completed.

In October 2018, the IASB published the “Definition of Material” document, on the basis of which it made changes to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Estimates and Errors, effective for annual periods beginning on 01.01.2020. These changes address the refinement of the definition of “materiality” set out in the two standards. In October 2017, the IASB also published the document "Better communication in financial statements - making disclosure more meaningful." It provides information about companies that have improved disclosure in their financial statements based on real-life examples.

The approaches taken by the Board to address the disclosure problem are as follows:

1. Formulating disclosure principles - there is a debate (even opposition) on part of the professionals and researchers on whether a generally-based approach for regulating disclosure requirements would be effective.
2. Clarifying the issue of materiality of disclosed information - the discussion here is whether management can (and should, given its motives) objectively determine what information is relevant and whether it is based on information needs only to the main users of the information (capital providers) or to all other users.

Again, it should be emphasized that, according to the IAS Board, one of the main issues related to eliminating the problem of more effective disclosure is to clarify and regulate the understanding of materiality. According to this Conceptual Framework information is material “if its omission or misrepresentation may affect the decisions of users using information from the financial statements” (IASB, 2018), i.e., materiality is an entity-specific feature of relevance and is based on its quantitative and qualitative indicators. According to the new definition of materiality, introduced by amendments to IAS 1 and IAS 8 and effective from 1 January 2020, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. It is important to emphasize that materiality judgments concern both the recognition and the measurement, presentation and disclosure in the financial statements.

Part of the IASB's project to improve communication through the financial statements is the smaller IFRS Taxonomy Project. It is a classification system for IFRS requirements that allows financial statements and other related information (mainly from the Management Commentary) to be accessible in a readable electronic format. This taxonomy mainly covers the requirements of IFRSs for presentation and disclosure, including supporting materials, applications, and illustrative examples. It supports the process of effectively delivering and accessing information in financial statements by various users.

In summary, the IASB Initiative to Improve Communication through Financial Statements consists of:

1. The Primary Financial Statements Project that aims to improve the structure of the four statements (with a focus on the Statement of Comprehensive Income and the Cash Flow Statement). It will facilitate the calculation of certain financial indicators and hence will increase comparability between enterprises.
2. The Project related to the Disclosure Initiative which aims to improve the content and usefulness of the explanatory notes of financial statements.
3. The IFRS Taxonomy Project that describes the access to the electronic format of the financial statements prepared in accordance with IAS / IFRS.
4. The Management Report Project that improves and regulates the contents of the accompanying information to the financial statement.

3. RESEARCH METHODOLOGY. SAMPLE OF THE STUDY AND RESEARCH HYPOTHESES

This study analyses some of the effects of applying changes to IAS 1, IAS 7 and IAS 27; their relation to the usefulness of the disclosed information in the annual financial statements of 12 Bulgarian enterprises (large taxpayers and insurers)i; the effect and causes associated with the backward switch to the Bulgarian National Accounting Standards (NAS), chronologically as follows:

- There were almost no significant changes to IAS/IFRS for 2015. During this period there were mainly annual technical and editorial improvements in IAS / IFRS.
- For 2016 - Amendment to IAS 1 related to the Better Communication in Financial Statements Initiative (the "Primary Financial Statements" Initiative). In order to examine whether this change in IAS 1 was applied properly in the financial statements of the entities surveyed for 2016, it should be seen whether there were any qualitative improvements in the 2016 Financial statements, such as: removal of redundant, copy paste quotations of standards; integration of non-essential items in the main reports; or the separation of separate rows of material positions (items); the emergence of new subtotals; the appearance of additional disclosures compared to 2015, all of which result in improved readability of the reports and elimination of unnecessary texts and data which, apart from increasing the volume of the report, have no other utility.

In 2016, another significant change came into force - in IAS 27, para. 10 - the equity method was added as the third permitted method of accounting for investments in subsidiaries, associates and joint ventures in separate financial statements. Therefore, this study examines whether the surveyed enterprises include those who applied this change from 1 January 2016, and whether this improved the comprehensibility and usefulness of the information compared to 2015 (when this change was not in force).

- For 2017, there was a change in IAS 7 (paragraph 44A - paragraph 44 D) - a Disclosure Initiative, whereby entities were required to provide disclosures regarding changes occurring in liabilities of financial activity. Therefore, the study analyses whether, in the 2017 and 2018 Explanatory Notes, entities have made this new disclosure (which may be presented in a separate table), which helps to better understand movements in financial liabilities and their relationship with the Cash Flow Statement.
- For the period 2015-2018, we have surveyed 6 enterprises (large taxpayers and insurers), which had switched back to the NAS, trying to identify the effects and part of the reasons for this, mostly linking them to the increasing complexity of a number of newly adopted standards during this period (IFRS 9, 15 and 16).

The research hypotheses in this study are as follows:

1. As there are no significant changes in IAS / IFRS in the first year of the survey period - 2015, it can be assumed that no significant difference or effect of changes in IAS / IFRS reflected in the financial statements should be established in the financial statements of the surveyed enterprises;
2. The changes introduced in IAS 1 (2016), in IAS 7 (2017) and in IAS 27 (2016) lead to improvements in the readability and usefulness of financial information in financial statements, if properly applied. If the changes are not implemented, or partially implemented, it can be assumed that there is a formal approach on the part of the surveyed enterprises to apply the changes to the relevant standards. As the equity method is perceived to be more sophisticated in practice and companies prefer to avoid its application, it is hypothesized that there may not be enterprises among the respondents who have applied it. But if the opposite is proven, the authors would conclude that these entities monitor changes in IAS / IFRS and apply them in a timely and qualitative manner.
3. With regard to the backward transition of 6 large taxpayers and insurers in the 2016-2018 period to Bulgarian National Accounting Standards (BNAS), it is suggested that this is mainly due to the complexity of the latest published IFRSs, the significant costs of their proper implementation and the assessment of the far smaller benefits to businesses. Due to the significant similarity between IAS / IFRS and the BNAS, as well as the assumed formalism in the backward transition to the BNAS, no significant equity effects of the six entities surveyed in the year of their return to the NAS are expected.

In order to continue the study of the effects of the application of IFRS in Bulgaria, in particular the application of the Disclosure Initiative for a part of Bulgarian enterprises, we use the original sample of 19 entities (large taxpayers and insurers) included in a previous publication by of the authors cited below, which analyses the results of the transition to IAS/IFRS of Bulgarian entities for the period 2008-2014. The sample was formed by calculating a volume that would produce statistically significant results. Based on the 2014 Big Taxpayers and Insurers list, including 978 units (entities), a sample volume of 88 entities was determined using the Fluid-surveysii online statistical calculator with a 95% confidence level and a 10% margin of error. Due to the fact that there are 5 repetitions in the random number list generated, the final sample size is 83 entities, 19 of which switched from NAS to IAS/IFRS from 2009-2014.

In order to test the impact of the introduction of the Disclosure Initiative and to determine whether businesses exercise the ability to apply professional judgment more broadly, the financial statements for 2015 and 2016 of large taxpayers and insurers have been examined and compared. Out of the 19 companies in the sample, 4 went back to the BNAS in 2016 and 3 have been deleted from the Commercial Register, that is why they will not be considered. As a result, the total number of enterprises surveyed is 12.

With respect to the effects of the changes in IAS 7 and IAS 27, all entities that use IAS/ IFRS as the basis for preparing their financial statements have been examined. Out of all 19 enterprises in the sample, 4 switched backs to NAS implementation in 2016 and 3 have been deleted and therefore will not be considered. Two enterprises moved back to the implementation of the NAS in 2018 and we have only considered the financial statements for 2016 and 2017. As a result of these changes, the total number of surveyed enterprises is 12 for 2016 and 2017 and 10 for 2018.

Regarding the study of transition from IAS/IFRS to NAS - the sample of 19 surveyed enterprises is limited to 6 enterprises that made the transition back to NAS, of which: 4 switched back to the implementation of NAS in 2016 and 2 did so in 2018.

For all these transformations of the samples examined see Appendix 1 Correspondence List of the Surveyed Enterprises.

4. RESULTS OF THE STUDY

4.1. Implementation of Amendments to IAS 1, IAS 7 and IAS 27

4.1.1. Implementation of Amendments to IAS 1 Effective From 1 January 2016

In order to test the impact of the introduction of the Communication Improvement Initiative (including disclosures) through the financial statements and to determine whether the entities are using the opportunities for broader professional judgment, we have examined and compared the financial statements of the entities (large taxpayers and insurers) for 2015 and 2016. Of the 19 companies in the sample 4 switched to NAS in 2016, and 3 have been deleted from the Commercial Register, therefore they will not be considered. As a result, the total number of enterprises surveyed is 12.

Table 1. Changes Related to the IAS Board Initiative for Better Communication Through Financial Statements

Entity	Accounting Standards Used	Statement of Financial Positions	Statement of Comprehensive Income	Cash Flow Statement	Statement of Changes in Equity	Notes
1	IAS/IFRS	No	No	No	No	No
2	IAS/IFRS	No	No	No	No	No
3	IAS/IFRS	Yes	Yes	Yes	No	Yes
4	Switch back to NAS in 2018	No	No	No	No	No
5	IAS/IFRS	Yes	No	No	No	
6	Switch back to NAS in 2018	No	No	No	No	No
7	Switch back to NAS in 2016	-	-	-	-	-
8	Switch back to NAS in 2016	-	-	-	-	-
9	IAS/IFRS	No	No	No	No	
10	IAS/IFRS	Deleted entity from Commercial register in 2016				
11	IAS/IFRS	Deleted entity from Commercial register in 2016				
12	IAS/IFRS	No	No	No	Yes In 2016 Removed Interim Report line: Shareholder Transactions Reported on Equity	No In 2016, the order of presentation of the main reports was changed In 2015, it was announced that the changes resulting from the Disclosure Initiative did not have a material effect on the Company's financial statements
13	IAS/IFRS	No	No	No	No	No
14	IAS/IFRS	Deleted entity from Commercial register in 2016				
15	Switch back to NAS in 2018	-	-	-	-	-
16	Switch back to NAS in 2018 /without Balance sheet for 1st period/	-	-	-	-	-
17	IAS/IFRS	No, / but there are no separate items for the Current Liabilities group for both years (only the total for the referring group)/	No	No	No	No
18	IAS/IFRS	No	No	No	No	No /In 2016, it was announced that the changes resulting from the Disclosure Initiative did not have a material effect on the Company's financial statements/
19	IAS/IFRS	No	No	No	No	No /more detailed information on individual loans received in 2016/

Source: Author's preparation based on financial statements of the enterprises surveyed

Table 1 summarizes the results of the contents analysis of the financial statements of the surveyed entities in relation to the introduction of changes in IAS 1 (effective from 1 January 2016). Because of the size of Table 1, it is attached as Appendix 1 at the end of the paper.

Regarding the structure and content of the main reports, it is noted that 11 of all 12 entities surveyed did not make any changes (pooling non-material or separate material items, introducing additional interim subtotals) as a result of the implementation of the Initiative to Improve Communication through Financial Statements. Only one of the entities (Entity 3) has done some changes in the financial statements for 2016 compared to 2015. In the Statement of financial position, the name of an item for 2016 was changed: instead of "Corporate tax receivables" under the 2015 SFP, the title in 2016 was "Corporate tax prepayments". The note is purely editorial, but shows more precisely the substance of the article in the report.

In the 2016 Statement of financial position, an entity's liabilities are presented as current and non-current, which is different from the 2015 financial statement where all liabilities are presented as current. It is clear from the 2016 explanatory notes (Note 12) that when disclosing information on liabilities in 2016, a breakdown of current and non-current liabilities was made, indicating only totals without specifying liabilities by type, since the amount of non-current liabilities was between 1.5 and 3.2% of total liabilities. No such separation was made in the 2015 financial statement. That is why the reclassification of 2015 liabilities to current and non-current liabilities was also made in the notes to the financial statements for 2016. Following this reclassification, the current liabilities for 2015 were 1.5% of the total liabilities.

New separate line item is created in the Statement of Comprehensive Income for 2016. This item is immediately following the main revenue item. In the 2015 financial statement, this article is presented after operating expenses. There is also another change in the structure of this report that relates to the item "Cost of sales" for 2016. In 2015, the title of this item in the report is "Reported value of goods sold". SCI for 2016/2015 is structured as follows:

Table 2. Structure of the Statement of Comprehensive Income of Entity 3

Structure of Statement of Comprehensive Income for 2015	**Structure of Statement of Comprehensive Income for 2016**
Revenue	Revenue
Operating expenses	Other income
Other operating income	Cost of sales
Reported value of goods sold	Operating expenses
Profit before tax	Profit before tax

Source: 2015 and 2016 Annual Financial Statements

The changed structure in 2016 has a higher information value in terms of revealing key aspects of the enterprise's activity. Grouping items that reflect information about an entity's revenue is logical and improves both the readability and the analytical nature of the statement. Referring to the item "Cost of Sales" immediately after revenue facilitates the analysis of the gross margin (profit) of the business and provides valuable information on the average level of the mark-ups used in the business.

With regard to the Cash Flow Statement, the only change in 2016 was for cash flows from operating activities, where the amount of VAT paid for the period is presented as a separate line (item).

There is no such position in the 2015 financial statement and, after its addition in 2016 the entity also provided information about the prior comparable period. The amount is material and, therefore, identifying it as a separate item in the statement can be defined as a change in the right direction in order to improve the information for users of the financial statements.

It should be noted that in 2016, the entity's auditor was replaced by another Big Four company, and it may be assumed that some of these changes were to some extent the result of the adoption of the new auditor's practices, and not only the implementation of the initiative to improve communication through the entity's financial statements and disclosures.

Another entity (Entity 5) has an amendment to its 2016 Statement of Financial Position, where bank loans are divided into current and non-current liabilities, while non-current liabilities are not presented in the 2015 financial statements and in 2015 the entire amount is listed as "Current portion of bank loans". After these liabilities were split in 2016, comparable information for the previous period (2015) was presented in the same dimensions. This is due to a failure in the disclosed information in the financial statements, rather than to the implementation of the IASB Improvement Initiative.

Regarding the possibilities for improving the structure of the explanatory notes, only 1 out of 10 enterprises (as 2 did not publish the notes to their 2016 annual financial statements) made any significant changes. The same company (Entity 3), commented above, also made changes to the structure of its financial statements. There are several changes: (1) the additional disclosure made in 2016 about receivables from related parties, the amount of which in 2015 and 2016 is significant. In the analysis of interest risk (note 3.1.) in 2016, it was clarified that receivables from related parties are actually assets managed by the group and have a floating interest rate; (2) in connection with the disclosure of accounting estimates in the 2015 financial statements, an approach has been chosen that states specific values used in respect of overdue receivables (divided into three categories according to the overdue period), the useful lives of non-current depreciable assets (defined in eight groups with specific values for useful lives in years). In 2016, the Company changed its disclosure approach to no longer specifying specific types of estimates, but with respect to depreciable assets, it stated only that the depreciation methods and useful lives of the assets were reviewed and adjusted at each reporting date if necessary. Also, in 2016, a note related to the value of fully depreciated intangible assets that an entity continues to use was removed.

Considering the implementation of the Disclosure Initiative, 2 of the 10 entities under consideration indicated in their notes to the financial statements (one in the previous 2015 and the other in 2016) that changes were not expected to have (respectively, they did not exist) a material effect on the financial statements of the company (Entity 8 and Entity 11). However, entity 8 changed the order in which the principal statements were presented in 2016 - in 2015: Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, and in

2016 the Cash Flow Statement is before the Statement of Changes in Equity. Also, in 2016, the line "Shareholder transactions reported in equity" disappears in the Statement of Changes in Equity.

Another company (N19) in 2016 provided more detailed information on individual loans received compared to the 2015 financial statements.

The analysis also shows that 3 of the 12 companies surveyed use the opportunity (although it is not new) to change the name of individual reports. Two of them use the name Comprehensive Income Statement instead of the Profit or Loss Statement and the other Comprehensive Income and one instead of the Statement of Changes in Owner's Equity - Statement of Changes in Equity.

As a result of all of the above, it can be concluded that the surveyed enterprises generally do not take advantage of the opportunities to improve the presentation of information through the broader use of professional judgment and prefer to prepare their annual financial statements consistently without changing the structure of the main reports, nor of the notes. The only entity that has experienced significant changes in the 2016 financial statements also has also had a change of audit company during the same reporting period. For this reason, it is not possible to clearly determine whether changes in the way information is presented are due to the Disclosure Initiative or the requirements of the new auditor.

4.1.2. Implementation of Amendments to IAS 7, Effective from 1 January 2017

The result of the analysis of the financial statements shows that 3 of the 12 entities under review have implemented the par. 44a - 44d of IAS 7, according to which entities should provide disclosures related to changes in financial liabilities (most often bank loans) through reconciliations at the beginning and end of the period. Such disclosure would also help to understand the changes in the Cash Flow Statement in the Financial Activity section. These are enterprises 10, 11 and 12. The implementation of this initiative does not imply an effect on the equity of the enterprise. Entity 10 outlined the changes in liabilities arising from financing activities in its 2017 and 2018 financial statements by presenting changes in loans received in three areas: principal, interest and non-monetary movements and cash flow information (net) for the period. Entity 11 used a separate note in its 2018 financial statements to make this disclosure. According to the information, the only changes that occurred in the loan amount during the period were due to principal payments and interest paid during that period. There were no changes resulting from revaluations and impairments for the period. Entity 12 also implemented the disclosure initiative in IAS 7 by presenting, in tabular form, changes in liabilities arising from financial activities in GFOs for 2017 and 2018. Like entity 11, there are no changes resulting from revaluations and other changes of a non-monetary nature. The clarification made is related to the cash flows from financial activities for the respective period. Same type of disclosure is used during the two comparable reporting periods, which ensures a high degree of comparability of the disclosed information.

4.1.3. Application of Amendments to IAS 27, Effective from 1 January 2016

With the amendments to IAS 27 Separate financial statements (paragraph 10), for accounting periods beginning on or after 1 January 2016, entities may, in preparing their separate financial statements, account for investments in subsidiaries, joint ventures or associates using the Equity method, as described in IAS 28. As a result of a detailed analysis of the financial statements of the sampled entities for 2016, 2017 and 2018, none of them have benefited from the change and has not applied the equity method in its individual financial statement, which confirms the hypothesis of the limited application of the method, due to its complex nature and more complex procedures.

4.2. Causes and Effects of Reverting to Bulgarian NAS

According to some authors, (Nikolov, 2017) the widespread mandatory application of IAS in Bulgaria until the end of 2015 is not justified and does not meet the needs of economic reality. According to him, most of the enterprises in our country apply the IAS in an “entirely formal and simplistic” way and regard them as “unnecessary administrative burden”. In this context, he believes that the possibility of all non-public interest entities being able to apply the National Accounting Standards can be positively evaluated. (Nikolov, 2017)

According to the applicable Accountancy Act (State Gazette, issue 37 of 2019), the companies that prepare their annual financial statements on the basis of International Accounting Standards (IAS/IFRS) are able to proceed to their preparation on the basis of the National Accounting Standards. The legislator did not set specific time limits, i.e., entities that are not required to apply IAS/IFRS in accordance with Art. 34 para. 2 of the Accountancy Act and have not yet switched to NAS, they can do so in any subsequent reporting period. The transition to the NAS should be made in accordance with the requirements of the effective new NAS 42 - Applying for the first time to the National Accounting Standards as of 1 January 2016.

As already mentioned, 6 of 16 operating companies (3 were deleted) from the original sample (37,5%) switched back to the NAS during the period under review (four in 2016 and two in 2018). Three of them did not provide sufficient information in their transition to IAS/IFRS to determine the effect of the transition on their equity, profit and financial autonomy and debt ratios, while the other three did not detect changes in size of the profit resulting from the changeover. Only one of the enterprises has a slight increase in the ratio of financial autonomy (the ratio of equity to liabilities) and a decrease in the reciprocal ratio of financial indebtedness, which is due to the write-off of interest on financial leasing contracts from future financial periods. The adjustments resulting from the transition to IAS/IFRS for this entity are much smaller in size than the rest.

An analogous review of the general indices of conservatism of equity and profit on the reverse transition from IAS/IFRS to the NAS shows that there is practically no change in equity and profit as a result of the transition (see Table 3).

Table 3. General Indices of Conservatism of Equity and Profit on the Reverse Transition From IAS/IFRS to NAS

Entity/Index	**General Indices of Conservatism of Equity as of 31.12. of the Comparable Period**	**General Indices of Conservatism of Profit as of 31.12. of the Comparable Period**
Entity 1	1	1
Entity 2	1	1
Entity 3	1	1
Entity 4	1	1
Entity 5	1	1
Entity 6	1	1
Average value of conservatism indices	1	1

Source: Author's calculation based on financial statements of the surveyed enterprises

An analysis of the disclosures regarding the transition to the NAS revealed that 50% of enterprises (3 out of 6) made no changes (except for a more detailed breakdown of items in the main reports). Two of them require an adjustment (increase) in the amount of "future financial expenses" and "leasing liabilities". This is a result of the requirement of NAS 17 to report interest from the lessee under financial leasing contracts. The third company reclassified amounts from "trade and other receivables" to "expenses for future periods".

Table 4. Changes in the Profitability Ratios of Equity, Financial Autonomy and Financial Indebtedness of Enterprises as a Result of the Transition from IAS/IFRS to NAS

Entity/ Index	**Profitability Ratio of Equity**			**Financial Autonomy Index**			**Financial Indebtedness Index**		
	IAS	**NAS**	**Difference**	**IAS**	**NAS**	**Difference**	**IAS**	**NAS**	**Difference**
Entity 1	0.1845	0.1845	0.0000	1.5119	1.5119	0.0000	0.6614	0.6614	0.0000
Entity 2	0.9467	0.9467	0.0000	0.4369	0.4362	-0.0007	2.2889	2.2925	0.0037
Entity 3	0.2837	0.2837	0.0000	2.7702	2.7702	0.0000	0.3610	0.3610	0.0000
Entity 4	0.1146	0.1146	0.0000	9.4357	9.4357	0.0000	0.1060	0.1060	0.0000
Entity 5	0.2569	0.2569	0.0000	0.8421	0.8417	-0.0004	1.1876	1.1881	0.0005
Entity 6	0.0872	0.0872	0.0000	0.1823	0.1823	0.0000	5.4849	5.4849	0.0000
Average Val.	0.3123	0.3123	0.0000	2.5298	2.5297	-0.0002	1.6816	1.6823	0.0007
Median	0.2207	0.2207	0.0000	1.1770	1.1768	0.0000	0.9245	0.9248	0.0000

Source: Author's calculation based on financial statements of the surveyed enterprises

As can be seen from Table. 4, no changes in the rate of return on equity as a result of the transition are observed, but only a slight negative change in the ratios of financial autonomy (decrease) and financial debt (increase) is observed. This indicates that the reasons for choosing to switch to the NAS again are not based on the expectation (or aspiration) for changes in financial results or other financial ratios. Therefore, it can be assumed that one of the reasons for the return to the NAS is the greater complexity of IAS/IFRS, as well as the significant complexity of the new IFRSs that enter into force in 2016-2018. Their implementation requires additional resources from businesses, and some of them probably do not bring additional benefits, which confirms our hypothesis 3.

The analysis we made of entities that continued to apply IAS/IFRSs and those that opted to switch back to the application of the NAS (see Table 5) suggests that the majority of entities applying IAS/IFRS (7 out of 10 enterprises, 70%) are wholly foreign-owned or with a foreign equity interest. Similarly, 4 out of 6 companies (66.66%) that chose to switch back to NAS have Bulgarian owners. This suggests that, if given the choice, foreign-owned entities prefer to apply IAS/IFRS, as this improves the readability of the information in the financial statements of foreign owners and, on the other hand, is necessary for the purposes of preparation of consolidated reports. It is interesting to note that 2 companies with foreign participation have also chosen to switch to the NAS. This may be due to the fact that NAS are relatively simpler and do not require additional resources. It can also be assumed that since the owners of one of them are individuals (Bulgarian and foreign), the information does not need to be consolidated by a foreign parent company and the financial statements prepared under the NAS are sufficiently useful for management purposes.

Table 5. Accounting Standards Used by the Enterprises by Origin of the Ownership

Accounting Base as of 31.12.2018	Ownership			Total
	Bulgarian	Foreign	Mixed (With Foreign Interest)	
	Number of Enterprises			
IAS/IFRS	3	5	2	10
NAS	4	1	1	6
Total	7	6	3	16

Source: Author's calculation based on financial statements of the surveyed enterprises

In summary, it can be concluded that by comparing the benefits and costs of applying IAS/IFRS, 37.5% (6 out of 16) of the surveyed entities chose to switch back to the NAS. As there are no significant changes in the reported financial results and other financial ratios after the transition, it can be considered that the benefits of a return to the Bulgarian NAS are mainly reflected in a significant reduction in the implementation efforts and related costs, especially if these enterprises do not have foreign owners.

5. CONCLUSION

Our conclusion summarizes the main findings, provides research limitations and suggests further steps of the research. It can be summarized that the effective disclosure in the financial statements would be better achieved if there were greater control by audit committees, auditors, regulators on compliance with specific disclosure requirements (which should remain in IAS/IFRS). The IASB also needs to carefully review and reduce (where necessary) the specific disclosure requirements in individual standards. It needs to regulate disclosure requirements that can be verified, controlled, audited, and subject to a cost-benefit balance. In this context introducing a wholly principle-based approach to disclosure and empowering compilers to decide (formally from a materiality point of view) what company-specific information to disclose would further exacerbate the problem of effective communication through the financial statements.

The surveyed 12 large taxpayers and insurers for the reporting year 2016 generally did not take advantage of the opportunities to improve information disclosure through the broader application of professional judgment (IAS 1) and chose to prepare their annual financial statements consistently, changing neither the structure of the main reports (SFP, SCI, SCE, SCF) nor that of the explanatory notes. Only three of surveyed the entities (large taxpayers and insurers) have implemented the IAS 7 Disclosure Initiative (effective from 01/01/2017), under which entities should provide disclosures related to changes in liabilities in financial activity.

As a confirmation of our thesis about the complexity of some of the procedures laid down in some IFRS, we have found that none of the surveyed companies for the period 2016-2018 has applied the equity method in their separate financial statements (IAS 27).

Despite the fact that they are large taxpayers and insurers 37.5% (6 out of 16) of the surveyed enterprises in the period 2015 - 2018 chose to switch back to NAS. As there are no significant changes in the reported financial results and other financial ratios during this transition, it can be considered that the benefits of returning to the NAS are mainly reflected in a significant reduction in the costs and efforts of enterprises, especially if they do not have foreign owners.

The general conclusion is that the over-complexity of IAS/IFRS in recent years has led to a very formal (even poor quality) application of their requirements, including the transition of some companies to local, national accounting standards.

As a limitation of the results and conclusions of this paper it should be noted that the current study empirically tests only some practical implications of the Primary Financial Statements Project in a sample of 12+6 Bulgarian companies – large taxpayers and insurers from different industries.

Future research could focus on how users of financial statements information evaluate changes made by the IAS Board in relation to its Communication Improvement Initiative, and mechanisms to improve the quality control of the information disclosed.

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i These companies have been analysed in a previous study "Exploring The Effects Of The Transition To The International Financial Reporting Standards (IASs/IFRSs) In Bulgarian Entities In The 2002 – 2014 Period". ICPA Yearbook, pp. 79-134.(in Bulgarian), https://www.ides.bg/media/1426/ides-g-2016-ff-vg-rp.pdf

ii Survey Sample Size Calculator. More at: http://fluidsurveys.com/university/survey-sample-size-calculator/

APPENDIX 1

Correspondence list for the surveyed enterprises

Ranking (list) of the surveyed entities in previous research of the autors	Ranking of the surveyed entities in the case of backward switching to NAS	Ranking of the surveyed entities in the implementation of the and Disclosure Initiative, IAS 1, 7, 27
1	-	1
2	-	2
3	-	3
4	1	4
5	-	5
6	2	6
7	3	-
8	4	-
9	-	7
10	-	-
11	-	-
12	-	8
13	-	9
14	-	-
15	5	-
16	6	-
17	-	10
18	-	11
19	-	12