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THE EXTENT OF COST DISCLOSURE IN TRADE COMPANY ANNUAL REPORTS ON THE EXAMPLE OF THE IT BRANCH – PILOT STUDIES

ANNA DYHDALEWICZ*

Abstract

The paper presents the results of a research study, whose focal issue was the extent of disclosure in annual reports of costs of trade enterprises on the example of IT companies listed on the Warsaw Stock Exchange. Due to its limited scope, this study should be treated as a pilot, constituting the introduction to further and more detailed research and analyses, which ultimately will include all companies listed on the WSE within the Polish Classification of Activities (PKD) wholesale and retail trade, and car repair. The aim of the study is to evaluate the usefulness of the annual report as a source of information about the costs of a trading company. Information on costs in annual reports results from informational obligations defined by current regulations of law, environmental needs, as well as each economic entity's individual approach to the presentation of financial information in financial reports and to disclosure of additional information (qualitative and financial) in explanatory notes and in an activity report. It should also be noted that the presentation in the same costs group of different specific items proves that factors influencing the amount and structure of costs in a given period in particular entities conducting trading activity in the same sector have various significance for the results. Presenting information on risk within holdings indicates cost-determining factors both of operational and strategic natures, external and internal, dependent on the enterprise and independent of it. The sector in which the researched economic entities operate is an important factor which has an influence on the identification of cost drivers and costs whose source is risk related to the economic activity conducted.

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INTRODUCTION

According to J. Samelak, "Reporting is considered to be the most important tool of informing interested persons about the resources and effects of the activity of enterprises" (Samelak, 2013, p. 5). Generally, the annual report of an enterprise contains financial information presented in financial reports (with the exception of additional information, which contains financial-descriptive information) as well as dominant non-financial information, presented in additional reports, for example in the enterprise activity report. Receivers of the information expect more and more detailed data, so that they can

understand the specific character of the activity of a given entity as well as discover the reasons for the actions which were undertaken. Since costs determine the basic measurement of economic activity, i.e. the financial result of a given entity, information about them should be made accessible to investors and other stakeholders. However, some questions arise. Does the present reporting system fulfill its role in terms of informing about costs? Does it enable their evaluation? What kind of information should be disclosed so that the reporting would be effective? Is the information sufficient for the identification of the

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costs which most influence the financial result of the entity?

This paper presents the results of a research study whose focal issue was the extent of disclosure in annual reports of costs of trade enterprises on the example of IT companies listed on the Warsaw Stock Exchange. Due to its limited scope, the research study should be treated as pilot, constituting the introduction to further and more detailed research and analyses, which ultimately will include all companies listed on the WSE within the Polish Classification of Activities (PKD) wholesale and retail trade, and car repair. The aim of the research study is to evaluate the usefulness of the annual report as a source of information about the costs of a trading company. The paper is a continuation of pilot research studies on the nature and classification of factors influencing costs in trading companies. The remaining results are presented in: (Dyhdalewicz, 2014).

In the author's opinion, the report information user should receive quantitative-qualitative information on important cost factors which influence the structure and amount of costs as well as the actions taken for optimization of costs, which have an influence on generating the value of the enterprise. The effectiveness of managing costs of a trading company depends on the ability to accurately diagnose cost driving factors and forecast their influence on costs in the future. Belonging to a given sector and branch is the determinant of many economic-financial phenomena in economic entities. Trading companies were chosen for the analysis, since:

- 1) trade, as a dynamically developing branch of the Polish (and world) economy, constitutes the main object of economic activity for many companies. The data published by the Main Statistical Office (GUS) show that trade is the activity of about 27% of the total number of companies, employing approximately 15% of the total number of employees and generates about 17% of GDP (GUS 2013, p. 735, p. 239, p. 701).
- 2) in the literature on accounting one observes the one-sidedness of existent conceptions, cost accounting methods and cost management, whose solutions comply with the specifics of operation of manufacturing enterprises.
- 3) there are not many empirical research studies on the specifics of cost-based management and measurement systems of trading companies' achievements, of either individual economic entities or capital groups, including factors characteristic of proper strategic management as well as of branch specifics of companies.

In the field of cost management of trading companies one can observe a lack of in-depth research studies, although cost management in practice is discussed in many works. As for empirical studies on costs, the most frequently discussed subject has been the changes occurring in the cost accounting systems in Polish practice and causes of these changes, the process of creating the systems of management accounting and major barriers in their development (e.g. Dyhdalewicz, 2000, p. 33-38; Szadziewska, 2002, p. 90-112; Sobańska, 2003, p. 476-498; Karmańska, 2006, p. 54-76; Szycha, 2008, p. 189-247), as well as research on the scope and character of the initiative taken by Polish companies in the area of costs optimization (KPMG, 2009). The conclusions resulting from the research studies do not take into account the specifics of trading companies. Analyzing the contents of annual reports is the first stage of a multi-aspectual research focused on the presentation of the specifics of cost management in trading companies, which will determine the direction of further analyses aiming at choosing methods and measurements of achievements in the field of cost management, including characteristics of the conditions and processes in them.

Research methods employed in the study were the analysis of the contents of annual reports prepared according to International Financial Reporting Standards (IFRS) of selected listed companies and the method of case studies, which create a basis for further research activity. The companies were chosen according to the criterion of availability of annual reports on the Internet. The research group is composed of listed companies belonging to the IT trade sector in the database Money.pl. Reports were analyzed for elements grouped in the following categories:

- 1) financial and non-financial information included in financial reports:
 - a) presentation of financial data on costs in total income reports: calculation variant, comparative variant, report layout: single financial report, two reports,
 - b) information on the range of costs created as a result of trading activity: own costs of sale, sales costs, general management expenses, other operational costs, financial costs,
 - c) information on costs by type: explanation of the position of costs, the structure of costs,
 - d) information on other groups of costs: structure of other operational costs and financial costs,

- e) information on operational segments: presentation of costs according to products and services, geographical regions, major clients.
- 2) information on risk versus cost-driving factors: credit risk, liquidity risk, market risk: foreign exchange risk, interest rates and price risk, other kinds of risk.

THE ANALYSIS OF INFORMATION ON COSTS IN FINANCIAL REPORTS

The following entities were included in the research study:

- 1) Group ABC Data S.A. operating in the sector of wholesale trade of IT equipment, peripherals and software, and ICT services in Central and Eastern Europe,
- 2) Group AB S.A. operating in the field of wholesale and retail trade of computer equipment, consumer electronics, computer programs, assembly and repair of computer equipment as well as other IT services on the markets of Central and Eastern Europe (Poland, Czech Republic, Slovakia),
- 3) Group Action S.A. operating in the field of wholesale trade of computer equipment and software, mainly on the domestic market,
- 4) Group ASBISc Enterprises PLC dealing with sales and distribution of hardware and software on the following markets: the countries of the former USSR, Central and Eastern Europe, Western Europe, the Near East and Africa, and others,
- 5) Group Komputronik S.A. operating in the field of retail and wholesale trade of computer equipment and peripherals as well as offering IT and implementation services, mainly on the domestic market.

The main empirical research material were the annual reports of these groups for the financial year finishing 31.12.2012; in the case of AB S.A. finishing 30.06.2013, for Komputronik S.A. 31.03.2013. Such sources of empirical material were chosen because of their availability and similar standard of preparation. All of the analyzed IT trading companies are organized as holdings, so they comprise a dominant entity and subsidiaries. Apart from ASBISc, these have a parent company registered in Poland. The activity of these holdings comprises the following key areas: computer equipment trade, software trade and IT services.

The accounting policy is one of the basic documents in which stakeholders are informed about the accounting principles used in preparing the financial reports, which take into consideration the specific character of an entity. Economic operators are obliged

to describe methods used for the presentation given elements of their financial report. At the first stage of the research the way the financial data is presented and the form of the report was determined. The consolidated statement of comprehensive income (in Komputronik S.A. called the consolidated profit and loss account) has the basic meaning of the presentation of all significant revenues and costs. The MSR 1 “Presentation of financial reports” does not specify the model of a statement of comprehensive income, it contains only a minimal range of data to be included in it, allowing entities to choose the form of presentation for their total income report and the presentation of costs in the report. This means that given elements may be modelled and extended at the entity’s discretion. However, it should be observed that the presentation of the information should include costs, which are of importance for the current and future financial results of an entity.

In the statement of comprehensive income the researched entities can choose between the format of a single statement of comprehensive income and the format consisting of two parts: a report presenting elements of the profit and loss account and a report which begins with profit or loss and presents components of other comprehensive income constituting revenues and expenses settled directly with equity, with the exception of transactions with shareholders. The analyzed entities, such as: AB S.A., ASBISc and Komputronik S.A., use the two-part format, whereas ABC Data S.A. and ACTION S.A. present one statement of comprehensive income.

The researched entities chose the presentation of costs by means of the function of the expense method. According to the entities, this form of presentation provides more relevant and reliable information on costs. At the same time in the additional information they (apart from ASBISc) disclosed information on the nature of expenses.

The next stage of the research consisted of conducting a detailed analysis of the items presented within distinct groups of costs.

The costs of an enterprise constitute a category of complex character, which results in various interpretations of this term in practice. Therefore, the analysis of the contents was begun with descriptive information disclosed in the framework of accounting policy on the range of given categories of costs. The results of the research are presented in Table 1.

Table 1: The scope of disclosure in accounting policy on given groups of costs in the analyzed IT trading companies

| <i>Category of costs</i> | <i>Explanation of scope of given categories of costs</i> | <i>Analysed holdings</i> |
|---|---|---|
| Own cost of sales or Cost of sold products, goods and materials (ACTION S.A.) | No description | AB S.A., ASBISc, Komputro- nik S.A. |
| | It includes the value of sold goods and licenses at purchase price as well as the use of materials and purchase of foreign services from subcontractors for the needs of services offered. This cost also comprises write-downs of inventories, the cost of used equipment and packaging recycling, reprographic charges, inventory discrepancies, losses occurring during transportation of goods to customers as well as the change of the level of provision for guaranteed repairs. | ABC Data S.A. |
| | Costs according to the place where they were incurred. | Komputronik S.A. |
| | Comprises own cost of goods and services sold, including auxiliary services as well as foreign exchange gains and losses, excluding the exchange rate differences resulting from the settlement and leasing liabilities valuations and excluding the exchange rate differences resulting from the settlement and measurement of foreign currency loans. | ACTION S.A. |
| Exchange rate changes on gross profit | Additional item, no description. | ASBISc |
| Sales expenses | Comprise personnel and administrative expenses of sales, marketing and logistics departments, costs of storage, insurance and transportation of goods, advertising costs, expenses arising from handling guarantees, as well as costs of insurance of receivables and impairment losses of payables. | ABC Data S.A. |
| | Consist mostly of remuneration and allowances for sales personnel (sales, marketing and logistics department), marketing and advertising costs, commissions and mission expenses. Sales costs also comprise the costs of insurance of receivables and impairment losses of payables. | ASBISc |
| | No description. | AB S.A., Komputronik S.A., |
| Sales and marketing costs | Comprise the costs of intermediaries in the sale, sales costs, commercial costs, advertising and promotion costs as well as distribution costs. | ACTION S.A |
| General administrati- ve expenses | Consist mostly of cost of wages and remuneration as well as the cost of renting. | ASBISc |
| | Include costs related to managing and administrating the company as a whole. | ACTION S.A |
| | No description. | AB S.A., ABC Data S.A., Komputronik S.A. |

| Category of costs | Explanation of scope of given categories of costs | Analysed holdings |
|--|--|---|
| Other operational costs (ABC Data S.A., AB S.A., Komputronik S.A.) Other costs and losses (ACTION) Other profits and losses (ASBISc) | Operational costs, including in particular decommissioning costs and sales of non-financial fixed assets, shortages of some assets, court fees, contract penalties and fines, free-of-charge supplying of financial and material assets, foreign exchange losses resulting from leasing measurement and settlement as well as from the foreign currency loan measurement and settlement, assets impairment losses (excluding those included in financial costs), compensations, depreciation of fixed assets under construction, which did not give the intended economic effect, research costs, costs of execution of receivables and liabilities. | ACTION S.A |
| | No description. | ABC Data S.A., AB S.A., AS-BISc, Komputronik S.A. |
| Financial costs | Comprise in particular: interest on loans acquired, financial leasing interest, commissions on credits, loans. | ACTION S.A |
| | No description. | AB S.A., ABC Data S.A., Komputronik S.A., ASBISc |

Source: Own research on the basis of consolidated financial reports for the year finished 31st December 2012 and for the financial year 2012/2013 (Grupa AB S.A., Komputronik S.A.)

Table 1 shows that the listed categories of costs are composed of many elements whose identification is not easy, and with the lack of information – even impossible. The discrepancies between entities may, in fact, concern all groups of costs. The basic items are the costs of main operational activity, presented by function, as follows: cost of sales, the cost of sales and general administrative expenses. The researched entities considered this form of presentation to provide more reliable and useful information. Next, other operational costs and financial costs are presented. The analysis of the solutions used by these entities shows that they presented not only various items of costs, but also used different names for a given group of costs.

Not all of these entities explained the scope of the listed categories of costs, which are included in the statement of comprehensive income. The majority did not explain the scope of the basic group of costs, i.e. the own cost of sales. One of them, Komputronik S.A., stated that in order to group costs it used a classification based on the place where they were generated.

It can be assumed that in all of the analyzed entities the own cost of sales, which dominates in the structure of total costs, includes the value of goods sold at acquisition cost (apart from the purchase price, acquisition cost also includes transaction cost, which can be attributed directly to the purchased product), as well as intermediate consumption and the purchase of foreign services from subcontractors for the needs of the services offered. It can be

problematic to identify the scope of other items of costs included

in the own cost of sales and in general administrative expenses and sales costs. In the researched entities the same cost items are presented in different groups, for example the cost of impairment losses of inventories are included both in other operational costs (e.g. in ACTION S.A.) and in own cost of sale (e.g. in ABC Data S.A.). Furthermore, the costs incurred as a result of revaluation of receivables are presented in sales costs (e.g. in ASBISc and ABC Data S.A.) and also in other costs and losses (e.g. in ACTION S.A.). Another cost item presented in various ways is foreign currency changes on buying and sales transactions. In the case of ASBISc this item is placed after gross profit and before foreign currency changes. In ACTION S.A this item is included in the scope of own cost of sales. In other entities the information regarding this item is not disclosed.

Another area of differences is the segment of other operational activity. The costs in this segment are referred to as other operational costs (in: ABC Data S.A., AB S.A.), as other costs and losses in – ACTION S.A., while in ASBISc – as other profits and losses. Only ACTION S.A. gives the scope of this category of costs and it also provides information concerning the scope of financial costs in its accounting policy. In the other researched entities the main items constituting costs of other operational activity and financial costs resulting from financial information is included in explanatory notes on the statement of comprehensive income (See Table 2 and Table 3).

Table 2: Specific item division of costs of other operational activity in the researched IT trading companies

| <i>Holdings</i> | <i>Items of other operational activity costs</i> |
|------------------|---|
| ABC Data S.A. | Exchange losses, donations, premiums, provision for open purchase order, other costs. |
| AB S.A. | Hypermarket charges, costs of claims, provisions (costs of balancing the networks, warranty repairs, others) and impairment losses (receivables, inventories), deficits, damages, insurances, donations, court and debt collection costs, written-down debts, other costs. |
| Komputronik S.A. | Costs for reserves for future liabilities, loss resulting from the disposal of non-financial fixed assets, valuation of investment property based on the fair value model, impairment losses for the company, impairment losses for the value of fixed assets and intangibles, impairment losses for financial and non-financial receivables, impairment losses for inventories and a reversal of impairment losses, paid fines and compensations, other costs. |
| ACTION S.A. | Costs for writing-off receivables, costs for provisions for future liabilities, costs for valuation of financial instruments, costs for paid compensations, costs for impairment losses of receivables, costs for impairment losses of investments, loss resulting from the disposal of non-financial fixed assets, other costs. |
| ASBISc | Other profits and losses: profit/loss resulting from the disposal of tangible fixed assets. |

Source: Own analysis based on consolidated financial reports of the researched entities for the year finished 31st December 2012 and for the financial year 2012/2013 (AB S.A., Komputronik S.A.)

Grouping costs by type provides a measure of the level of consumption of particular factors related to trading activity. The analysis of a specific structure of costs by type leads to the conclusion that these researched entities have different attitudes towards the disclosure of costs by type. In explanatory notes ABC Data S.A. gives the most information of a financial nature. The following costs are presented:

- 1) amortisation,
- 2) consumption of materials and energy,
- 3) costs of renting and operating,
- 4) transport costs,
- 5) other external services,
- 6) taxes and charges,
- 7) cost of employee benefits,

- 8) other costs by type, including license fees.

External services (with a share of about 49%) dominate in the structure of costs by type. It was the reason why this entity decided to specify this item, presenting separately transportation costs, costs of renting and operating as well as other external services. Then costs by type were attributed to costs by function, i.e. to costs of sales and management. Additionally, the costs were divided as follows:

- 1) amortisation of fixed assets and intangibles as well as division into costs of sales and management,
- 2) employee benefits int: salaries, social security contributions, costs of retirement allowances, costs resulting from share-based payment arrangements, deductions for the Enterprise Social Benefits Funds, other costs of employee benefits; the costs were attributed to cost of sales and general management costs.

Table 3: Specific item division of financial costs in the researched IT trading companies

| <i>Holdings</i> | <i>Financial cost items</i> |
|------------------|---|
| ABC Data S.A. | Interest and commissions on loans, interest and commissions on other financial liabilities, others |
| AB S.A. | Interest on: loans, factoring, other liabilities, issued debt securities; commissions, other financial costs, foreign exchange loss surplus, the cost of option purchase, others. |
| Komputronik S.A. | Losses resulting from valuation and redemption of financial instruments measured at fair value through profit and loss; losses due to exchange differences |
| ACTION S.A. | Interest on credits and loans, leasing interest, interest and discounts resulting from factoring |
| ASBISc | Interest and banking charges, interest and payments resulting from factoring, other financial costs, other interest, exchange loss, net. |

Source: Own analysis based on consolidated financial reports of the researched entities for the year finished 31st December 2012 and for the financial year 2012/2013 (AB S.A., Komputronik S.A.)

Other entities used a summary presentation of 6 items of standard costs by type, such as: amortisation, consumption of materials and energy, external services, taxes and charge costs of employee benefits, other costs by type. ACTION S.A. expands other costs by type, distinguishing advertising costs and representation expenses, costs of non-life non-MAT insurances as well as other costs by type.

The comparison of the structure of costs by type is indicative of the technical and organizational level and the range of cooperative connections (external services). Analyzing the structure of costs by type, it can be observed that the costs of external services and the costs of employee benefits constitute the biggest share. The next item is other costs, which include advertising costs and representation costs.

THE EXTENT OF DISCLOSURES ON OPERATIONAL SEGMENTS

At the next stage of the research, analysis was conducted of descriptive and financial information on the presentation of information on costs within disclosure on operational segments. The IFRS 8 “Operational Segments” defines requirements regarding the disclosure in financial reports of financial and descriptive information on operational segments, as well as geographical areas of its activity, and also on its products and services; and on its main customers. The user of financial reports receives information on factors determining the specification of segments, which can also be considered cost-driving factors. The information on operational segments facilitates a better comprehension of the

results of the activity and a more comprehensive evaluation of risk and return on investments. The entity discloses information on the results of a segment, including that on given revenues and costs included in the results presented by the segment. The identification of segments of an enterprise is conducted on the basis of data from internal reports prepared for managerial purposes (Siewierska & Kołosowski, 2011; Międzynarodowe Standardy Sprawozdawczości Finansowej, Część A Założenia koncepcyjne i wymogi, 2011).

Two kinds of segments can be distinguished: business and geographical. The factors which distinguish a business sector are, for example, the kind of goods or services or methods of their distribution, while the factors which distinguish geographical sectors are, for instance, the similarity of political and economic conditions, the vicinity of location, or a special kind of risk in a given geographical region. This type of presentation was adopted by two of the researched entities. Both in AB S.A. and ASBISc the basic format of reporting division is based on geographical segments and the supplementary format – on the business segment. In AB S.A. the information disclosed in the geographical segment division comprises: revenues, assets, liabilities, amortization and the results in particular segments, additionally with the division into continued and discontinued operations. Wholesale and retail sales as well as the production of PCs constitute the supplementary reporting format (business segments); however, presented in it are only the division of revenues from sales of goods and products, assets and the acquisition of fixed assets according to business segments.

In the ASBISc report the presented information includes: revenues, operational results of sales in each segment without allocation of financial costs, other revenues and costs, and income tax.

The other researched enterprises disclosed only one reportable segment – distribution and information regarding the revenues resulting from the sales of goods and services.

Attention should be paid to the fact that enterprises which defined reportable segments did not disclose the information on costs related to the distinguished areas. It is possible to determine their value on the basis of revenues and financial results.

REPORTING ON RISK WITHIN THE IDENTIFICATION OF COST-DRIVING FACTORS IN THE ANALYZED ENTERPRISES

At the next stage of the research, analysis was conducted of information on economic risk as well

as adopted risk management strategies on the basis of a (management) activity report and explanatory notes.

On the one hand, risk has an influence on the presentation of financial information on costs and provisions constituting future liabilities; on the other hand, with the obligation of disclosing supplementary descriptive and qualitative information on their types, it has influence on the financial situation of an enterprise as well as the tools of given risk management used. The analysis of the included information regarding reporting on risk is indicative of certain specifics of the business type, in which the researched entities operate, and has similar causes of its occurrence. Table 4 shows the most important kinds of risk of conducted economic activity in relation to risk-driving factors and actions undertaken in the area of reduction and optimization of costs in the researched entities. Risk generators and cost-driving factors are found in both the environment and the activity of an enterprise.

Table 4: Specification of cost-driving factors in relation to the identification of risk in IT trading companies

| <i>Groups of costs</i> | <i>Risk type</i> | <i>Cost-driving factors</i> |
|--|---|---|
| Operational costs resulting from the maintenance of computer systems and own logistical system (general administrative costs, costs of sales). | Risk related to the dependence on IT and telecommunication systems (risk of failure, occurrence of delays). (ABC Data, ASBISc). | IT infrastructure supporting the process of managing a company. |
| Actions taken: Systematic expansion of IT infrastructure supporting the process of managing the business, employing teams of specialists, implementation of a system ensuring controlling and retrieving data in emergencies. | | |
| Financial costs | Interest risk resulting from interest rate fluctuations. (all researched entities). | Use of external financing. |
| Actions taken: Constant monitoring of the money market and effective management of balance sheet items which have an influence on working capital so that the amount of external financing could be reduced, with simultaneous maintenance of optimal availability of products and attractiveness of financing clients with trade credits. Planning demand for financing. The lack of strategy for protection from risk of interest rate increase. | | |
| Financial costs | Foreign exchange risk resulting from unpredictability of fluctuations of the exchange rate of a given currency (all researched entities). | A significant share in turnover of buying and selling goods in foreign currency, taking bank loans in other currency than the functional currency of an enterprise. |
| Actions taken: Implementation of hedge accounting procedures for a model of future cash flow hedges. Group ABC Data – centralisation of purchasing in the dominant company. | | |
| Operational costs | Risk of prices of finished goods and components. (ABC Data, ASBISc). | Storing finished goods and components till they are sold, price reductions done by producers as they are becoming obsolete and placing new products. |
| Actions taken: Managing provisions and maintaining a high coefficient of provision rotation. Clauses for price protection included in the majority of distribution agreements the companies have entered into. They allow for recovering a portion of the purchase price of unsold goods in the event their selling price decreases for the customers of a company. | | |

| <i>Groups of costs</i> | <i>Risk type</i> | <i>Cost-driving factors</i> |
|---|--|--|
| Operational costs (own costs of sales, selling costs or other operational costs) | Credit risk connected with customer lending (e.g. sales with deferred payment terms constituted 50-70% of total sales in Komputronik S.A.). (all researched entities). | Sales with deferred payment terms. |
| Actions taken: Preparing and implementing procedures aiming at minimising and constant monitoring of risk: <ul style="list-style-type: none"> ▪ cash purchase or pre-paid (customers beginning cooperation); ▪ evaluation of a customer in terms of their creditworthiness on the basis of financial documents submitted, financial reports ordered in economic inquiries, cooperation with debt collection agencies, law firms; ▪ the agreement of the insurance of receivables; ▪ overdue customer payments – suspension of current sales till the overdue payment is made. At the same time, depending on the repayment history of the overdue customer’s debt, the credit limit which was granted can be decreased or withdrawn; ▪ use of collaterals (ACTION SA, e.g. bank guarantees, agreements of receivables assignments, the transfer of ownership agreement). | | |
| Financial costs (interest on liabilities) | Liquidity risk connected with ensuring an optimal level of settling current liabilities of a entity. (all researched entities). | Need for financial resources. |
| Actions taken: Diversification of types of financing and optimization of interest costs, e.g. short-term bank credits borrowed as credits in the current account and credit lines as well as use of factoring services. Preparing a modified cash flow budget (current assets as well as due and payable liabilities) and long-term demand for cash. | | |
| Financial costs | Long-term investment risk (ABC Data). | Shares in companies and the possibility of loss of their value. |
| Actions taken: Recognizing impairment losses for investments. | | |
| Operational costs (own cost of sales) | Risk of distribution agreements with a limited number of suppliers (ASBISc). | Concluding contracts with suppliers, changing contracts or terminating them. |
| Actions taken: Meeting contractual obligations, including in agreements provisions ensuring protection from price fluctuations, deliveries of defective goods and inventory obsolescence | | |
| Operational costs | Risk of loss or damage to goods caused by the cause majeure. (ABC Data) | Gathering in one place goods of significant value creates risk of their exposure to fire, flooding, etc. |
| Actions taken: Insuring assets (including inventories) and potential lost profit. | | |

Source: Own research on the basis of consolidated financial reports and activity reports of the board of the researched entities for the year finished 31st December 2012 and for the financial year 2012/2013 (AB S.A., Komputronik S.A.).

In the above table the identification of information on costs and cost-driving factors is connected with the information on risk groups. It should be emphasized that the analyzed enterprises undertake similar activities and implement similar concepts in order to manage risk and costs of an enterprise. Synthetic economic risk disclosures included mainly in the activity report and explanatory notes are indicative of certain specifics of the sector in which these entities

operate. As for the researched companies, both kinds of risks are mentioned, external risks and internal, risks of operational character connected with the organisation of operational activity (procurement and sales logistics), in management of operational assets and liabilities, as well as risks in financial activity. The results of risks may influence the level of practically all costs which have to be incurred in an enterprise. Cost-determining factors can be divided into

factors of an operational character connected with operational risk (e.g. loss of receivables, depreciation of inventories, seasonal nature of sales) and factors connected with financial risk of an external character, (e.g. changes of interest rates, exchange rates, changes of prices of goods), as well as an internal character (e.g. liquidity loss). The kinds of risks which were mentioned are rather of a systematic character. The researched entities take concrete actions in order to minimise them and, as a result of optimize the costs of their conducted activity, which should be evaluated positively. Apart from the entities presented in the table, two more groups, ASBISc and AB S.A. also mention risk of change of legal regulations as well as their interpretation and implementation

CONCLUSIONS

Information on costs in annual reports results from informational obligations defined in current regulations of law, environmental needs, as well as each economic entity's individual approach to the presentation of financial information in financial reports and to disclosure of additional information (qualitative and financial) in explanatory notes and an activity report.

The analysis of information on costs indicates clearly that the researched entities choose different solutions in the field of disclosure, which can undeniably lead to lack of comparability of these categories in the financial report. It should also be noticed that the presentation in the same cost group of different specific items proves that factors influencing the amount and structure of costs in a given period among particular entities conducting trading activity in the same sector have various significance for the results.

Financial reports made for the needs of external users generate synthetic financial information, which enable the user to learn about factors determining the costs of an enterprise. It should be emphasized that the analysis of cost drivers based on them is time-consuming and requires searching for many explanations in additional information or in an activity report. In the conducted research study the entity was taken as the object of costs and as basic cost drivers – kinds of conducted activity, functions realized in an enterprise (first of all, selling goods and services, management, ensuring sales of goods and services) and the kinds of consumed resources.

(the instability of the tax system), which means the possibility of negative decisions in on-going or future judicial proceedings before courts and administrative bodies.

The researched entities also pay attention to environment-related risks – the influence of the macroeconomic situation (the rate of growth in the economy, household income, or income of enterprises), global competition, and price pressure in the sector. According to ASBISc, the factors may result in decreasing the market share, thus causing a smaller economy of scale. Additionally, increasing activity of suppliers on the market of e-commerce and direct sale of products to customers may also result in a danger of losing market share.

Information on costs by distinct operational segments were included most infrequently. The reason for not disclosing the information on costs and financial results may be to protect data from competitors. That is why, although companies present information on revenues resulting from sales, they do not include information on costs and results, which makes it impossible to evaluate return on investment and the level of risk in particular areas of activity constituting separate segments.

Presenting information on risk within holdings indicates cost drivers of both operational and strategic natures, external and internal, dependent on the enterprise and independent of it. The sector in which the researched economic entities operate is an important factor which has an influence on the identification of cost drivers and costs whose source is risk related to the conducted economic activity.

Generally, it should be concluded that information included in annual reports allow for the identification of cost drivers of trading companies, however, the limitation of information on it results from the requirements defined in legal regulations. It is confirmed by the generation of synthetic financial information on costs, which does not always reflect the cost specifics of trading companies. On the other hand, disclosing information on costs depends to a large extent on the individual approach of an economic entity, which was confirmed by the analysis of specific cost items in financial reports as well as information on risk related to economic activity, from which specifics of trading activity results to a largest extent. The receivers of the information

would like to understand the specifics of activity of a given enterprise and the motives of decisions taken. Therefore, in order to enhance the usefulness of annual reports, not only of trading companies, it can be suggested that in their activity report enterprises should:

- 1) indicate key development factors which influence the amount and structure of costs in the long run,
- 2) give selected measures and coefficients, which will be used to evaluate costs incurred in previous periods and assumptions planned for achieving goals set by the management in the area of costs in the future periods.

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