

TO WHAT EXTENT DOES THE INFORMATION DISCLOSURE OF SPORTS AND ICT COMPANIES COMPLY WITH THE LEGAL REQUIREMENTS?

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Abstract: *Organizational decision-making, whether operational or strategic, involves risk because decisions are made in an environment characterised by uncertainty. Sufficient amount and high-quality data and information need to be provided for the preparation and decision-making in order to reduce risk. Accounting is a system for processing such economic and financial operations and value data that provides data and information to enterprises. This system is regulated in Hungary by Act C of 2000 on Accounting. Accounting information on the one hand serves the internal actors of the company as a basis for managerial decision-making, while on the other hand it also serves external actors, as it is important to present a reliable and realistic picture towards investors, credit institutions, partners and the state. Annual statements are required to be published and disclosed by every business entity, which means that they can be obtained quickly and free of charge by any external party, Therefore, the quantity and quality of the data included by the statement is important. The structure of the two parts of the statement, the balance sheet and the profit and loss account, is clearly stipulated by the Accounting Act. However, organizations are given slightly more space in terms of the structure of the third part, the notes to the annual statement. The notes to the annual statement is regulated by the Accounting Act in terms of its content, but the content of the published statements is not audited. For this reason, the present study examines the research question involving the extent to which the informative disclosures within the notes to the annual statement comply with the mandatory requirements of the Accounting Act. To answer this, the informative parts of the notes to the annual statements of companies from two different economic sectors are examined by means of text mining.*

Keywords: *comparative analysis; sports sector; information-technology; notes to the annual statement; informative part; decision-making.*

JEL Classification: *M40; Z23.*

1. Significance of the notes to the annual statement

Accounting can be considered both an internal and external information system, as its task is to provide information to internal (owners, management) and external (credit institutions, state, investors, partners) actors in accordance with legal requirements. Annual statements prepared on the basis of IFRS contain important information primarily for investors, as the investor approach prevails there (Böcskei et al., 2017). An example for such an investor-oriented approach may be fair valuation, which has a vital role in IFRS-based reports and drives the presentation

of reliable, market-based information for investors about the value of assets and liabilities (Takács and Szücs, 2017, 2018). However, the statements can also be used to inform other stakeholders, including managers, creditors, employees, suppliers, customers, ministries of different nations and their affiliated institutions. The data, analyzes and studies available to these entities serve as the basis for making decisions, therefore it is important that the statements provide a credible picture of the company (Zéman - Bárczi, 2018). It is possible for companies to obtain information from several sources, one of which is the source of accounting information (Fenyves et al., 2018). Act C of 2000 on Accounting sets out the accounting and reporting obligations of the entities covered by it, the principles that must be applied in the scope of bookkeeping and the preparation of statements, the rules based on them, and the publication, disclosure and auditing obligations. (Kerecsi, 2017). The purpose of the accounting statements (balance sheet, income statement, cash flow, notes to the annual statement) is to provide information on the assets, financial position and profitability of the company to the owners, creditors, the state and other stakeholders (Bogáth, 2018). The notes to the annual statement should therefore include information that do not appear in the other two parts of the annual statement, but are relevant for their understanding (Lakatos et al., 2018). The fact that the Accounting Act does not stipulate the composition and structure of the notes to the financial statement to the provision of information may cause problems for stakeholders, as it is up to them to decide how it is structured and what is actually taken into account and published in addition to the mandatory disclosures to ensure a reliable and realistic picture. This can pose problems for both external and internal stakeholders in relation to the provision of information (Kardos-Tóth, 2011). According to Kresalek (2007), it is important for the information published in the notes to the annual statement to take into consideration accounting principles, in particular the principles of authenticity, clarity, consistency, continuity and completeness (Kresalek, 2007). The type of annual statement report delimits its data content, including the level of detail of the notes to the annual statement, which means that the notes of each statement type have different amounts and quality of information as provisioned by the Accounting Act (Kardos, 2009).

In today's economy, corporate conglomerates are increasingly gaining ground, achieving their business success through subsidiaries, associates and joint organizations operating in multiple countries. These companies prepare their statements separately on the basis of the legal and accounting regulations of their respective countries, but their performance can only be judged comprehensively on the basis of the consolidated annual statements of the companies belonging to the company concern, which reflect their combined wealth, financial and income situation (Dékán Tamásné Orbán I., 2019). This is also supported by the notes published as part of the consolidated annual statement, the informative disclosures of which are as follows (Fridrich et al., 2008):

- presentation of the average statistical number of workforce, wage costs and other personnel payments of the companies fully included in the consolidated annual report in the current year, broken down by stock group,
- the amount of remuneration paid at the parent company to the members of the board of directors, management (business management) and the

supervisory board for their activities after the business year has to be presented, including salary costs, personal payments, amounts taken over by the company and paid for them, on a consolidated basis by group, including remunerations paid for activities carried out at the subsidiaries,

- the date, amount and maturity of the loans and advances paid by the parent company and its subsidiaries to the members of the parent company's board of directors, management (business management) and supervisory board must be presented, indicating the interest rate, material conditions, amounts repaid in the current year; guarantee obligations undertaken for these entities,
- the fee charged by the auditor for the audit of the consolidated annual statement for the current business year must be presented,
- Presentation of transactions (excluding transactions within the company group) with related parties of the parent company or other entities included in the consolidation, the disclosure of which is not specifically required by the Accounting Act, if these transactions are essential and did not take place under normal market conditions. In doing so, the value of the transactions, the nature of the relationship with the related party and other information related to the transactions that is necessary to assess the financial position of the undertakings included in the consolidation as a whole shall be disclosed.

2. Significance of information technology and sports companies

Numerous studies have already demonstrated the positive effects of sport on an individual's physical, mental, and mental condition (Fenyves et al., 2020). If we want the population to live in a healthier way and do more sports only education and motivation are not enough, it is very important to provide the appropriate infrastructural background as well. People can have a wide range of choice provided by the local sports establishments and companies and the possibilities resulting from sport infrastructure investments. (Nagy – Tobak, 2015)

Both information technology services and sports can be considered constantly, dynamically developing sectors, which is supported by multiple research activities. According to the data of KSH (Central Statistical Office, 2019), in 2016 the ICT sector in the Visegrad countries contributed to the gross domestic product of the entire national economy in varying proportions. The sector had the largest share in Hungary (5.8%) and the lowest in Poland (3.2%). The share of enterprises manufacturing ICT devices was also the highest in Hungary (28%) and the lowest in Poland (7.1%). Furthermore, it can be stated that at the end of 2017, the number of enterprises operating in the Hungarian national economy exceeded 724 thousand, 4.7% of which were operating in the ICT sector. Between 2013 and 2017, the number of enterprises operating in the sector increased by 6.3% on average annually, exceeding the national average. Between 2013 and 2017, the net sales revenue of enterprises operating in the ICT sector increased by an average of 5.7% per year, lagging behind the growth of the total national economy, reaching 7,869 billion HUF (8.0% of the national economy revenue (KSH, 2019).

Presentation of the significance of sports enterprises is presented through the article of Bácsné et al. (2018). The average annual growth rate of the global sports market was 7% between 2009 and 2013, which means that the growth rate of the sector exceeds the growth rate of GDP. Household spending on sports accessories, clothing, equipment, health and fitness amounts to 700 billion USD a year, or 1% of global GDP. In the European Union, the direct effects of sports and the multiplier effects (indirect and induced) together contributed 2.98% (294.36 billion EUR) to total gross value added. The elasticity of national income in the sports sector is 1.14, which means that if national income increases by 1%, gross value added related to sports will increase by 1.14%. In the case of Hungary, in 2012, sports services contributed 778 million EUR to the gross value added (Bácsné et al., 2018). On the other hand, sports can be analysed as investment in health because of the sports positive effect on it. This way sports can save budgetary sources for one of the most important systems operated by the states: the healthcare (Dajnoki et al., 2018; Kómióves et al., 2018; Harangi-Rákos et al., 2019; Nagy et al., 2019; Novák et al., 2020)

Notes to the annual statement must be published and disclosed, but there is no regulation concerning their format or composition, these properties are not standardized at the national level. The analysis of annual statements from recent years has been linked to XBRL (eXtensible Business Reporting Language). XBRL has created the ability to quickly obtain financial information in a standardized format; it is a search-support software technology and methodology that improves the processability of reports. It stores data in a format that can be read by computers, allowing it to be better processed and analysed (Fenyves et al., 2019).

3. Material and methods of the study

The survey database included enterprises with a company seat located in Hungary, engaged in sports activities that designated NACE 931 (Sports activity) as their primary activity, as well as enterprises engaged in Information Technology Services (NACE 62) as their primary activity. Only companies carrying out double-entry bookkeeping and subject to Act C of 2000 on Accounting in terms of their reporting obligations were included in the sample, which means they had to have a notes to the annual statement. There were a total of 11,476 companies providing information technology services, of which 8,858 had notes to the annual statements, of which 8,226 (92.87%) notes could be processed. While in the case of companies engaged in sports activities there were a total of 1747 companies, of which 1616 companies had notes to the annual statement, thus a total of 92.50% of companies engaged in sports activities had notes that could be processed. Figure 1 shows the distribution of companies preparing annual and simplified annual reports. It is clear that most of the companies from both sectors are smaller entities as most of them (almost 80%) prepare simplified annual statements. This type of statement is much less detailed than the annual report, therefore their notes does not contain as much explanation and information provisioned by law as the notes to the annual statement.

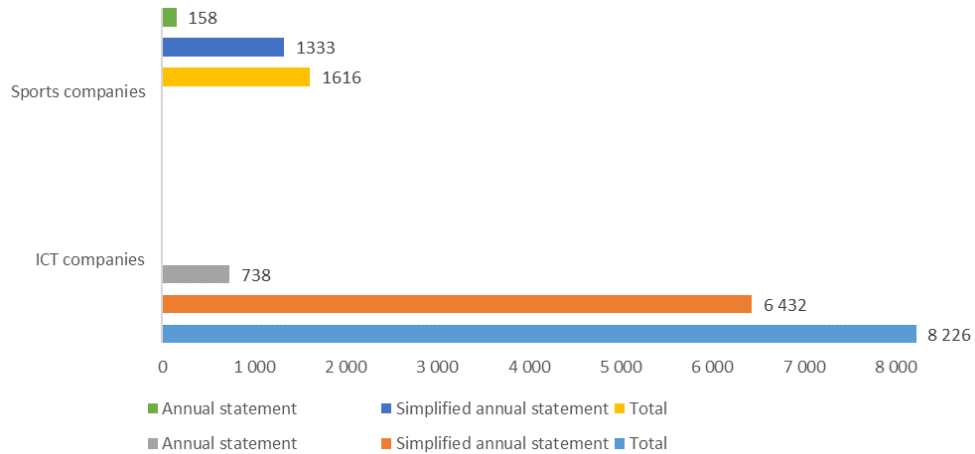


Figure 1: Distribution of companies preparing annual and simplified annual statements among enterprises providing information technology services and carrying out sports activities
Source: own editing

The analysis was performed by means of various packages of the R statistical system. Text mining was applied, to examine the extent to which the information in the informative part of the notes to the annual statements of companies belonging to the two types of activities meets the mandatory requirements of the Accounting Act.

4. Comparative analysis of the informative parts of the notes to the annual statements of companies carrying out information technology and sports activities

The notes to the annual statement is usually divided into three main sections, a general section, a specific section, including balance sheet and income statement-related disclosures, and an informative part. In the scope of present research, the informative part is examined. Explanations, information and expressions to disclosed in the informative part of the notes to the annual statement of the enterprises providing information technology services and carrying out sports activities were analysed from the point of view of legal compliance.

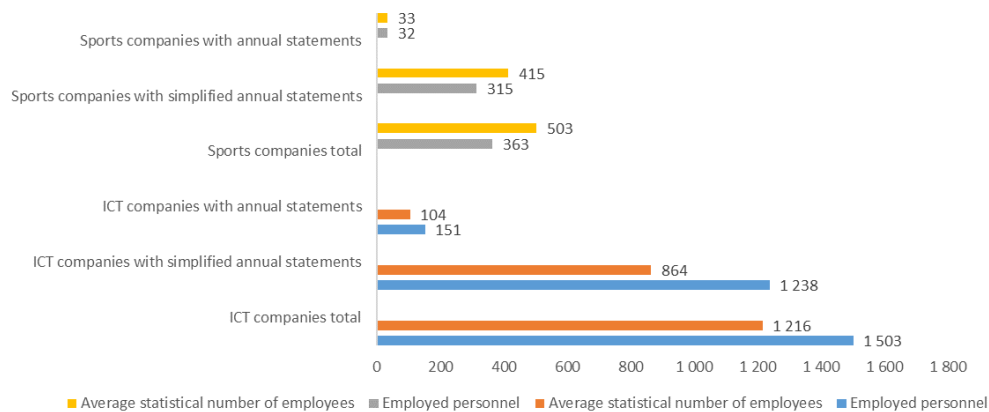


Figure 2: Presentation of the average number of employees among enterprises providing information technology services and sports activities
Source: own editing

In accordance with the legal provisions of the Accounting Act, the notes to the annual statement shall present the average statistical number of employees employed in the current year, their wage costs and other personnel-related payments by group, as well as wage contributions by item. To check whether these were found in the notes to the annual statements of the companies surveyed, the terms “average statistical number of employees” and “employees” were searched. Based on the chart presented by Figure 2, it can be clearly seen that 15% (1216) of the 8226 ICT companies presented the average statistical number of employees, while 18% (1503) had presented the employees on their payroll. This proportion almost doubled for sports enterprises; 31% (503) of their notes included the average statistical number, while 22% (363) of the employed personnel. Nearly 20% of ICT companies preparing annual statements and simplified annual statements published the term, while for sports companies this proportion was around 21% and 38% for companies with annual and simplified annual statements, respectively. According to the Accounting Act, transactions with affiliated parties the presentation of which is not specifically provisioned in the Accounting Act, must be presented in the notes to the financial statements if these transactions are material and did not take place under normal market conditions. In addition, the value of long-term loans, receivables, subordinated liabilities and short-term liabilities towards affiliated companies, broken down into values belonging to a separate shareholding relation also have to be presented. Additionally, the amount of the provision for liabilities to affiliated companies and its utilization also needs to be disclosed by item, in with especial regard to the amount of the provision for guaranteed liabilities towards affiliated companies. To check legal compliance related to the above, term “affiliated company” was searched for using text mining, the results of which are shown in Figure 3. Only 25% of ICT companies, while almost half, 45% of sports companies presented this. In the case of ICT companies, this ratio did not change among the companies that prepared simplified annual statements, but increased to 31% in the

case of companies with annual statements. The legal compliance of sports businesses has remained unchanged regardless of the type of statement.

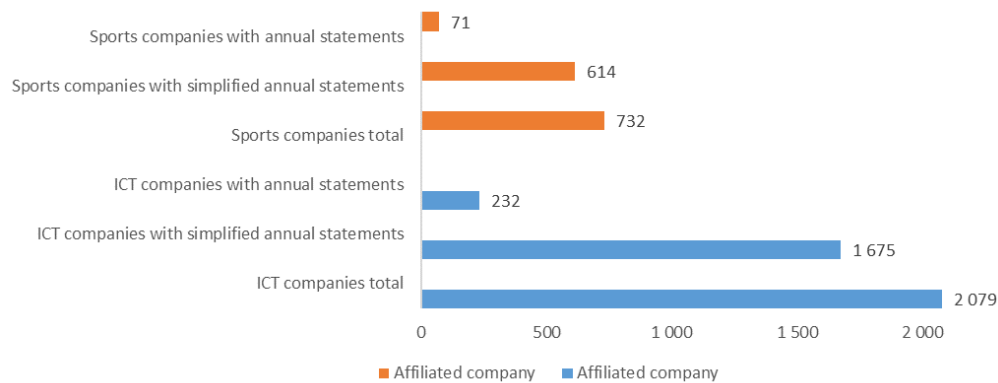


Figure 3: Presentation of items related to affiliated enterprises among companies providing information technology services and sports activities
Source: own editing

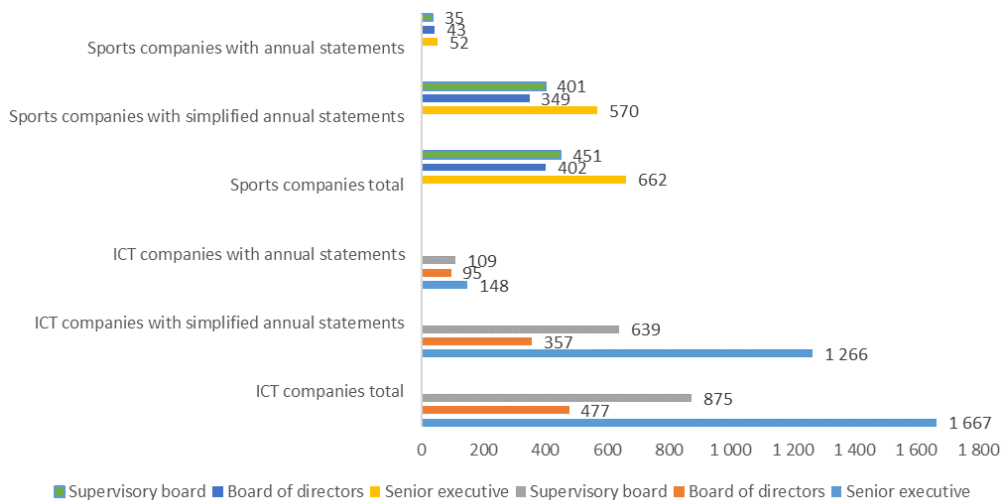


Figure 4: Presentation of the disclosures concerning the supervisory board, the board of directors and the senior executive among the companies providing information technology services and carrying out sports activities
Source: own editing

According to the legal regulations, the amount of remuneration for the activities of the senior executives, the members of the board of directors and the supervisory board of the company preparing the annual report must be presented in aggregate by group. The amount of advances and loans paid to them, the guarantees given

on their behalf, also aggregated by group, with simultaneous notification of interest, material other terms, amounts repaid and repayment terms, and the total amount of pension liabilities due to them, aggregated. To check whether the above was presented by the surveyed companies, the terms “supervisory board”, “board of directors” and “senior executive” were searched for in the published notes to the financial statements. The reason for the proportional difference in the case of the three terms may be that it is likely that only items relevant to the company were included in the statement. Thus, disclosures related to senior executives were examined; as seen from Figure 4, 20% of ICT companies and 41% of sports companies published this mandatory item. This ratio did not change significantly even after examining the breakdown by type of statement.

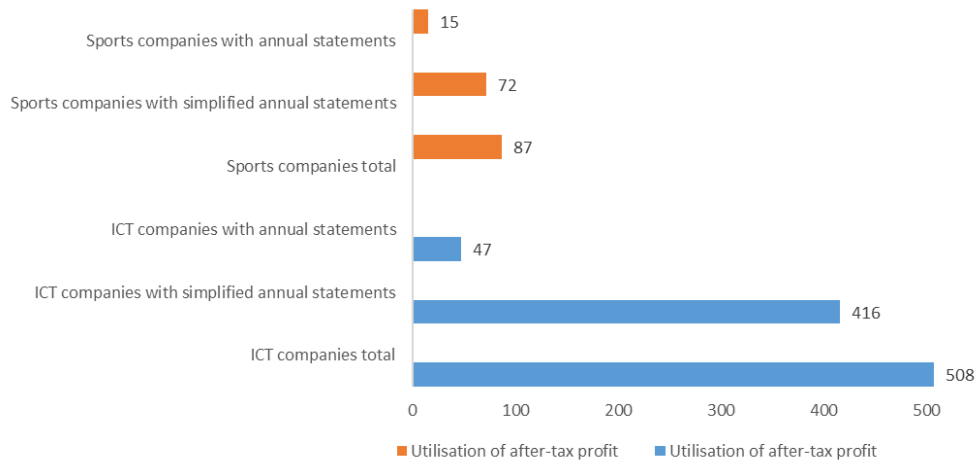


Figure 5: Demonstration of the use of after-tax profit among companies providing information technology services and carrying out sports activities
Source: own editing

By law, it is mandatory to present all assets, equity, provisions and all liabilities (including items of accruals), as well as income and expenses for the period, profit after tax, as well as data and textual justifications that are necessary for the presentation of the actual wealth and financial position of the company and the results of its operation. In addition, the amount of after-tax profit from foreign operations and the main taxes paid abroad and the proposal for the use of after-tax profit must also be presented. In this regard, the terms “after-tax profit” and “use of after-tax profit”, were searched for and the research only deals with the proposed use of after-tax profit, as it belongs to the informative explanations. The proportion of these terms is behind the proportion of the previous expressions, since examining Figure 5, it can be seen that approximately 5-6% of the surveyed companies presented this mandatory element in their statement.

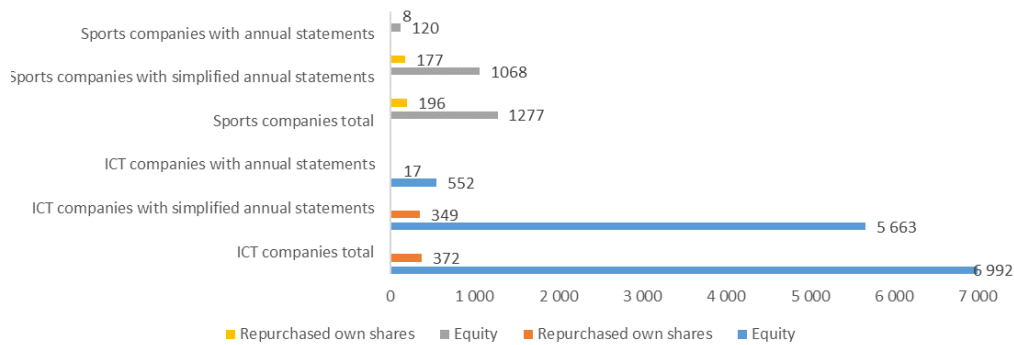


Figure 6: Presentation of repurchased own shares and equity among companies providing information technology services and carrying out sports activities
Source: own editing

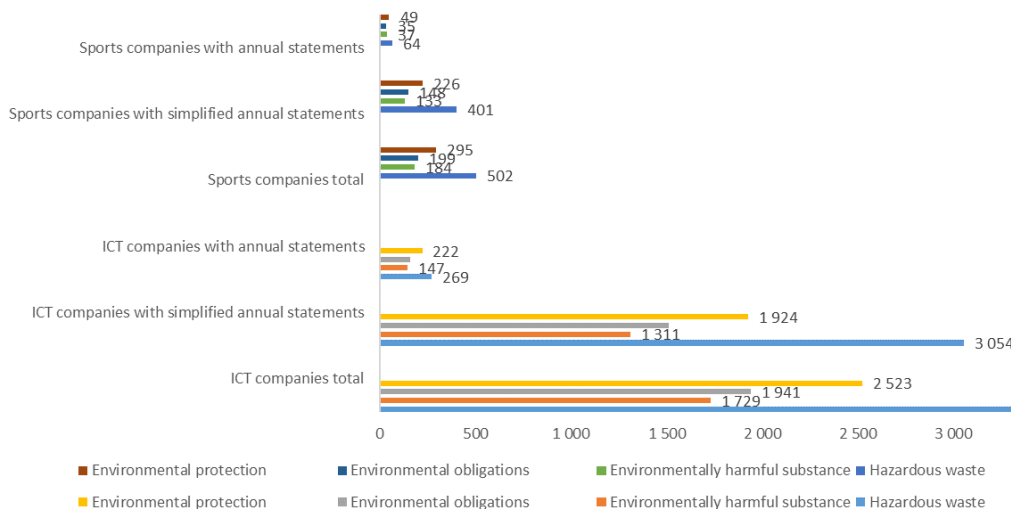


Figure 7: Presentation of environmental disclosures among companies providing information technology services and carrying out sports activities
Source: own editing

According to the provisions of the Accounting Act, companies must publish data on repurchased own shares and equity. The reason for acquiring own shares, and own business shares, the number and nominal value of these shares, their ratio to the subscribed capital, the amount of consideration paid or received in case of repurchase or disposal of, and the total number and nominal value of shares and business units placed at the disposal of the company directly or indirectly during the year. Information on the acquisition of redeemable shares must be presented separately in the notes to the annual statements. In addition, it is necessary to present the change in the components of equity during the business year, the reasons for these change, with especial regard to the changes in the subscribed

capital. It shall also describe the proportion of the subscribed capital subscribed by the parent company, subsidiary(ies), joint venture(s), associate(s) and how its amount has changed. For this reason, the terms “repurchased own shares” and “equity” were searched for using text mining. Examining equity, it can be seen in Figure 6 that approximately 80-85% of the companies with two types of activities included some form of equity in their notes to the annual statement, while 5-12% of them disclosed their repurchased own shares in favour of sports businesses.

According to the provisions of the Accounting Act, the opening gross value of tangible assets directly serving the protection of the environment, its increase, decrease and closing value, separately the reclassifications, as well as the opening value, increase, decrease, closing value of accumulated depreciation, separately the reclassifications and the amount of depreciation for the current year. Quantitative and value data of the opening and closing stock of hazardous waste and environmentally harmful substances, the increase and decrease of their quantity and value in the current year, grouped on the basis of the hazard classes according to the relevant legislation. The amount of the provision for environmental liabilities, future expenses for the protection of the environment in the current year and the previous business year, as well as the amount of expenses recognized in the current year and the previous business year related to environmental protection and the expected value of unrecognized environmental and recovery liabilities broken down by item. To check whether the surveyed companies presented the above in their statement, the following terms were searched for: “environmental protection”, “environmental obligation”, “environmentally harmful substance” and “hazardous waste”. Hazardous waste was disclosed by approximately 40% of the ICT companies, and 1/3 of the sports businesses. Only 21% of ICT companies and 11% of sports companies have dealt with environmentally harmful substances. Environmental protection-related information was disclosed by 30% of the ICT companies and 18% of sports companies in their notes to the annual statement.

5. In conclusion

It is essential for both external and internal market participants to have the information necessary for decision-making, which, in addition to the numerical data of the balance sheet and profit and loss account, is mostly provided by the textual explanations, information and supplements of the notes to the annual statement. A number of studies have already been carried out on the notes to the annual statement, according to which it does not always comply with legal requirements and thus does not achieve its purpose. Overall, the present research also supports these criticisms, so that decision-making is not always well established and increases the risk. It is important to note that during the research only the terms were searched for with the help of text mining, their content were not examined separately. Overall, no significant difference was found between the informative parts of the notes to the annual statements for ICT companies and sports companies. For both sectors, it can be said that they do not fully comply with the requirements of the Accounting Act, as for almost every term more than half of the

notes of the ICT and sports businesses lacked the required information or comment to provide a reliable and true picture. This ratio could perhaps be improved if businesses did not consider the preparation of the notes to the annual statement a problem, but as an option.

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