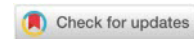


ANALYSIS OF ENTERPRISE'S INCOME IN THE CONTEXT OF THE POST COVID-19 RECOVERY OF ECONOMIC AND SOCIAL SYSTEMS (METHODS AND METHODOLOGY FOR ANALYSIS)

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Abstract: Enterprises' income is a key object of both accounting and financial and business analysis, and in particular, of the analysis of the financial statements. The issue of income is relevant at all stages and phases of the enterprises' development and business. The importance and relevance of this issue is determined by the significance of the income and of changes that occur in its amount, with regard to the formation and dynamics of both the absolute indicators (financial performance) and the relative indicators (income effectiveness and return) that define the effectiveness of the enterprises' business and their positioning on the competitive and dynamic market characterised by certain level of entropy.

The object reviewed in this publication refers to the going concern in Bulgaria operating in the field of public services – organization and provision of cultural, scientific, educational, congress, conference, information, political and other various types of public services. The owner of the enterprise's capital is the state represented by the Minister of culture of Bulgaria.

The subject of this study covers the enterprise's income and the methods for its analysis. Enterprise's income for the period 2019 – 2021 is analysed. The interest to the question of enterprise's income is due to the fact that at the beginning of 2020 a number of measures have been implemented in the country and state of emergency, and later on – epidemiologic emergency, were in place for some time, due to the spread of the coronavirus and the announced global Covid-19 pandemic. In 2020, the enterprise has almost fully discontinued its business with view of the restrictive measures undertaken by the Bulgarian government due to the spread of Covid-19. As a result, the main functional and administrative indicators that characterise the enterprise's specific business – namely, the provision of services in public benefit, have been deteriorated. Covid-19 affected the enterprise's income gained from the provision of cultural, conference, congress, and other entertainment public services most.

The author's objective here is to analyse the impact of the health, economic and social crises caused by the Covid-19 on the amount, structure, and dynamics of income for the analysed period. The author has the task to improve the methods for analysis of enterprise's income. The resultative analytical information is useful for the enterprise's management allowing it to make informed, timely, and appropriate operational and strategic decisions for overcoming the consequences of the Covid-19 crises and continuing the enterprise's business.

Keywords: crises, incomes, structure, efficiency, analysis

Field: Social Sciences

1. INTRODUCTION

The external environment in which enterprises functioned during the spread of Covid-19 was unsure and hardly predictable, even in short-term aspect. Whole sectors of the economy were closed thus disturbing the usual economic activity of the enterprises in Bulgaria. This fact influenced the normal business of the enterprises and most of them faced some difficulties with the supply change, with running their business, with the collection of debts from customers, with their liquidity and solvency. In the context of the crises caused by the spread of coronavirus, the values of financial indicators characterizing the different aspects of enterprise's business have deteriorated thus adversely affecting the level of their financial stability and their financial and economic position.

This publication analyses the revenue of enterprises operating in the field of public services. Due to confidentiality reasons, the enterprise is indicatively called Margarita. The publication analyses the amount, composition and structure of enterprise's revenue by means of benchmarking of their dynamics during the crisis (2020 and 2021) years versus the pre-crisis 2019 year. Furthermore, it analyses the effectiveness of revenue for the three-years' period under consideration.

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2. NATURE OF REVENUE

Accounting Standard 18 "Revenue" defines the requirements for recognition for accounting purposes, measurement, accounting and presentation of revenue in the financial statements of enterprises that apply the Bulgarian accounting basis. Revenue is defined a gross inflow of economic benefits during the current reporting period arising from the course of the ordinary activities of an enterprise when those inflow results in increases in equity other than and independently from the increases related to the contributions from equity participants.

The general provisions of international accounting standards on the preparation and presentation of financial statements of enterprises that apply the international accounting basis, revenue is defined as increase of the economic benefits during the current reporting period in the form of inflow or increase in assets, or decrease in liabilities, ultimately resulting in increase of the enterprise's equity, other than the increases resulting from contributions from equity participants. This definition of income covers both revenue and profits. Revenue is defined as income, which is generated in the course of the ordinary activities of the enterprise. It is designated with different names, for example, sales, remunerations, interests, dividends, right considerations, etc.

In the financial reporting conceptual framework (2018, paragraph 4.2.), revenue is in general defined as changes in the economic resources and claims of an enterprise, which reflect its financial performance. The definition itself does not differ materially from the definitions as provided for by the national and international accounting regulations in terms of the nature of revenue. The framework states that revenue means an increase in assets or decrease of liabilities thus resulting in equity increase other than the increases related to the contributions from claim holders to the enterprise's equity.

The purpose of International Financial Reporting Standard (IFRS) 15 "Revenue from Contracts with Customers" endorsed by the European Union is to establish the principles that an enterprise must apply when preparing and providing the external and internal users of its financial statements with useful information about the nature and origin, recognition, timing and uncertainty of revenue and cash flows from a contract with a customer. To achieve this purpose, the enterprise must recognize for accounting purposes revenue to depict, on one hand, the transfer of promised goods and/or services to customers, and to recognize, on the other hand, the amount of revenue that reflects the consideration to which the enterprise expects to be entitled in exchange for those promised goods and/or services.

Specialized literature features publications on enterprises' revenue that are treated by IFRS 15. They highlight that "a common principles-based approach for recognition of revenue both from goods and from services needs to be established, which reflects the way business is run; the type, nature and amount of fulfilment of obligations to customers; processes for creation of value in time and the related business risks." (Filipova at al., 2020, page 4)

IFRS 15 introduces new approach for recognition of revenue from contracts with customers by "making attempt to go beyond the pure transaction approach when recognizing revenue, and to shift to valuation approach – valuation of each identifiable performance obligation, including its inherent costs, rights and net result it gives rise to." (Filipova at al., 2020, page 4). The stages of the common model for recognition of revenue are as follows: 1. Identification of the contract with a customer; 2. Identification of the performance obligations in the contract; 3. Determination of the transaction price; 4. Allocation of the transaction price to each performance obligation in the contract; 5. Recognition of revenue when a performance obligation is satisfied by the enterprise. (Brezoeva, 2018)

3. METHODS FOR ANALYSIS OF ENTERPRISE'S REVENUE

3.1. Applied basis for accounting of revenue

For the purposes of the accounting of its ongoing activities and the preparation and presentation of its financial statements, the enterprise whose revenue is subject to study here applies the international accounting base: international accounting standards; international financial reporting standards; IFRS 15 "Revenue from Contracts with Customers". Enterprise's financial statements are prepared in accordance with IFRS endorsed by the EU.

The enterprise has disclosed in its accounting policy that revenue means the increase of the economic benefits during the current reporting period in the form of inflow or increase in assets, or decrease in liabilities resulting in increase of the enterprise's equity not related to contributions to the equity. Revenue is recognised in profit or loss and other comprehensive income in case of increase of

future economic benefits related to an increase of asset or decrease of liability, which can be reliably measured. The revenue is recognised at the same time with the recognition of the increase of an asset or the decrease of a liability.

In general, enterprise's revenue is generated by staging different events and activities and by giving premises for lease.

In 2020, due to the spread of Covid-19 and the measures undertaken by the Bulgarian government to overcome the occurred health crisis, the enterprise has applied for the 60/40 measure to keep the jobs of its workers and employees, also known as 60/40 measure for keeping jobs. Revenue under this measure is accounted for as revenue from subsidies and is recognised and disclosed in the statement of profit or loss and other comprehensive income.

The adverse impact of the Covid-19 crisis has continued in 2021 as well by affecting almost all aspects of the enterprise's business – economic, financial, public, reputational, etc.

3.2. ANALYSIS OF THE AMOUNT, COMPOSITION, STRUCTURE AND DYNAMICS OF REVENUE

Data for the enterprise's business contained in the synthetic accounts reporting revenue from sale of goods and services are presented in table 1.

Based on the data summarized in table 1, we can make the following conclusions:

Table 1. Amount, composition and dynamics of the enterprise's revenue

Indicators	Years			Deviation		Rate of change	
	2019	2020	2021	2020/2019	2021/2020	2020/2019	2021/2020
I. Revenues from contracts with clients, thousand BGN, from them:	12504	7818	9072	-4686	1254	-37,48	16,04
1. Revenues from providing services, including:	12052	7665	8965	-4387	1300	-36,40	16,96
a) rental of halls	2973	694	1165	-2279	471	-76,66	67,87
b) leasing of office, warehouse, commercial and other areas	6402	5829	6332	-573	503	-8,95	8,63
c) management fee	459	538	601	79	63	17,21	11,71
d) revenue from ticket sales	1290	205	344	-1085	139	-84,11	67,80
e) commission income	237	65	80	-172	15	-72,57	23,08
f) advertising revenue	286	194	163	-92	-31	-32,17	-15,98
g) income from mobile equipment provided	285	92	211	-193	119	-67,72	129,35
h) income from providing other services	120	48	69	-72	21	-60,00	43,75
2. Income from sales of goods	452	153	107	-299	-46	-66,15	-30,07
II. Other incomes	706	358	660	-348	302	-49,29	84,36
III. Total income from continuing operations (I + II)	13210	8176	9732	-5034	1556	-38,11	19,03
IV. Income from financing under the 60/40 measure	0	1393	2245	1393	852	-	61,16
Total amount of revenue (III + IV)	13210	9569	11977	-3641	2408	-27,56	25,16

- the total amount of revenue for 2020 versus 2019 has decreased by BGN 3641 thousand (9569 – 13210).

This decrease is due to the measures implemented by the Bulgarian Council of Ministers for overcoming the crisis with the spread of Covid-19 and the state of emergency on the territory of the country declared by decision of the National Assembly of 8 March 2020. The decrease rate is 27,56% [(-3641: 13210) x 100].

- the amount of revenue from contracts with customers for 2020 has significantly decreased versus 2019. The decrease is in the amount of BGN 4686 thousand (7818 – 12504), and the decrease rate is 37,48% [(-4686: 12504) x 100]. Closing whole sectors of the national economy and the interruption of social contacts among people resulted in discontinuous of the activities of enterprises providing research, cultural, concert, entertainment and other public services to the society.

- other revenue from the enterprise's business, which according to the applicable accounting standards comprises assets obtained free of charge, surpluses found during stocktaking of assets, etc., for 2020 versus 2019 has also decreased by BGN 348 thousand (358 – 706), and the decrease rate is

49,29% [(-348: 706) x 100].

- in 2020, the enterprise has applied for and has been approved as eligible for the measure 60/40 for keeping jobs in the context of the existing health, social, economic crises due to Covid-19. The subsidies received under this measure are in the amount of BGN 1393 thousand. The subsidies received under these governmental measures for overcoming the coronavirus crisis are accounted for in accordance with the requirements of International Accounting Standard 20 (IAS20, 2007). The guidelines issued by the Ministry of Finance (MF, 2021) explained and cleared out the accounting of funds granted under different state aid programs and measures for overcoming the consequences of the coronavirus pandemic.

- In comparison to 2020, the enterprise's revenue for 2021 has increased by BGN 2408 thousand (11977 – 9569). It is obvious that the level of enterprise's revenue from the pre-pandemic 2019 can still not be reached. This is due to the yet existing significant spread of the coronavirus, the less social contacts, the measures undertaken to limit the number of seats in concert halls, theaters, cinemas, etc. The revenue increase rate is 25,16% [(+2408: 9569) x 100], and as an absolute value it is less than the rate of decrease of 2020 revenue versus 2019 (27,56%).

Table 2 shows the structure of enterprise's revenue for the three-years' period in question.

The data in the table show that during the three years, the revenue from provision of services has the biggest relative share from the total amount enterprise's revenue, which is directly related to the main scope of its business – provision of public services. However, this share records a trend of decrease as follows: 2020 versus 2019 – decrease by 11,13 points, and for 2021 versus 2020 the decrease is 5,25 points. We can also see a positive trend for drop of decrease in the share of revenue from provision of services as a relative value, which is due to the gradual relief of anti-crisis measures in the country during the second half of 2021.

Table 2. Structure of enterprise's revenue and its changes

Indicators	2019 year		2020 year		2021 year		Change, %	
	BGN thousand	relative share, %	BGN thousand	relative share, %	BGN thousand	relative share, %	2020/2019	2021/2020
1. Income from provision of services	12052	91,23	7665	80,10	8965	74,85	-11,13	-5,25
2. Income from sales of goods	452	3,42	153	1,60	107	0,89	-1,82	-0,71
3. Other income	706	5,34	358	3,74	660	5,51	-1,60	1,77
4. Income from financing under the 60/40 measure	0	0,00	1393	14,56	2245	18,74	14,56	4,19
Total revenue	13210	100,00	9569	100,00	11977	100,00	0,00	0,00

Revenue from subsidies under the measure 60/40 for keeping jobs in 2020 is 14,56%, and in 2021 - 18,74%, in the total amount of enterprise's revenue, i.e. there is an increase by 4,19 points.

The structure of revenue from provision of services is of particular interest. Revenue from letting office, warehouse, shopping and other areas has the biggest relative share for 2019 (53,12%), followed by revenue from letting halls for staging different events (24,67%) and the revenue from sale of tickets (10,70%).

For 2020, we can see significant changes in the structure of revenue from provision of services. Revenue from letting office, warehouse, shopping and other areas (79,05%) also take the biggest share, followed by revenue for letting halls (9,05%); then revenue from management fees (7,02%) comes next. Revenue from sale of tickets decrease significantly (by 8,03%), which is due to the decrease in the number of seats in public halls due to the observance of the requirements for physical distance between viewers.

For 2021, we can see minimum increase of the relative share of revenue from sale of tickets by 1,16%. This fact evidences a trend for overcoming the consequences of the coronavirus spread. The main reason is the relief of the anti-epidemiological measures in the country during the second half of 2021.

Table 3. Structure of revenue from provision of services and its changes

Indicators	2019 year		2020 year		2021 year		Change, %	
	BGN thousand	relative share, %	BGN thousand	relative share, %	BGN thousand	relative share, %	2020/2019	2021/2020
1. Income from providing services, including:								
a) rental of halls	2973	24,67	694	9,05	1165	12,99	-15,61	3,94
b) leasing of office, warehouse, commercial and other areas	6402	53,12	5829	76,05	6332	70,63	22,93	-5,42
c) management fee	459	3,81	538	7,02	601	6,70	3,21	-0,32
d) revenue from ticket sales	1290	10,70	205	2,67	344	3,84	-8,03	1,16
e) commission income	237	1,97	65	0,85	80	0,89	-1,12	0,04
f) advertising revenue	286	2,37	194	2,53	163	1,82	0,16	-0,71
g) income from mobile equipment provided	285	2,36	92	1,20	211	2,35	-1,16	1,15
h) income from providing other services	120	1,00	48	0,63	69	0,77	-0,37	0,14
Total revenue	12052	100	7665	100	8965	100	-4387	1300

The structure of enterprise's revenue during the three-years' period in question may be presented on chart 1.

3.3. ANALYSIS OF REVENUE EFFECTIVENESS

The information required for the analysis of the revenue effectiveness is contained in the enterprise's statement of income. It is presented in table 4, where the effectiveness ratios of revenue and costs for each year of the period under consideration are calculated.

The revenue effectiveness ratio is calculated as a ratio between enterprise's total costs and revenue, whereas the costs comprise charged income taxes (corporate tax and its alternative taxes). It characterises the amount of enterprise's costs incurred for gaining revenue of one Bulgarian lev. This is a typical indicator for external analysis based on the financial statements data and for internal analysis for the needs of the enterprise's management.

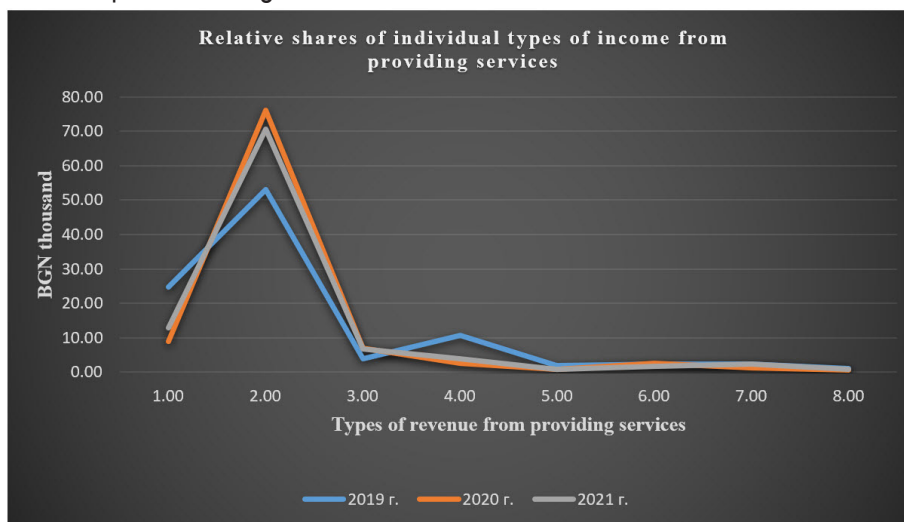


Chart 1. Structure of enterprise's revenue

Table 4. Revenue effectiveness

Indicators	Years			Deviation	
	2019	2020	2021	2020/2019	2021/2020
I. Incoming information, BGN thousand.					
1. Total amount of revenue	13210	9569	11977	-3641	2408
2. Total amount of expenses	27703	21540	22715	-6163	1175
II. Additional calculated indicators, BGN.					
3. Revenue efficiency ratio (point 2 : point 1)	2,10	2,25	1,90	0,15	-0,35
4. Cost efficiency ratio (p.1 : p.2)	0,48	0,44	0,53	-0,03	0,08

The data in table 4 show that the revenue effectiveness ratio has increased by BGN 0,15 in 2020 versus 2019 (2,25 – 2,10). This means that in 2020 the enterprise has incurred BGN 0,15 more for gaining revenue of one Bulgarian lev, which means that revenue is less effective thus deteriorating the business effectiveness. This is due to the impact of the measures implemented by the government for limiting the spread of Covid-19.

The revenue effectiveness ratio for 2021 versus 2020 has decreased by BGN 0,35 (1,90 – 2,25), which means that the revenue effectiveness has increased. This is due to the reopening of the national economy during the second half of 2021. We must note that the increase of the revenue effectiveness has been positively affected by the higher revenue growth rate in comparison to the cost growth rate of the enterprise for 2021 versus 2020.

4. CONCLUSION

The outcomes of the study of the enterprise's revenue give us grounds to make the following conclusions:

- we believe that the definition of revenue should state that we speak about net flow and not gross flow of economic benefits for the enterprise during the current reporting period. Thus, we will avoid any unclear aspects relevant to value added tax charged over the net amount of sales. It should be unambiguously defined that this is an indirect tax and it is not comprised in the amount of net sales of products, goods and services.

- in 2020, the enterprise has undertaken anti-crisis and unpopular measures both in operational and strategic aspect for the purposes of keeping at least a portion of its activities and revenue. The following measures have been undertaken: significant decrease of fixed tangible assets' maintenance costs (maintenance and repair of buildings, safeguarding of property, etc.); change in the structure and number of staff; applying the measure 60/40 for the staff under employment contracts; review of receivables in arrears and the solvency of customers-tenants; adjustment of prices under the contracts with tenants, depending on the market prices, etc.

By reopening the economy during the second half of 2021, the issues caused by the spread of Covid-19 have been gradually overcome.

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