

Voluntary Disclosure of Unexercised Contractual Rights

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ABSTRACT

This paper explores whether agency and signaling theory explain voluntary disclosure of unexercised contractual rights in annual reports, and whether firm specific characteristics influence the likelihood of such disclosure. Leveraging a distinct type of unexercised contractual right – gift card breakage – we analyze voluntary disclosures of 79 US firms in the retail and restaurant/bar industries for the period 2013 – 2022. The results support the expectation that both signaling theory and agency theory are appropriate to discern motivations for voluntary disclosure as firms disclosing gift card breakage demonstrated stronger contrasts in several firm characteristics over non-disclosing firms. These differences were especially pronounced after the adoption of Accounting Standards Codification 606 in 2018, suggesting that disclosing firms were addressing information asymmetries arising from changes in accounting treatment to reduce agency costs and to signal their efficiency and effectiveness. The results should be of interest to investors, retail/restaurant managers, and accounting standard setters.

Keywords: agency theory, ASC 606, gift card breakage, signaling theory, unexercised contractual rights.