

EFFECTS OF COVID-19 IN THE FINANCIAL STATEMENTS FOR A YEAR OF GLOBAL PANDEMIC – EVIDENCE FROM BULGARIA²

An important purpose of the financial statements is to communicate between the stakeholders and the reporting entity.

Performing such a function in a year of global instability is a challenge to provide reliable information on the effects of COVID-19.

The objective of the research is to assess on the basis of information in the financial statements for the year 2020 the impact of the Coronavirus pandemic on the liquidity, the revenue and the financial results of industrial enterprises listed on the Bulgarian Stock Exchange and their expected performance.

The research methodology is based on studying the effects of COVID-19 on the economic activity, an analysis of their manifestation in the activities of industrial enterprises, listed on the Bulgarian Stock Exchange, based on their published financial statements for the year 2020, summarising, comparing and graphically illustrating the results for two reporting periods, a study of the management's assessment of the potential risks and the development of the individual enterprises next year.

The results and the conclusions of the study are: COVID-19 has a different impact on the revenue, liquidity, profits and losses of the enterprises in the extract; the usual dependencies in the dynamics of the studied sites are violated, the principle "going concern" is followed.

Keywords: effects of COVID-19; financial statements; profit/loss; revenue; liquidity; Bulgaria

JEL: M40; M41

1. Introduction

Mankind experienced a year of a global pandemic. The established approaches to individual and corporate behaviour, to social and political life, to the overall activity of the Earth changed. Entrepreneurial, intellectual and scientific research thinking discovered new forms for existence and for overcoming the pandemic disaster.

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The financial statements are of essential significance for tracking the facts about the economic reality and to undertake adequate actions for overcoming the adverse consequences and getting over the potential risks in conditions of extraordinary events such as pandemic COVID-19.

The aim of the study is to assess the impact of the Coronavirus pandemic on the industrial publicly-traded companies' financial position and performance in Bulgaria, in particular, on their liquidity, revenue and financial results, and the expected performance on the basis of an empirical study of the information presented in their financial statements for a one-year period of the global pandemic.

The following tasks are set up for the attainment of this objective:

- to clarify the specifics in the financial statements caused by the conditions of uncertainty;
- to analyse the impact of the Coronavirus pandemic on the liquidity³, the revenue and the financial results of the enterprises;
- to make an empirical study with conclusions about the effects of COVID-19 on the liquidity, the revenue, the financial results and the expected performance of all non-financial enterprises in Bulgaria, which are listed on the Bulgarian Stock Exchange, based on their published consolidated financial statements for the year 2020.

The research methodology and methods are based on the general principles of knowledge by applying a systematic approach, the methods of analysis, synthesis, comparison, aggregation, empirical research and comparative graphical analysis. A literary review of the impact of COVID-19 on the economy and the significance of financial statements in the environment of uncertainty was made. The specifics of the disclosure of non-financial information about the effects of COVID-19 were studied and determined, as well as the nature of the main types of pandemic impacts on both assets and liabilities of a company. On this basis, the information presented for the liquidity, the revenue and the financial results in the published financial statements of listed industrial companies in Bulgaria are analysed. A comparative analysis using data about the previous reporting period was performed. The dynamics identified is synthesised into significant ranges and the results are summarised by business sectors, and are graphically presented. The empirical data are publicly available on the Bulgarian Stock Exchange website.

Limitations of the study – the studies are for one country – Bulgaria, for all listed non-financial (industrial) enterprises, for their published annual financial statements for the year 2020, prepared on the basis of International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) for the effects of COVID-19 over the liquidity, the revenue and the financial results. The empirical studies are as of 15 July 2021.

The proposed and used methodology does not claim to be the only possible and applicable in verifying and substantiating the results of the research.

³ The absolute liquidity is analyzed.

2. Review of the Literature

The impact of COVID-19 on corporate performance (Ding et al., 2021, p. 802) is discussed in scientific researches. The conservative approach is applied in accounting, which moderates the role of extraordinary events on the financial position (Sukandani et al., 2021, p. 267). In periods of crisis, the financial statements contribute to a more accurate forecast of the impact of the extraordinary events on the financial health of companies, which is useful for allocating the financial resources (Lizares, Bautista, 2021, p. 5). The individual economies examine the information on COVID-19 presented in the financial statements of the public companies to analyse the relationship between early pandemic reporting and the risks related to prices of the exchange tradable securities (Oğuz, 2021, p. 239). Sustainable long-term effects of COVID-19 on financial instability are proven and analysed in international market researches (Vera-Valdés, 2021). Studies based on the information in the financial statements were published on the effects of COVID 19 on the financial position of listed companies in individual countries such as China (Rababah et al., 2020), Romania (Achim et al., 2021), Poland (Honko et al., 2020) et al.

The international audit company KPMG published a special guide to financial statements in conditions of instability “supplement, which illustrates additional disclosures that companies may need to provide on accounting issues arising from the COVID-19 coronavirus pandemic” (Guides to financial statements, 2020). Grant Thornton presents specific guidelines for the preparation and presentation of financial statements for 2020, defined as “COVID and the financial statements” (Covid and the financial statements, 2020). The International Organization of Securities Commissions (IOSCO) encourages the presentation of accurate and fair information in the financial statements of public companies. It emphasises the importance of disclosures, including information for the impact of COVID-19 on the issuer’s operating performance, the financial position, liquidity and future prospects (Statement on Importance of Disclosure about COVID-19, 2020). The International Federation of Accountants (IFAC) adopted a mission to understand and recognise the need for investors and other stakeholders for high-quality financial information during a pandemic crisis. To this end, it provides resources to support the presentation of the effects of COVID-19 when preparing financial statements (Gould, Arnold, 2020). The Companies’ financial statements for the year 2020 have been published since the first months of 2021. This is a good time to carry out an assessment of the information presented in the financial statements on the impact of the pandemic (ICAEW, 2021).

It is clear that the effects of COVID-19 on the financial statements is a topical issue that is the focus of the accounting scientific research thought and the professional community. The results of the research on this issue are useful for the reliable presentation and disclosure of the impact of the pandemic on activities of the enterprises.

3. Presentation of the Effects of the COVID-19 Pandemic in the Financial Statements

3.1. Specifics of the information in the financial statements in conditions of uncertainty

From an epistemological point of view, the financial statements present historical, current and future financial and accounting results for an enterprise. This predetermines financial statements as the main reliable source of information to identify the impact of COVID-19 on both assets' and liabilities' position of the economic entities and the possible future risks.

In the applied perspective, the financial statements are subject to accounting standardisation. This qualifies them as recognisable and understandable by presenting and disclosing the assets, liabilities, equity, cash flows, revenues and expenses of an enterprise. **The presentation** must be using a standardised format of the components (the ingredients), which form the complete set of financial statements as of the end of the period.⁴ The notes to financial statements contain **disclosures**, the nature of which is a presentation of the applied principles, approaches, methods and rules, underlying both book-keeping and preparation of the financial statements. In essence, these are the applied accounting policies and “notes-clarifications” for the digital data of the elements in the financial statements: assets, liabilities, equity, revenue, expenses and cash flows, as well as for the risks that occurred during the reporting period, and projected ones in the foreseeable future.⁵ It is understandable that, through a standardised presentation and disclosure of the reporting items, the communication between the enterprise and the interested parties is realised, which is one of the purposes of the financial statements. It can be said that financial statements largely define accounting as the “language of business”. Despite the measures to curb the Coronavirus pandemic, businesses continue to communicate.

In a year of uncertainty, the importance of the explanatory information within the notes to the financial statements is essential in decision-making by stakeholders such as investors, lenders, government agencies, the public. The presentation of the assets, liabilities, equity, revenues and expenses by economic nature and in monetary terms for two consecutive reporting periods is the basis for determining the effects of COVID-19. The explanations of their dynamics in conditions of uncertainty are of significance for the users of information when making decisions about the reporting enterprise. In a pandemic year, the notes to the financial statements focused on determining the effects of the extraordinary event in global emergency.

For the financial year 2020, the companies shall disclose the effects of COVID-19 in a special section of the notes to the financial statements. The company's management shall make a judgment for such information. The applied accounting policies, the explanatory notes for the digital data and the forecasted risks are important sources for determining the future performance and position of a company. Moreover, the data in the disclosures and the statements of the analysts influence the decisions of the investors and the prices of the assets.

⁴ Financial statements are drawn up for a reporting period comprising 12 calendar months, as well as for a shorter period (interim financial statements), in conformity with the applicable accounting standards and the effective legislation.

⁵ The term “foreseeable future” means 12 months after the reporting date (the next reporting period).

(Eachempati et al., 2021) Empirical research proves that: the sufficient and relevant information in the notes to the financial statements exerts an adverse impact on the risk of investments in public companies, and disclosures, in compliance with the requirements of ordinances and regulations, have a weak impact on the investment risk (Wasiuzzaman, 2021, p. 353). The usefulness of the accounting disclosures also has a positive effect on the decisions of the creditors to grant loans (Schneider, 2018, p. 64). Both the capital provided by the investors and the bank loans received are especially needed in conditions of uncertainty.

The financial statements are also subject to legal regulation, which specifies them also from a legal point of view. International and European accounting regulations, directives and standards are implemented in the national economies through the legal regulation of the financial statements. In this manner, accounting converges globally and takes on the appearance of globality. This is why, the effects of COVID-19 on both the assets' and liabilities' position of the economic entities are identified and assessed according to a standardised and generally accepted approach, both for an individual enterprise, state, region and worldwide.

The specifics of the financial statements presented in conditions of uncertainty describes them in theoretical, applied and legal aspect, which is presented in Figure 1.

Figure 1

Financial statements – aspects of treatment

<i>Theoretical aspect</i>	<i>Applied aspect</i>	<i>Legal aspect</i>
Historical, current and future-oriented financial performance information for the reporting items is presented.	Conceptual and standardised definition of the form, content and components of financial statements.	Legal regulation in the national economies.

The specifically, the financial statements in conditions of uncertainty shall disclose additional information within the notes for:

- the effects of COVID-19 during the reporting period within a special section;
- the potential risks over the next twelve months;
- changes in the valuation of assets and liabilities;
- application of the concept of “going concern”;
- other clarifications at the discretion of the management and the regulators.

3.2. *Effects of the COVID-19 pandemic on the 2020 financial statements*

The Coronavirus pandemic was a non-adjusting event for more companies in 2020. Its nature as a crisis in the entire life on the Earth defines the year as a time of serious instability and anxiety. More than ever, information is needed about the activities of the enterprises in such conditions in order for business communication to be effective and for the global capital movement to continue.

Areas in the financial statements which require constant monitoring of the impact of COVID-19 are the accounting estimates, including the fair value measurements, the impairment of assets, the expected credit losses and others at the discretion of management and the requirements of the regulators. These areas of concern exert direct impact on the income/revenue, the financial performance and the liquidity of a reporting enterprise. The aim is to identify the applicability of the concept of “going enterprise”, which is essential for the continuation of the enterprise in the foreseeable future – the next twelve months and not only, without the intention and need for liquidation or cessation of activities (The Framework, §3.9., 2018). This requires companies to make understandable, specific and reliable disclosures.

➤ Effects of COVID-19 on financial performance

The financial results in an environment of economic instability cover contingencies related to changes in the valuation of assets and liabilities. In this regard, the changes in the fair values, the recoverable amounts and the amortised cost of the assets and liabilities are monitored and analysed.

○ *Impact of COVID-19 on fair values*

The fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. (IFRS 13. 9). It’s applicable to assets and liabilities through standardised techniques. In the year of the global pandemic, the fair value is disclosed through the focus of COVID-19 as for each reporting item, which it applies to:

- ✓ the method for determining the fair value is clarified;
- ✓ the possibilities for changes in the assumptions for fair value measurements are assessed;
- ✓ the actual conditions, under which the assumptions for determining fair values were made, are clarified;
- ✓ the amount of the effects of changes in fair values is disclosed.

The amount of changes in the fair values affects the value of the assets and liabilities using either approach: profit or loss approach, or equity approach. The effects of the application of the profit or loss approach are reflected in the financial result for the reporting period. The effects of the application of the equity approach are reflected in capital reserves from revaluations (other comprehensive income). *Therefore, the magnitude of the impact of changes in fair values on the financial result or on capital reserves, respectively, from revaluations shall be disclosed in the financial statements for the year in conditions of uncertainty.* We share the view that “Fair value measurements may result in different figures for earnings and capital, both of which are important as buffers against insolvency.” (Sun, 2014) In conditions of uncertainty and increased market risk, it is indispensable that the fair value assumptions should be based on reasonable facts.

○ *Impact of COVID-19 on impairment of assets*

The procedures for impairment of assets aim to present the company's assets at their recoverable amount when their net book value is higher (IAS 36.1). The recoverable amount is "the higher of the fair value of the asset less the costs of disposal (sometimes called net selling price) and its value in use" (IAS 36.6). Therefore, the resources of an enterprise are presented at their lowest value, which is an application of the prudence concept (conservative approach) in accounting. For this purpose, at the end of the reporting period, a test for reduced recoverable amount is conducted with the availability of indications for this. The Coronavirus pandemic was an indicator for testing all assets for impairment by the end of 2020. *The impairment of assets exerts an adverse impact directly or indirectly over the potential cash inflows; the profits; the deferred taxes and, in general, over the overall assets and liabilities.* In conditions of uncertainty, methods shall be developed to analyse the impairment of assets and the risks of impairment through artificial intelligence (Bolos et al. 2020, p. 1-18).

○ *Impact of COVID-19 on expected credit losses from impairment*

The expected credit losses from impairment are related to the credit risk for an impossible recovery of the monetary equivalent of financial assets in general, and in particular, within the specified terms, such as the loans granted, the receivables from customers and suppliers, various types of securities and so on are. Therefore, the expected credit losses from impairment depend on external factors for a company and especially on the financial condition of the borrowers, the counterparties and the investors. Due to this, even when a financial asset arises, the possible expectations for credit losses are determined. This is accelerated recognition of losses, which may improve the financial stability (Bolognesi, 2020). In a year of a global pandemic, all companies are affected by COVID-19. This predetermines an increase in the expected credit losses from the impairment of financial assets as objective effects of the pandemic and as a factor for increased economic instability. The standardised approaches for reporting and presenting the expected credit losses from impairment are discussed in IFRS 9 – Financial Instruments. *Their application is reflected as expenditure for provisions for expected credit losses, which affects the financial result and deferred tax assets.* Professional organisations and regulators publish special guidelines for the application of IFRS 9 in COVID-19 conditions. Emphasis is placed on disclosures about the applied approaches when determining the amount of the expected credit losses, the accepted criteria for identifying increased credit risk and assessment of actual credit losses.

➤ Effects of COVID-19 on revenue

The adopted concept of revenue recognition is based on the transfer of control over goods and/or the services to a customer (IFRS 15.31). This is the ability to direct the use of an asset and to receive the benefits from it. The transfer of the control over the goods/the services may be at a point in time or over time. Under the terms of COVID-19, there is a risk for contracts with customers, which include variable considerations such as discounts, bonuses, additional consideration and so on. There is uncertainty about receiving consideration under the contracts with customers, as well as the probability of increasing the costs on them. It is possible to apply the pessimistic approach to revenue recognition when receiving payment from the customer. The standardised approach requires that the revenue should be recognised at the amount of the consideration, which the enterprise is entitled to, after the transfer of the

control over the goods and/or the services to a customer. In event of deteriorated solvency of a customer, the approach for estimating the expected credit losses is applied. In conditions of economic uncertainty, the concentration of the customers is also assessed. An empirical study found that customer concentration reduces corporate risk (Cao, 2021), a circumstance supporting the concept of a “going concern”.

➤ Effects of COVID-19 on liquidity

Liquidity is the ability of an enterprise to pay its liabilities within the specified period through cash or another contractual financial asset. An aspect of liquidity is also maintaining the value of the assets through which liabilities are repaid. Under the conditions of COVID-19, there is a risk of non-fulfilment of financial commitments and a fall in the prices of the financial assets, which is known as liquidity risk. This requires constant monitoring of cash inflows and outflows, calculating upcoming costs and selling prices, tracking the maturity terms of callable liabilities and collectability of the receivables. Different scenarios for liquidity risk management are possible by optimising the cash flows, some of which are: obtaining government assistance, negotiating a bank loan with the possibility of deferred repayment, approval of an extended term for payment of current liabilities, reduction of the selling prices, rescheduling receivables and so on. In conditions of economic turmoil, the expected proceeds are updated by estimated possible credit losses. It is also appropriate to determine the extreme liquidity risk, which predicts extreme liquidity events (Wu, 2019). These are circumstances in which all liabilities are due at one time and their repayment is through available assets. The monitoring and the management of the liquidity sensitivity ensure effective management of the operations, and thus the concept of a “going concern”.

The conclusions for the presentation of the effects of the COVID-19 pandemic in the financial statements for the year 2020 are in the following aspects:

- ***a special section of the notes to the financial statements discloses the impact of COVID-19 on assets and liabilities of the enterprise through summary comparative indicators for both the current and the previous year on the change in the revenue, financial resources, liabilities, volume of the activity and other information at the discretion of the management and the regulators;***
- ***the disclosure of the individual assets, liabilities, revenues and expenses specifies the effects of the pandemic on their estimates and volumes.***

4. Empirical Research

The global Coronavirus pandemic is already having a long-term impact on the global economy. The effects of COVID-19 are various for the business sectors in the individual states. It was established for the EU states that the overall profits declined sharply during the COVID-19 crisis in the non-financial corporations' sectors (Hahn, 2021). A study of US industry groups concluded that COVID-19 had a significant effect on the liquidity of industrial enterprises. The enterprises in the utilities' sector are most affected, and the liquidity of the enterprises in the industry of telecommunications services is the least affected (Farzami et al., 2021). The industrial companies in tourism and transportation in China have

the most serious decline in revenues and profits (Rababah et al., 2020). Analysing the activities of 218 Romanian companies from different business sectors, listed on the stock exchange, it was established that the enterprises in the sectors of research, transport and storage, construction and agriculture achieved better financial results in 2020 as compared to 2019 (Achim et al., 2020).

The effects of the COVID crisis on the activities of non-financial enterprises in Bulgaria listed on the BSE (Bulgarian Stock Exchange) are determined on the basis of their consolidated financial statements for 2020.

The comparative data cover a year, during most of which the business was stifled by the stress of the unforeseen event. The data for the year 2020 reflect the negative consequences of COVID-19 and, at the same time, control of the risks arisen in the operations of the non-financial companies, listed on the BSE.

The empirical studies are for the absolute liquidity, the net revenue from sales and the financial results for 2020 as compared to 2019 of all industrial companies listed on the Bulgarian Stock Exchange. The source of information is the published consolidated financial statements for 2020, containing comparative information for 2019. The financial statements were prepared on the basis of IAS/IFRS, in accordance with legal requirements (Accountancy Act, Art. 34, §2). The non-financial enterprises, listed on the BSE, as of 31 December 2020 are a total of twenty-one from different industries of the economy and are presented in Annex 1 – *Non-financial enterprises – listed on the Bulgarian Stock Exchange* (The remaining companies listed on the BSE are from the financial industry and are subject to a separate study.) The data about the empirical study were studied and processed as of 15 July 2021.

Public industrial companies in Bulgaria are systematised by business industry in Table 1.

Table 1

Business industries of non-financial companies listed on the Bulgarian Stock Exchange

Sector under NACE Rev. 2	Number of enterprises
Manufacturing	9
Real estate activities	2
Professional, scientific and technical activities	3
Wholesale and retail trade; repair of motor vehicles and motorcycles	2
Restaurants and mobile food service activities	1
Construction	1
Electricity, gas, steam and air conditioning supply	1
Transportation and storage	1
Mining and quarrying	1

Source: Authors' summaries based on <https://www.bse-sofia.bg/> (15.07.2021).

It was established from the review of the database that all the non-financial enterprises registered on the BSE published consolidated financial statements for 2020, certified by registered auditors. One enterprise is in its first year on the BSE and does not participate in the results of the empirical study established by the method of comparison, analysis and aggregation. Subsequent empirical results cover the data from the financial statements of all the enterprises, from which it follows that the extract is 100%.

The following should be done for the attainment of the objective of the study: to present the impact of the Coronavirus pandemic on the financial position of enterprises, in particular on the liquidity, the revenue and the financial results, based on information in their financial statements for a one-year global pandemic, a review of consolidated financial statements and the notes to them, developed as of 31 December 2020 by the listed non-financial enterprises in Bulgaria in two aspects:

- first – are there any announcements about the impact of COVID-19 for 2020;
- second – effects of COVID-19 on the liquidity, the revenue and the financial results for the reporting year and confirmation or rejection of the concept of a “going concern”, respectively (Savova, 2021).

The first aspect of the empirical study found that all enterprises in the extract disclosed in a separate section the effects of COVID-19 for 2020. A separate paragraph presents the amendments to IAS/IFRS, effective in 2020, and their application in financial reporting.

With regard to the second aspect, all companies disclosed that the financial statements were prepared on a going concern basis and measures were taken to deal with the effects of the Coronavirus pandemic. To confirm the concept of a “going concern”, a comparative analysis was made of the change in the liquidity, revenue and financial results for the two consecutive periods of this extraordinary event: 2020 and 2019. According to an international study, the COVID-19 pandemic has a direct impact on these indicators (Deloitte, 2020).

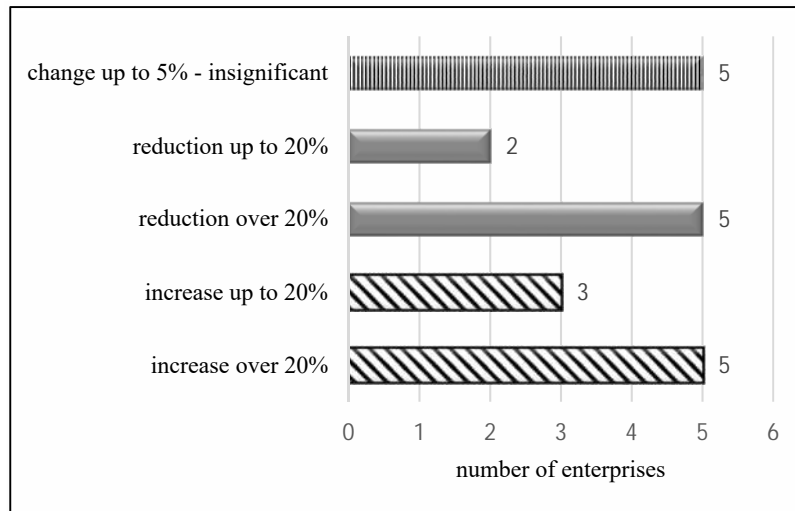
4.1. Empirical study of liquidity

In global economies, the COVID 19 pandemic has a direct effect on liquidity, which increases the risk to corporate profits (Almeida, 2021). A study of the impact of the pandemic on the liquidity of listed companies in 26 countries found that 1/10 of all companies would be illiquid within six months (De Vito, Gomez, 2020). It is logical in the study of liquidity to apply the pessimistic approach to extreme liquidity risk, given the existing uncertainty about the collection of receivables and realisation of sales of products.

The indicator is known as “absolute (instant) liquid ratio”. It is defined as the ratio between the amount of cash and cash equivalents and the value of current liabilities with a maturity of up to 12 months. The data are from the statement of financial position. The results for the changes in absolute liquidity (the liquidity) are presented in Figure 2.

The chart shows that there are no essential changes in the liquidity for 5 enterprises (25% of the total number).

Figure 2
Change in liquidity as of 31 December 2020 as compared to 31 December 2019



Source: Authors' summaries based on <https://www.bse-sofia.bg/> (15.07.2021).

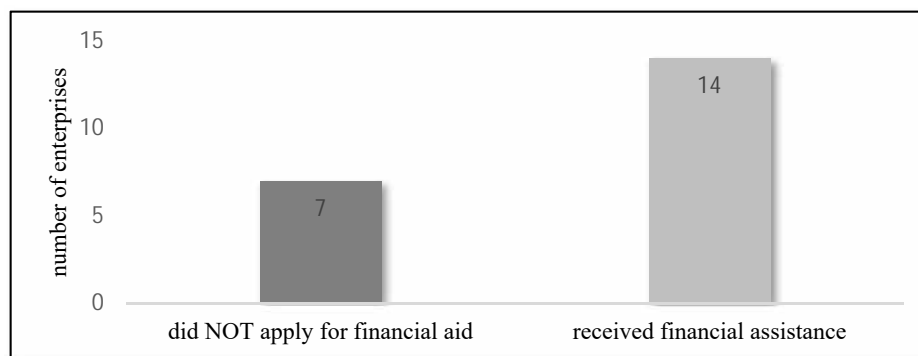
They are from the sectors/industries: Transportation and storage (courier activities); Wholesale (pharmaceutical goods); Professional, scientific and technical activities; Manufacturing (pharmaceutical preparations, Aluminium). Reduced liquidity was established for 7 enterprises (35% of the total number): with 5, the reduction is over 20%, and with 2 – under 20 %. They are from the sectors: Real estate activities, Restaurants and mobile food service activities, Extraction of crude petroleum, Manufacturing (equipment); Wholesale (agricultural products). Eight companies (40% of the total number) are with increased liquidity: with 3 – the increase is under 20%, and with 5 – over 20%. These enterprises are with activity in the sectors: Professional, scientific and technical activities; Distribution of electricity; Construction (roads and motorways); Manufacturing (hydraulic assets and rechargeable batteries). In conditions of economic instability, similar results are subject to in-depth analyses and forecasts.

The conclusion is that for the majority of public non-financial companies listed on the BSE (65% of the total number), liquidity was preserved or increased during a year of a global pandemic, which proves risk management.

The received government grants and assistance exert a positive impact on the liquidity. In 2020, financial resources were provided to the enterprises under national, European and other programmes to overcome the negative effects of the pandemic stress and the business continuity. On the basis of the data in the financial statement, the profit or loss and the other comprehensive income statement and the disclosures attached, the following was established: 14 of the companies (70%) received financial assistance from the state; the other 7 did not apply under programmes to overcome the COVID crisis. The results are presented on Figure 3.

Figure 3

Number of enterprises, which received financial support from the state in 2020



Source: Authors' summaries based on <https://www.bse-sofia.bg/> (15.07.2021).

Based on a detailed study of the data, applying the inductive approach, it was found that 11 enterprises, which received financial assistance from the state, are with maintained and increased liquidity. Three of the supported companies are with reduced liquidity and are from the sectors of Restaurants and mobile food service activities; Mining and quarrying (crude oil); Wholesale (agricultural products).

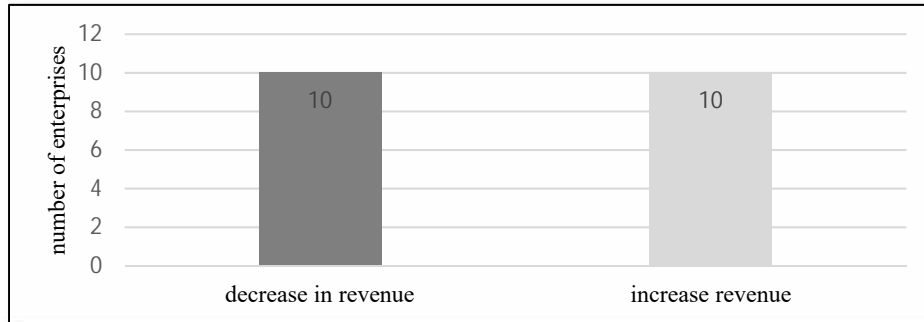
4.2. Empiric study of revenue and financial results

Revenue was studied based on the data in the profit or loss and the other comprehensive income statement and from the notes to the financial statements. The results of the empirical study show that in half of the companies, the revenue increased, and in the others, a decrease was identified. One of the companies with increased revenue announced that the value of revenue decreased as compared to 2019, but more sales were realised as quantity. The reason for this result is the reduced price of raw materials for finished goods, which affects the lower cost and lower selling price, respectively. In the summarised results of the chart, the company is in the indicator of increased revenue. The results for the dynamics of the revenue are presented in Figure 4.

The companies from the sectors: Manufacturing (pharmaceutical preparations), Wholesale and retail trade (pharmaceutical goods), Professional, scientific and technical activities; Distribution of electricity; Transportation and storage (courier activities) are with increased revenue. Enterprises from the sectors: Restaurants and mobile food service activities; Mining and quarrying (crude oil); Wholesale (agricultural products), Manufacturing are with reduced amounts of revenue. The changes in incomes are the same as in revenues.

Figure 4

Change in revenue as of 31 December 2020 as compared to 31 December 2019



Source: Authors' summaries based on <https://www.bse-sofia.bg/> (15.07.2021).

Revenue directly affects the size of the **financial results**. In 2020, the financial results were strongly influenced by the changes in the valuation of the assets and the liabilities and beyond. It should not be said that the dynamics in the amounts of revenue and the financial results are identical. Various scenarios are possible in case of extraordinary events, some of which are:

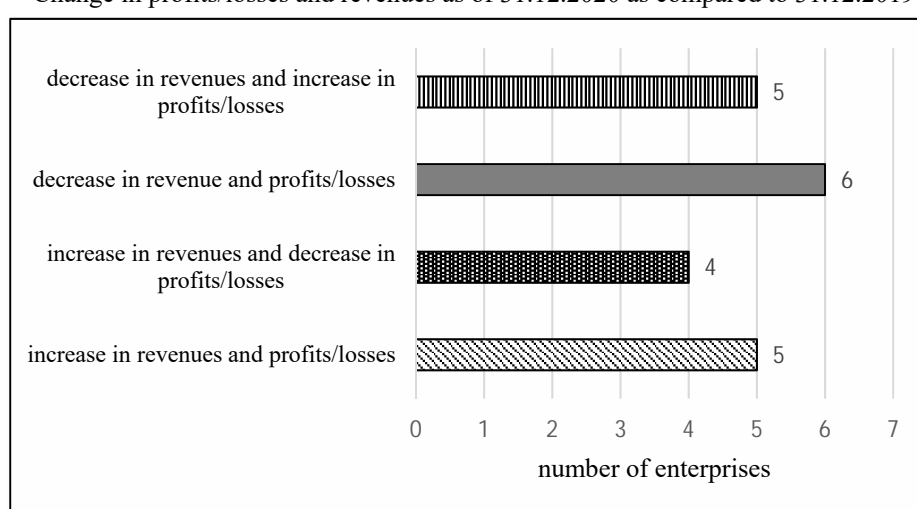
- increase in both the revenue and in the profits;
- increase in the revenue and reduction in the profits;
- reduction in both the revenue and in the profits;
- reduction in the revenue and increase in profits.

The results of the empirical study of the financial results (profit/loss) are based on the information in the financial statements, the profit or loss and the other comprehensive income statement and the notes to the financial statements. It was found that for half of the companies (10 in number), the financial results increased, and for the other 10 – the financial results decreased. This is the same result as the identified dynamics of the revenues. The availability of all four scenarios was identified through inductive analysis of the financial statements of individual companies:

- For five of the companies, the financial result and the revenue increased in 2020 as compared to 2019. They are from the sectors: Manufacturing (Repair of vessels); Professional, scientific and technical activities (consultancy activities); Wholesale and retail trade (pharmaceutical goods); Distribution of electricity; Transportation and storage (courier activities).
- For six of the companies – the change is decreasing for both indicators. They are from the sectors: Manufacturing (manufacture of accumulators, aluminium); Professional, scientific and technical activities (Activities of head offices); Restaurants and mobile food service activities; Construction (roads and motorways); Mining and quarrying (crude oil).

- Five of the companies generated less revenue, but higher profits. They are from the sectors: Manufacturing (equipment); Wholesale (agricultural products).
- Four companies realised an increase in revenue and a decrease in the financial result. They are from the sectors: Manufacturing (pharmaceutical preparations); Real estate activities; Professional, scientific and technical activities (consultancy activities). The results for the relationship in the dynamics of the financial result (profit/loss) and revenues are presented on Figure 5.

Figure 5
Change in profits/losses and revenues as of 31.12.2020 as compared to 31.12.2019



Source: Authors' summaries based on <https://www.bse-sofia.bg/> (15.07.2021).

It is clear from the graph that in conditions of economic unrest, identified dependencies in economic activity are violated under normal conditions.

The summarised results of the empirical studies of the data on liquidity, the net revenue from sales and the financial results of the non-financial public companies in Bulgaria are in the following configurations:

- positive change in the three indicators;
- negative change in the three indicators;
- changes in the three indicators, at least one of which has an increased value.

The companies from the sectors: Professional, scientific and technical activities; Wholesale and retail trade (pharmaceutical goods), Distribution of electricity, Transportation and storage (courier activities), which have increased economic activity, are in the first configuration.

The enterprises operating in Restaurants and mobile food service activities and Mining and quarrying (crude oil), which have the strongest negative effect of COVID-19, are in the second configuration.

The companies from the other business sectors – Manufacturing, Real estate activities, Construction, Wholesale and retail trade. They have been affected by the pandemic crisis, but without significant risk to the going concern principle are in the third configuration.

The summarised data from the empirical study are presented on Table 2.

Table 2

Effects of COVID-19 on the absolute liquidity, net revenue and financial results per business sectors

(+) effect on:	(-) effect on:	(+)/(-) effect on:
<i>liquidity</i>	<i>liquidity</i>	<i>liquidity</i>
<i>revenues</i>	<i>revenues</i>	<i>revenues</i>
<i>financial results</i>	<i>financial results</i>	<i>financial results</i>
*Professional, scientific and technical activities	*Restaurants and mobile food service activities	*Manufacturing
*Wholesale and retail trade (pharmaceutical goods)	*Mining and quarrying (crude oil)	*Real estate activities
*Distribution of electricity		*Wholesale and retail trade
*Transportation and storage (courier activities)		*Construction

Source: Authors' summaries based on <https://www.bse-sofia.bg/> (15.07.2021).

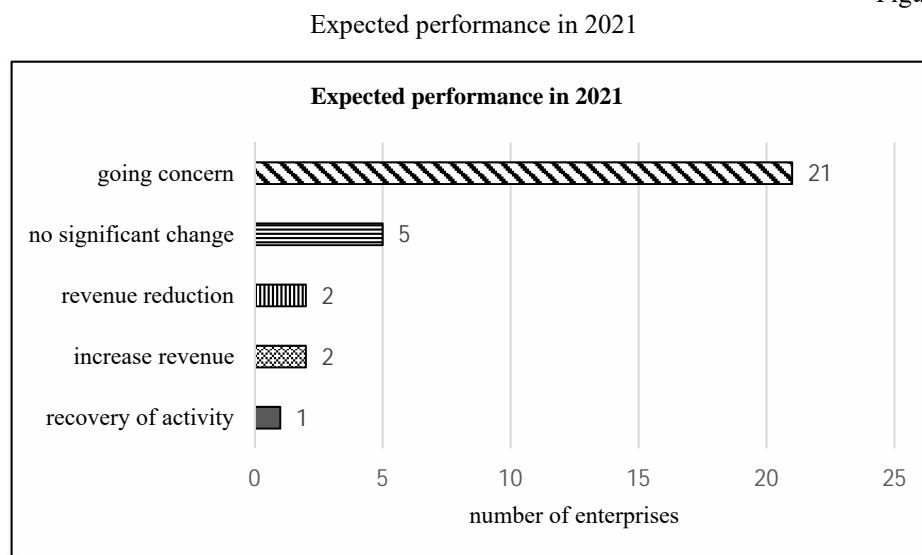
4.3. Empirical study of future performance

The specifics of the financial statements in conditions of uncertainty is the additional information in the notes to the financial statements for the potential risks in the next twelve months, the expected changes in the operations, the application of the concept of “going concern”. It was identified, on the basis of the studied disclosures, that the industrial enterprises registered on the BSE predict effects for the next year in the following aspects:

- reduction in the revenue and the volume of activity – two companies: one from the Wholesale (agricultural products) sector and one from Manufacturing (accumulators);
- increase in the revenue from sales – two companies: one from the Manufacturing (hydraulic pumps) sector and one from the Professional, scientific and technical activities sector;
- without significant change in the activity – five companies: two from the Manufacturing sector (pharmaceutical preparations, nitrogen compounds), one each from the Wholesale and retail trade (pharmaceutical goods) sector, Construction, Transportation and storage (courier activities);
- restoration of the activity – the company from the sector Restaurants and mobile food service activities.

The expected changes in the operations of the non-financial public companies in Bulgaria next year are presented on Figure 6.

Figure 6



Source: Authors' summaries based on <https://www.bse-sofia.bg/> (15.07.2021).

Regardless of the different versions of the effects of COVID-19 on the assets' and liabilities' status of listed non-financial companies in Bulgaria, all of them disclosed that for the next reporting period – 2021, the principle of “going concern” is followed.

5. Results and conclusion

The COVID-19 pandemic affected the economy globally. It has challenged the business for almost two years now. The effects of the resulting uncertainty largely accepted clarity as a qualitative manifestation. Quantitatively, the forecasts are variable. The financial statements prepared on the basis of the International Financial Reporting Standards are the foundation for a true and fair presentation of the effects of COVID-19 for the year of the global pandemic.

The conclusions and the results of the study are in the following directions:

- In an epistemological aspect, the financial statements are a trinity of theoretical accounting knowledge, practical application and legal regulation, which determines them as a reliable information base for identifying the effects of COVID-19 on business.
- Cognitively, the impact of the COVID-19 pandemic has a direct effect on the liquidity, the net revenue from sales, profits and losses. In conditions of uncertainty, the impact of

COVID-19 on the entity's operations, potential risks and adherence to the going concern principle is disclosed in a separate section of the notes to the financial statements.

- In a practical applied aspect, the results of the empirical study are for two consecutive periods of economic instability and show:
 - The most affected by the COVID crisis in Bulgaria are the sectors of hotels and restaurants and oil production, and with positive performance are: trade in pharmaceuticals, electricity distribution, consulting and courier services.
 - Different versions and configurations of the dependencies between the liquidity, the revenue and the financial results in conditions of economic instability for the listed non-financial enterprises in Bulgaria were identified.
 - All non-financial companies listed on the Bulgarian Stock Exchange disclosed in the notes to their financial statements the effects of the Coronavirus pandemic and following the “going concern” assumption.

The effects of COVID-19 on the financial statements of the enterprises for the year of the global pandemic indicate adequate, meaningful and expedient actions for their overcoming and continuing the economic activity.

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Application 1

Non-financial enterprises – issuers on the Bulgarian stock exchange

<i>No</i>	<i>Company name</i>	<i>Sector under NACE Rev. 2</i>	<i>Stock index</i>
1	SOPHARMA AD-SOFIA	Manufacturing	SOFIX BGBX40 BGTR30
2	M+S HYDRAULIC AD-KAZANLAK	Manufacturing	SOFIX BGBX40 BGTR30
3	MONBAT AD-SOFIA	Manufacturing	SOFIX; BGBX40 BGTR30
4	TCHAIKAPHARMA HIGH QUALITY MEDICINES AD	Manufacturing	BGBX40
5	ALCOMET AD-SHUMEN	Manufacturing	BGBX40
6	NEOCHIM AD-DIMITROVGRAD	Manufacturing	BGBX40
7	HYDRAULIC ELEMENTS AND SYSTEMS AD-YAMBOL	Manufacturing	BGBX40
8	ODESSOS SHIPREPAIR YARD AD-VARNA	Manufacturing	BGBX40
9	KORADO BULGARIA AD-STRAZHITSA	Manufacturing	BGBX40
10	BRAVO PROPERTY FUND REIT-SOFIA	Real estate activities	BGBX40
11	VELGRAF ASSET MANAGEMENT AD-SOFIA	Real estate activities	BGTR30
12	AGRIA GROUP HOLDING AD-VARNA	Professional, scientific and technical activities	BGBX40
13	TELELINK BUSINESS SERVICES GROUP AD-SOFIA	Professional, scientific and technical activities	SOFIX BGBX40 BGTR30
14	SIRMA GROUP HOLDING JSC-SOFIA	Professional, scientific and technical activities	BGBX40 BGTR30
15	SOPHARMA TRADING AD-SOFIA	Wholesale and retail trade; repair of motor vehicles and motorcycles	BGBX40 BGTR30
16	ZARNENI HRANI BULGARIA AD-SOFIA	Wholesale and retail trade; repair of motor vehicles and motorcycles	BGBX40
17	ALBENA AD- ALBENA	Restaurants and mobile food service activities	SOFIX BGBX40 BGTR30
18	TRACE GROUP HOLD AD-SOFIA	Construction	BGBX40 BGTR30
19	CEZ DISTRIBUTION BULGARIA AD-SOFIA	Electricity,gas,steam and air conditioning supply	BGBX40 BGTR30
20	SPEEDY AD-SOFIA	Transportation and storage	BGBX40
21	OIL AND GAS EXPLORATION AND PRODUCTION AD-SOFIA	Mining and quarrying	BGBX40

Source: Authors' summaries based on <https://www.bse-sofia.bg/> (15.07.2021).