

Service sector in terms of changing Environment

The main process in the international financial reporting at the begining of 21st century

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Abstract

The process of adopting the IFRS and replace the national GAAP is maybe the most important process in the world economy financial reporting system and the first decade of the 21 century. This process is not primarily an exercise or attempt of reshuffling the chart of account, nor only technical accounting and financial reporting matter is it. Changing accounting principles means changing the language of the business. A new global financial reporting model, as a new harmonizes and standardizes reporting language has to be the result of that process. Such a change has a pervasive impact. In fact, each hotel, each insurance or any other company, is likely to spend a significant amount of time addressing concerns around tax, valuation, treasury, legal, people, technology, and communications, following this process.

Our objective in this paper is to discuss this actual process in the international financial reporting. Also, we will investigate the impact of this process on word hotel industry. The situation in Macedonian hotel industry will be study too. The aim of this paper is to stress the main activities in this process of creating an understandable accounting information system for the modern world industry economy, as well as for the modern hotel industry. The following research methods will be used for researching: the method of quality analysis, the description method, and the causal method.

Key words: Accounting Information System, Reporting model, International Financial Accounting Standardas(IFAS), Hotel Industry.

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1. Introduction

Accounting, as an information system is a subsystem of a Management Information System, that processes financial transactions to provide (1) internal reporting to managers for use in planning and controlling current and future operations and for no routine decision making; (2) external reporting to outside parties such as to stockholders, creditors, and government agencies. Globalization is one of the biggest social processes which the humanity has facing since ever. That's why its impact in the global economy is huge. Facing a global challenge accounting information system has called to produce consistent and comparable financial information. One of the main international accounting processes on the actual period is the harmonization of the national accounting systems. There are the two main systems which are disputing the first stage of being the benchmark: General Accepted Accounting Principles (GAAP) in national economies and International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board. The main effort to standardize global Accounting Standards is made by International Accounting Standards Board and American Financial Accounting Standard Board (FASB) which are working to align US standards with the International Financial Reporting Standards. Standardized accounting information system will provide better understanding of foreign companies among international investors and business partners. The main reason for conversion (or for adopting) the IFRS in the national economy on international frame, is the fact that the move to IFRS will improve the quality of financial reporting, mainly due to the increasing of transparency of disclosures and greater comparability between issuers of financial statements. Also, moving to a global financial reporting model by IFRS conversion may open up access to new sources of capital. On the global economy market, many global lenders, private equity firms, the international exchanges prefer IFRS reporting, due to its increased transparency, use of fair value which improves comparability to other companies and investments. By giving foreign investors greater insight into a companies' financial performance investors may be more comfortable and have more confidence in globally accepted set of accounting standards. From the business point of view, the main causes for IFRS conversion are:

- **Global positioning:** when the company do business globally, the financial reporting should be a reflection of this operational reality;
- **Cost reduction:** currently reporting process in the companies in many countries is under multiple (dual) standards: GAAP, national and local and IFRS. A significant saving can be made by consolidating a single reporting standards and eliminating the large number of reconciliations,
- **Internal control improvement:** during an IFRS conversion process, accounting policies and procedures in companies can be refreshed and improved,
- **Unavoidability:** to be aware that IFRS have been coming, that this process is reality more than ever before, is an advantage. Those countries which have been started with the conversion process early can implement an orderly, phased efficient process and avoid the problems and difficulties which carry out such kind of big project. IFRS are principles based set of standards that establish broad rules as well as dictating specific treatments.

A major step occur in August 2008, when The US SEC (SEC- Securities and Exchange Commission) has supported the idea of a unified worldwide accounting system and voted to propose a road map for conversion end eventual adoption of IFRS. Hotel companies can also have a benefit from improved ability to benchmark with peers and competitors (IFRS in Tourism, hospitality and Leisure: *More than Accounting*, Deloitte development LL.C, 2008, www.iasplus.com). Hotel industry is the world's largest service industry, employing millions of people working in hotels, restaurants, cruise lines, resorts, private clubs, casinos, and bed-and-breakfasts throughout the world. Hotel industry enterprises

(hotels & restaurants in accordance with National Classification of Activities, National Gazette, 2003) have to demonstrate the “true and fair view”¹ of their financial position for the external user’s needs, also to create an system of successfully segment reporting for the business performance for the managers and other internal and external users. For the hotel industry, there is on another set of accounting standards, known as Uniform System of Accounts for Hotels (USALI), which also have to be harmonizing with IFRS.

2. The Financial Reporting field in the world recent years

The most discussed issues at the Financial Reporting field recent years is, the problem of conversion (or adopting the IFRS) the national General Accounting Principles (GAAP) toward International Financial Reporting Standards. This is a result of wide variety of different definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses between the countries in the world economy. International Financial Reporting Standards set comprise of:

- **International Financial Reporting Standards (IFRS)** - standards issued after 2001;
- **International Accounting Standards (IAS)** - standards issued before 2001;
- **Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC)** - issued after 2001;
- **Standing Interpretations Committee (SIC)** - issued before 2001.

There is also a **Framework for the Preparation and Presentation of Financial Statements** as a foundation of the Standards, describes the principles for IFRS. A Framework is the foundation of accounting standards. The underlying principles used in IFRS are:

- **Accrual basis principle** - the effect of transactions and other events are recognized when they occur, not as cash is gained or paid.
- **Going concern principle**- the financial statements are prepared on the basis that an entity will continue in operation for the foreseeable future.

2.1. Adoption of IFRS

The need for global accounting standards have become more urgent under fire for not providing a clear picture of company financial condition, and contributing to the global financial crises. The adoption of IFRS as common accounting standards in the reporting of financial information’s has taken hold first in Europe than globally in the world. IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, Malaysia, Pakistan, Chile, Brazil, GCC countries,(Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates -UAE, and Oman) Russia, South Africa, Singapore and Turkey. As of 27 August 2008, more than 113 countries around the world, including all of Europe, currently require or permit IFRS reporting. Approximately 85 of those countries require IFRS reporting for all domestic, listed companies.

2.2 Convergence of US GAAP - the major IASB current project

¹The ‘true and fair’ concept has been a part of English law and central to accounting and auditing practice in the UK for many decades.

Despite its importance there is no legal definition of the expression. The meaning of ‘true and fair view’ develops over time as accounting standards are issued and new accounting issues are debated. The US and International Accounting Standard equivalent of the concept is fair presentation.”

In accordance with **A Dictionary of Business and Management** | 2006 | [A Dictionary of Business and Management](http://www.encyclopedia.com). 2006. *Encyclopedia.com*. 20 Nov. 2009 (<http://www.encyclopedia.com>),

In 2002 at a meeting in Norwalk Connecticut, the IASB and the US Financial Accounting Standard Board (FASB) agreed to harmonize their agenda and work towards reducing differences between IFRS and US GAAP. In February 2006 FASB and IASB issued a Memorandum of Understanding including a program of topics on which the two bodies will seek to achieve convergence by 2008. US companies registered with the United States Securities and Exchange Commission – US SEC must file financial statements prepared in accordance with US GAAP. Until 2007, foreign private issuers were required to file financial statements prepared either (a) under US GAAP or (b) in accordance with local accounting principles or IFRS with a footnote reconciling from local principles or IFRS to US GAAP. This reconciliation imposed extra expense on companies which are listed on exchanges both in the US and another country. From 2008, foreign private issuers are additionally permitted to file financial statements in accordance with IFRS as issued by the IASB without reconciliation to US GAAP. There was broad expectation among US companies that the SEC will move to allow or require them to use IFRS in the near future. In August 2008, the SEC announced a timetable that would allow some companies to report under IFRS as soon as 2010 and require it of all companies by 2014.[†] The SEC received over 220 comment letters from a diverse group of constituents on its timetable. Some of the key points included: The ultimate goal must be the worldwide use of a single set of high quality financial reporting standards ; Most respondents support continuation of the convergence process; Users prefer a principles-based accounting framework that includes application of sound professional judgment coupled with clear and transparent disclosures about the economic substance of the transaction, the reasons for reaching that conclusion, and the related accounting for the transaction. The reason for the acceptance of IFRS is that they are not as rules-based as U.S. generally accepted accounting principles and therefore not as cumbersome to use. U.S. GAAP contains the equivalent of 25,000 pages of instructions versus 2,000 for IFRS. Regulators and investors agree that the universal acceptance of one accounting language will facilitate cross border investment and the flow of capital. The benefits of the switch to IFRS will largely accrue to sophisticated investors. U.S. hospitality companies with foreign subsidiaries that prepare financial statements in local country GAAPs which then have to be translated to U.S. GAAP will realize savings from a switch to IFRS. The cost of maintaining staff that perform this accounting research and translation work can be reduced with the switch to one worldwide GAAP as IFRS/IAS.

2.2.1. Convergence or adoption

Much current discussion in USA connected with the IFRS is the issue for IFRS adoption or convergence to IFRS. Because there is a significant differences between this processes. Adoption means to accept the IFRS as a national GAAP, while the process of convergence look for eliminating the differences between the two sets of standards. Issuance of the SEC's proposed IFRS roadmap has done a good job focusing arguments about the benefits of a global set of accounting standards. While many commentators of the roadmap had concerns about various aspects of the proposal, the majority believed the ultimate goal should be one set of high-quality, globally accepted accounting standards. However, there is disagreement on how to get there. Some say that adoption of IFRS is the only way to achieve the goal. Others believe that much more convergence between the standards is needed before the US should consider adoption. More convergence will make adoption easier and less costly and may even make adoption of IFRS unnecessary. Supporters of adoption believe that convergence of U.S. GAAP and IFRS without adoption will fall short of the benefits that accrue from adoption of the international standards. Convergence alone will never eliminate all of the differences between the two sets of standards.

[†] Illustrative view for the plan convergence activities in USA see in: IFRS in Tourism, hospitality and Leisure: *More Than Accounting*, Deloitte development L.L.C, 2008, www.iasplus.com

Fig 1: Adoption or other way of harmonization of (with) IFRS in some major region and countries on international level

European Union (adoption): All listed EU companies have been required to use IFRS since 2005. In order to be approved for use in the EU, standards must be endorsed by the Accounting Regulatory Committee (ARC), which includes representatives of member state governments and is advised by a group of accounting experts known as the European Financial Reporting Advisory Group.

USA (harmonization: convergence or adoption):

Russia (harmonization): The government of Russia has been implementing a program to harmonize its National Accounting Standards with IFRS since 1998. Since then twenty new accounting standards were issued by the Ministry of Finance of the Russian Federation aiming to align accounting practices with IFRS. Full transition to IFRS is delayed and is expected to take place from 2011.

Turkey (adoption): Turkish Accounting Standards Board translated IFRS into Turkish in 2006. Since 2006 Turkish companies listed in Istanbul Stock Exchange are required to prepare IFRS reports.

Australia (harmonization, looking for ways for adopting): The Australian Accounting Standard Board (AASB) has issued 'Australian equivalents to IFRS' (A-IFRS), numbering IFRS standards as AASB 1-8 and IAS standards as AASB 101 - 141. The AASB continues to mirror changes made by the IASB as local pronouncements. In addition, over recent years, the AASB has issued so-called 'Amending Standards' to reverse some of the initial changes made to the IFRS text for local terminology differences, to reinstate options and eliminate some Australian-specific disclosure. There are some calls for Australia to simply adopt IFRS without 'Australian sing' them and this has resulted in the AASB itself looking at alternative ways of adopting IFRS in Australia.

Canada (adoption, in process): The use of IFRS will be required for Canadian publicly accountable profit-oriented enterprises for financial periods beginning on or after 1 January 2011. This includes public companies and other "profit-oriented enterprises that are responsible to large or diverse groups of shareholders."

India (harmonization with revising existing standards, in process) The Institute of Chartered Accountants of India (ICAI) has announced that IFRS will be mandatory in India for financial statements for the periods beginning on or after 1 April, 2011. This will be done by revising existing accounting standards to make them compatible with IFRS. Reserve Bank of India has stated that financial statements of banks need to be IFRS-compliant for periods beginning on or after 1 April, 2011.

Japan (harmonization): The Accounting Standards Board of Japan has agreed to resolve all inconsistencies between the current JP-GAAP and IFRS wholly by 2011.

Hong Kong (adopting): Starting in 2005, Hong Kong Financial Reporting Standard (HKFRS) are identical to International Financial Reporting Standards. There is one Hong Kong standard and several Hong Kong interpretations that do not have counterparts in IFRS. Also there are several minor wording differences between HKFRS and IFRS.

Singapore (harmonization): In Singapore the Accounting Standards Committee (ASC) is in charge of standard setting. Singapore closely models its Financial Reporting Standards (FRS) according to the IFRS, with appropriate changes made to suit the Singapore context. Before a standard is enacted, consultations with the IASB are made to ensure consistency of core principles.

(Source: own presentation)

Supporters of adoption believe that convergence of U.S. GAAP and IFRS without adoption will fall short of the benefits that accrue from adoption of the international standards. Convergence alone will never eliminate all of the differences between the two sets of standards. These differences create forces that try to push a standard setter to adopt the other's rules that are more flexible in order to eliminate disadvantages for their constituents. This is the race to the bottom problem that needs to be eliminated. Other advantages of adoption include reduced reporting costs for multinational companies, better comparability with other companies around the world and improved capital allocation by investors. IFRS are high quality. This has been validated by use of IFRS in more than 100 countries and acceptance by the SEC of its use by foreign filers without reconciliation. If the U.S. is the only IFRS hold out, it will be at a disadvantage. Those who support continued convergence over adoption say adoption supporters have not shown that the net benefits of adoption outweigh those of convergence. They believe adoption is just not right for the U.S. now. The U.S. is the largest capital market in the world and unique in critical ways. Giving up significant control of the standard setting process and throwing a U.S. regulatory and litigation system out-of-balance is too risky. Conceding that not all differences will ever be eliminated, there are those who believe that the comparability argument has been oversold.

The AICPA (American Institute of Certified Public Accountants) said it supports the goal of a single set of high-quality, comprehensive accounting standards to be used by public companies in the preparation of transparent and comparable financial reports throughout the world. However, before adoption of IFRS, it said the SEC should implement the recommendations of the SEC's Advisory

Committee on Improvements to Financial Reporting relating to the use of professional judgment. The Institute said the U.S. financial reporting system will take substantive, definitive steps to ready itself for IFRS only when the SEC sets a date certain for requiring companies to adopt IFRS (AICPA Supports IFRS Adoption, Recommends Changes to SEC Road Map, *Journal of accountancy*, April 9, 2009).

It's clear that the process of harmonization of USA GAAP with IFRS, either through adoption or through convergence is a process which can't stop, is our conclusion. The US should move onto the IFRS standards as soon as possible. Most of USA companies operate globally, so they need one set of accounting standards to follow in all markets. Accountants should receive the same training and follow the same standards everywhere. This would make interfacing with foreign subsidiaries substantially easier and save money. In addition, USA has a chance to become a leader in setting international standards and be at the forefront of nations adopting the international standards. Right now, US have the opportunity to take a lasting leadership role in global standard setting. If they do not switch to IFRS soon, they will lose all sway with the international standard setters and they will lose the influence over future global international standards. This will only hurt the US in the long run, because someday they will make the switch. One set of high quality financial standards, IFRS, will simplify investment decisions, eliminating potential financial misunderstandings. In simplistic terms, during international sporting events all teams compete on the same level playing field under the same rules. Each team does not play against another according to their separate national rules. Adoption would increase transparency and allow cross-border and multinational comparability of financial statements. This would ultimately lead to lower costs of capital.

3. Hotel industry in this process

The today hotel industry face with several essential issues as: how to save the hotel values in such conditions of working; how to improve their operation efficiencies; how to stay ahead of their concurrent on the global market, as international brand how to expanding into new markets; how to find ways to secure funding from investors to continue their expansions. These issues are closely connected with the actual hotel industry significant competitive realities:

- having operations and assets that span countries and continents on the one side, and the tap increasingly global capital markets on the other side;
- the managing of hotel working process in such conditions, face a variety of rules and regulations, tax jurisdictions, building and occupancy codes, lease and tenant issues, finance and accounting concerns.

Solution for some issues may be development strategy such as: cost reduction, reaching out the guests via Internet communication, as well as strengthening the hotel brands through emphasis on green principles in hotel activities to both development and operations.

For the other group of issues as a variety of rules and regulations, tax jurisdictions, building and occupancy codes, lease and tenant issues, finance and accounting concerns as a Fair Value Measurements, moving to a global financial reporting model, as a new harmonize and standardize reporting language , it seems that is only solutions. This model includes the implementation of IFRS widely in the world economy, as well as in the hotel industry.

Hotel management and hotel accounting information system are under influence of all above mention trends, both in hotel industry and in global financial reporting. It seems that the lodging industry was on of the first industries which has been developed a set of accounts standards as a specific guidance to accountants and operators. This set is known as USALI. As a System, USALI has a long background since 1926, when by the Hotel Association of New York City was published the first edition.

USALI has a very important role in Hotel Company's management. As a system of accounts, USALI were and are contained in the US GAAP. But, into US GAAP the concepts of uniformity of layout and presentation were and are still not stressed, so the USALI has been evolved as an instrument which

established standardised formats and accounts classification, uniform terminology and accounting procedures to be used in the preparation and presentation of financial information's in the lodging industry. The USALI is highly departmentalized system of accounting, and includes Department Statements of Income. According to the USALI, there two main department classifications in a hotel: operating or revenue producing department (rooms, food and beverage, telecommunications and similar) and overhead departments (administrative and general, date processing, human resources, transportation, marketing, guest entertainment, energy costs, and, property operations and maintains). The USALI itself provides for up to 30 departmental statements for already mention departments, and also for: garage and parking, golf shop, guest laundry, health centre, swimming pool, tennis shop, other operating departments, rental and other income, information services, security, franchise fees, management fees, rent, property taxes and insurance, interest expense, depreciation and amortization, income taxes, house laundry, salaries, and wages and payroll taxes and employee benefits. The USALI, also discusses, between the others, the following problems: the calculation of the incentive management fees; the recognizes of barter transactions, specialized ratios for hotels and restaurants, condo hotel reporting of revenues, mixed-ownership lodging facilities, summery operating statement, balance sheet. The USALI also discusses a sample chart of accounts and the structure of Income Statement.

Today many discussions are addressed to latest edition of USALI. The reason for these discussions is the felt of many participants in the hotel industry that the USALI have to become a more modern standard system of accounts for the world hotel industry.

Having in a concern all above connotations and conclusions, its more than clear, that the issue of creation an edition of USALI which will be based on IFRS is going to be very actual. Our opinion for this issue is the following: it will be very usefully if hotel operators and their national, regional and world professional association initiate such project. The realization of such eventually project can be a parallel process with the process of harmonizing (adopting, or other way) the national and regional GAAP with the IFRS/IAS. The *USALI* is a great resource for the hospitality industry and should remain as such.

4. Hotel Industry[‡] in R. of Macedonia in this process

The Financial Reporting process in R. of Macedonia is based on the Company Trade Low (Sl. Vesnik na R.Makedonija: 28/ 2004, 84/2005 i 25/2007), Pravilnik for Accounting (Sl. Vesnik na R.Makedonija: 28/04, 11/05, 116/05) and on IFRS/IAS, which have been adopted as a National Macedonian Financial Reporting and Accounting standards by the Ministry of Finance by 1998. Of course, there were in there are a many difficulties in the process of implementation of IFRS in the Macedonian medium and big enterprises as a: luck of education and international accounting ethic, economic real condition without develop capital market, low level of foreign infestations, luck of strong professional accounting association with a role of leader in the education of human resources in the accounting and finance practice. Even in such conditions the process of Implementation of IFRS is go on. The main role in this process stills he the Ministry of Finance and the Commission for IFRS formed by the Ministry.

The Company Trade Low and the IFRS/IAS is the based frame for the financial reporting in the Macedonian hotel industry, also. The chart of accounts for the trade companies issued by the ministry of Finance is obviously for the hotels companies too. The financial statements shames are provide by the Ministry of Finance. The structure of the items in the shames is in accordance with the requirements of EU Directives and IFRS. The Commission for IFRS have to following the activities of IASB and the changes of IFRS.

[‡] “Hotel and restaurant sector “, in accordance with The National Classification of Activities in R. Macedonia

The Hotel Industry in R. of Macedonia do not operate globally, but of course on a some way they are present on global market and feel the influence of the globalization.

General conclusion of the results of our research we have been made last period (Kosarkoska Desa, (2010) . *New challenges for information system in hotel industry*, 66) is the following:

- The hotels manages in R. Macedonia don't use the USALI as an accounts standards and as a specific guidance to accountants and operators in hotel. They even don't know that such system of account exist (75% of examinees);
- 80% of the examinees, wont to use USALI in their hotel information system, but they need assistance;
- Only a 25% of the hotels have opportunity to use the financial indicators of their competitors as benchmarks.
- There is an urgent need of activities for creation a modern model of financial segment reporting, as significant part of hotel accounting information system in the R. of Macedonia hotel industry. In this process the coordination has to be done between: hotels, Macedonian Hotel Association (HOTAM), Government (Ministry of Economy, Sector for tourism), Economics Chambers for Tourism in Macedonia, Universities.

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Nomenclature

A radius of

B position of

C further nomenclature continues down the page inside the text box