THE QUALITY OF FINANCIAL REPORTING AS A PRECONDITION FOR DEVELOPMENT OF GLOBAL TOURIST INDUSTRY*

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Abstract: *The real and fair financial reporting is a prerequisite for further development of tourist industry on a global level. In this paper the emphasis is on the concept of quality of financial statements, with a special focus on the process of harmonization of financial reporting. Having in the mind that the tourism has become a relevant generator of a global economic development, a special part of paper analyzes accounting regulations and financial reporting framework in the most developed countries in the world, as well as a specificity of financial reporting of tourist industry in Serbia.*

Keywords: *financial reporting quality, harmonization, tourism, G20, Serbia*

1. INTRODUCTION

Financial statements generate information on profitability, efficiency of assets management, financial position and stability of the entity's cash flows, necessary for a wide range of users for their decision-making. Streaming to decrease information risks and to provide the conditions for quality business decisions, the users' requirements are aimed at reliable presentation of business performance, financial reporting free of bias and a high quality of published financial information.

The free movement of goods, services and capital, as well as the globalization of labor market imposes the need for comparing the financial reports of companies operating in different countries. The high-level comparability of financial information is achieved through reducing or eliminating differences in the recognition and measurement of assets, liabilities, capital, revenues and costs. The global business environment includes support in the field of internationally comparable financial reporting, which resulted in its internationalization. Indirectly and adequately, it plays a significant role in achievement of management objectives and strategies, and in improvement of companies' financial performances [1].

2. THE COMPARABILITY IN ACCOUNTING STANDARDS

The application of various financial reporting standards around the world reduces the benefits of globalization. Because of that, there are numerous advocates of harmonization of financial reporting that imply the process of reporting unification in different countries. That means an achievement a satisfactory level of comparability of financial information and determination the limits up to which it is acceptable for financial statements to differ [2].

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Initially, the problem of financial reporting on various bases is tried to be solved by the process of harmonization. However, this process does not mean a full equalization of accounting standards. In the 1980s, the idea of process of financial reporting convergence was developed [3]. The convergence refers to establishment of a uniform framework of financial reporting, as well as the creating a unique set of high-quality global accounting standards. That means the adopting and implementation of international accounting standards on a global level, as well as a preparing financial statement on a unique base. The global framework of financial reporting contributes to development of a unique economic market, efficient capital allocation, improvement of decision-making quality, as well as the reduction of financial risks.

For many countries in the world harmonization of financial reporting proved to be a huge challenge. This is because each country has the national specificities, the differences in legal systems, tax systems and in sources of finance, as well as the differences in the accounting profession. Sometimes, it is very difficult to give up from the established national accounting practice and principles of financial reporting. Some countries resist to challenges of harmonization and convergence of financial reporting, while others believe that the harmonization will jeopardize the national sovereignty, which can cause slowdown of that process. Regardless of previous, there are more advocates of process of harmonization who recognize the numerous advantages from greater comparability of financial information on a global level. The benefits from harmonization and convergence process are reflected in transparency, greater reliability of financial information, incentives for markets connectivity, as well as the simpler control of the entities having branches in other countries. According to them, the best solutions and ideas from national regulations should be incorporated in the international standards and interpretations.

The United States of America begins with discussions about importance of harmonization of accounting standards. As a result, the Financial Accounting Standards Board (FASB) was established in 1973. FASB is in charge of adoption of Generally Accepted Accounting Principles (US GAAP). The US GAAPs have a relevant influence on a global level which is a result of tradition, development of accounting profession and economic strength of this country [1]. The US GAAPs are under significant state influence which is being realized through activities of Securities and Exchange Commission (SEC).

Harmonization of financial reporting in the European Union has started with an adopting and implementation of Directives that provide a reasonably uniform level of financial reporting in Member States. The EU Directives prescribe the minimum requirements that Members States must fulfill when they prepare the financial statements. Accounting EU directives were „made with the comprehensive support of prominent authors in the field of accounting and financial reporting, and respecting the principles and practices developed in the countries with a long tradition in this area" [4]. Two directives cover the area of financial reporting - Directive IV which regards requests related to the annual financial reports and Directive VII which regulates consolidated financial statements. The EU Directive VIII prescribes the minimum requirements for legal audit of annual and consolidated financial statements. Despite the fact that certain progress has been made in the process of harmonization, the minimum requirements in directives are the reason why they did not contribute to the desired level of comparability of financial information in the EU area.

As an advisory body of the European Commission (EC) for different accounting problems and process of harmonization, the European Financial Reporting Advisory Group (EFRAG) is established by a broad group of organizations representing the European accounting profession,

preparers, users, and national standard-setters. The EFRAG provides technical expertise to the EC concerning the use of IAS/IFRS within Europe, participates in IASB's standard setting process and coordinates within the EU development of views concerning international standards of financial reporting [5].

The development of EU market and emerging of different financial instruments contributed to the deepening of the gap between directives and growing accounting needs [6]. The European Union continues the process of harmonization through adopting the International Accounting Standards (IAS). A professional organization named International Accounting Standards Committee (IASC) was founded in 1973 and it was in charge of adoption and changes of IAS standards.

The International Accounting Standards Board (IASB) was formed in 2001 and replaced the IASC. This organization continues to develop and improve existing standards and creates new standards named International Financial Reporting Standards (IFRSs). The EU adopted the regulation according to which all listed companies are required to prepare the consolidated financial reports using the standards issued by the IASB starting in 2005.

Although the United States of America represents the dominant economic force in the world, with a developed capital market and well-developed accounting profession and practice, it is noticeable that the IFRS standards are significantly more represented in the world. Currently, the US GAAPs are required only for domestic listed companies in the USA, while EU Member States and more than 120 countries around the world use the IFRS standards issued by the Board or national variant of them [3], which have increased the comparability of reporting internationally. The IASB appreciates the opinions of various professional organizations and national regulatory bodies from different countries, when creating and modifying the standards. On the other side, the working on the principle of transparency is not characteristic for the United States of America.

Harmonization of financial reporting takes place through reducing differences among the national accounting standards of different countries and IAS/IFRS, as well as the differences between IAS/IFRS and US GAAP. On that way, the comparability of financial statements of entities operating in major capital markets around the world has been increasing. The process of harmonization is gradually replaced with the convergence process, which task is a creation of a uniform set of high-quality accounting standards that would be used anywhere in the world [3].

The joint efforts of two dominant organizations in this field (FASB and IASB) are directed to elimination of differences between US GAAPs and IFRS standards. Since 2002, these organizations agreed to work together in the process of convergence of US GAAPs with IFRSs. They signed the „Norwalk agreement", with the aim of developing compatible and quality accounting standards that could be used for domestic and cross-border financial reporting [7]. This goal can be achieved through jointly development of standards, eliminating the differences whenever possible and "once converged, stay converged" [7].

The first major project of FASB and IASB was completed in 2007, and it refers to issuing of converged standards of business combinations. In the same year, the SEC cancelled the obligation of convergence of financial statements of foreign listed companies that use IFRSs with US GAAPs. Currently, more than 500 foreign SEC registrants, with a market capitalization of US

$7 trillion, use the IFRSs [7]. The Securities and Exchange Commission has not yet decided to include IFRS standards and interpretations into national system of financial reporting.

Despite numerous efforts and several significant joint processes of the FASB and IASB, the convergence of US accounting principles and IFRSs is far from realization. This is confirmed by the fact that nothing significant in convergence process has been done from 2007 [3]. At the same time, the significant differences in the principles, in recognition and measurement of certain balance items, still existed.

3. THE FRAMEWORK OF FINANCIAL REPORTING IN G20 COUNTRIES

The most countries in the world recognized an advantage of harmonization and convergence process of financial reporting, which are reflected in improvement of a quality of accounting standards, greater capital market efficiency, lower operating costs of multinational companies, as well as the greater mobility of the labor. The continuous process of the harmonization of the national accounting standards with IFRSs has been noted on a global level. The increasing number of countries around the world has decided to require or permit the use of IFRSs or a local variant of them.

Below is shown the use of IFRS standards in G20 countries[2]. The G20 represents a group of 19 the most developed countries in the world, including a four highly developed members of the European Union (France, Germany, Italy and the United Kingdom). The other 24 countries of EU are the twentieth member of the G20, and they figure together. Having in mind that the G20 members are strong advocates of an accounting standards convergence and the IASB-FASB convergence program, table 1 shows an implementation of IAS/IFRS in a consolidated financial statement of domestic listed companies in these countries, as well as the use of IFRSs by foreign listed entities [8].

The use of IFRS	Number of countries
IFRS (or standards that differ from IFRS to a certain degree) are required for domestic public companies	16
IFRS are permitted for domestic public companies	1
IFRS are not required for domestic public companies	3
IFRS are required or permitted for listings by foreign companies	16

Table 1. The use of IFRSs in the G20 members
Source: the author's calculation based on data of IFRS Foundation

The table shows that the sixteen members of G20 require an implementation of IFRSs or a local variant of standards for domestic listed entities. More precisely, the full implementation of IFRSs is required in twelve members, as well as the four countries in this group (Argentina, Canada, South Korea and Mexico) prescribe the use of IFRSs (or standards that differ from IFRS to a certain degree) for the most domestic listed companies. Standards that differ from IFRSs issued by the Board to a certain degree have been modified related to IFRSs. Their modification is made through the IFRS principles changes, additional disclosures or reduction of accounting options [9].

[2] The members of G20 are: Argentina, Australia, Brazil, Canada, China, France, India, Indonesia, Italy, Japan, South Korea, South Africa, Mexico, Germany, Russia, United States of America, Saudi Arabia, Turkey, United Kingdom and the other EU countries.

IFRSs are permitted only in Japan, with a possibility given to the business entities to apply the other financial reporting frameworks. Japanese public companies have been permitted to use designated IFRSs on a voluntary basis. If these entities do not choose to apply IFRSs, they can use one of the three sets of accounting standards when they prepare their consolidated financial statements: Japanese Accounting Standards (Japanese GAAP), Japans Modified International Standards (JMIS) or US GAAP [9].

The use of IFRS is not permitted in Indonesia, India and United States of America. Having in mind that a US GAAPs are international predominant due to the traditions, development of an accounting profession and its economic power, it is not unexpected that the USA is in the mentioned group of countries. National listed companies in India apply an Indian Accounting Standards (Ind AS), which are substantially converged with IFRS standards. At this moment, there is no formal commitment to the IFRSs adoption and full implementation by the national public companies. The national standards named Indonesian Financial Accounting Standards (IFAS) are applied in this country. Indonesia strives to converge the IFASs with IFRSs, as much as possible, but without a concrete plan for a full adopting of international accounting standards.

The financial reporting framework for foreign companies operating on a regulated market in G20 countries is different among countries. As a previous table shows, the IFRSs are required or permitted for listings by foreign companies in 16 members. The figure 1 shows an application of IFRSs in consolidated financial statements of foreign companies listing on G20 stock exchanges.

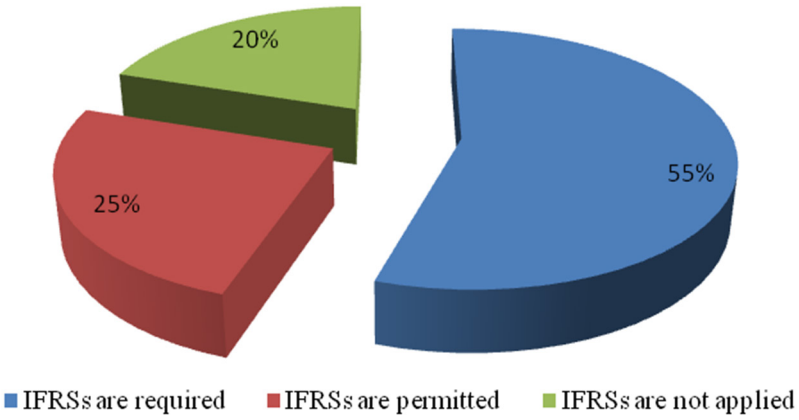

Figure 1. The application of IFRSs for foreign listed companies in G20 countries
Source: the author's calculation based on data of IASPlus

The most members (11 members or 55%) require the full implementation of IFRSs issued by IASB in consolidated financial statements of foreign listed entities, with certain exceptions. All EU countries require the mandatory application of IFRSs in the consolidated financial reports of foreign companies listing on a regulated EU market. Exceptions are foreign companies whose home accounting standards are equivalent to IFRS standards. In that circumstances, they can apply the national financial reporting framework.

The application of standards issued by IASB is permitted in five members of G20 (Australia, Japan, South Korea, Mexico and the United States of America), i.e. 25% of all members states. Foreign companies listing on the regulated market of Australia use IFRS, as well as they may apply their home accounting standards if approved by the stock exchange [8]. Mexico provides

an opportunity for foreign listed companies to choose between IFRSs and US GAAPs. The possibility of choice between several financial reporting framework is evident in South Korea. Except US GAAPs or IFRSs, the foreign companies in South Korea are permitted to use IFRS standards as adopted in Korea. Although domestic listed companies in the USA must use US GAAPs when they prepare their financial statements, an application of IFRSs is permitted for foreign companies listing on the US stock exchange [8].

The financial reports of foreign companies in the remaining four countries are not based on the IFRSs (India, Indonesia, China and Saudi Arabia). All foreign entities whose securities trade in an Indonesian public market are required to apply the Indonesian home standards. Currently, there are no foreign companies whose securities are traded in Chinese and Saudi Arabia securities markets. The current accounting regulations in China do not specify whether those entities would be permitted to use international standards [8].

4. A SPECIFICITY OF FINANCIAL REPORTING OF TOURIST INDUSTRY IN SERBIA

The financial reporting framework in Serbia is determined by the Law on Accounting from 2013. This law contributed to the ongoing process of harmonization of accounting rules and principles with the EU regulations and Directives, but is not fully compliant with the international professional regulations. An actual regulatory accounting framework [10] is characterized by using of three bases for financial statements creation: IFRS, IFRS for small and medium enterprises and a Rulebook of recognition, measurement, presentation and disclosure of financial statements items for micro and other legal entities issued by the Ministry of Finance [11]. Table 2 shows the different bases of financial reporting depending on the size of legal entities[3].

Type of legal entities	Financial reporting framework
Large companies	A full version of IFRSs
Medium entities	IFRS for SMEs or a full version of IFRS
Small entities	IFRS for SMEs
Micro entities and other legal entities	Rulebook issued by the Ministry of Finance or IFRS for SMEs

Table 2. The framework of financial reporting in Serbia
Source: The Law of Accounting from 2013

As the table shows, the large entities are required to apply comprehensive international standards of financial reporting issued by IASB. This obligation relates to all large entities, including financial institutions, legal entities which are obligated to prepare consolidated financial statements, public entities and legal entities that are preparing to become public. The small entities apply the IFRSs for SMEs. In comparison to the full IFRSs, they are less in volume and significantly simplified.

Relative to the large and small companies, the medium and micro entities can choose between two financial reporting bases. The right to choose between an implementation of the full or short version of IFRSs, as well as the selection between a Rulebook or IFRS for SMEs, reduces the comparability of financial statements and contributes to deterioration in the financial report-

[3] The criterions for classifying entities in the given categories are: the average number of employees during the year, the value of revenues generated during the year and an average value of assets during the year.

ing quality. According to the Serbian Business Registers Agency data (2018), micro-enterprises account for 89% of the total number of enterprises that were operating in Serbia in 2017 [12]. 89% of entities in Serbia have a possibility to choose the base of financial reporting, which directly derogates the comparability and a quality of financial information.

According to the actual national accounting regulations, the system of financial reporting includes two types of reporting – reporting for statistical purpose and public financial reporting [12]. The public financial reporting relates to availability of financial information to the economic decision makers. That means that financial statements are publicly available on the web site of Serbian Business Registers Agency. The agency timely provides the different information for the statistical and other state purposes.

The state gets the financial information of legal entities from different sections of activities through registers that are created by Agency. The creation of centralized and electronic registers by the Serbian Business Registers Agency ensures a unique registration practice that is harmonized with directives of EU.

The data of the Serbian Business Registers Agency shows that the most sectors in Serbia recorded the growth in 2017 [12]. The most intensive growth was recorded in the following sections of activities: F – Construction, G – Wholesale and Retail trade, N – Transportation and storage and I – Accommodation and food service activities. An average participation of all of non-transferable sectors in overall financial performances was slightly reduced (from 55.6% in 2016 to 54.5% in 2017.). Despite the previous fact, these sectors remained the main bearers of Serbian economic activity.

In the group of rapidly growing sectors, we can notice the sector I - Accommodation and food service activities. In 2017, the sector´s total revenues increased by 72% compared to 2013. The data of Agency show the increase of total expenses in the same period. In 2017, the total expenses recorded an increase of 62% comparing to the first year of observation. After many years of operation in a negative net results area, the sector I - Accommodation and food service activities realized the profit in 2017 in the amount of 2,5 billion dinars. The figure 2 shows an achieved financial result in 2013-2017 period [13], [14], [15], [16].

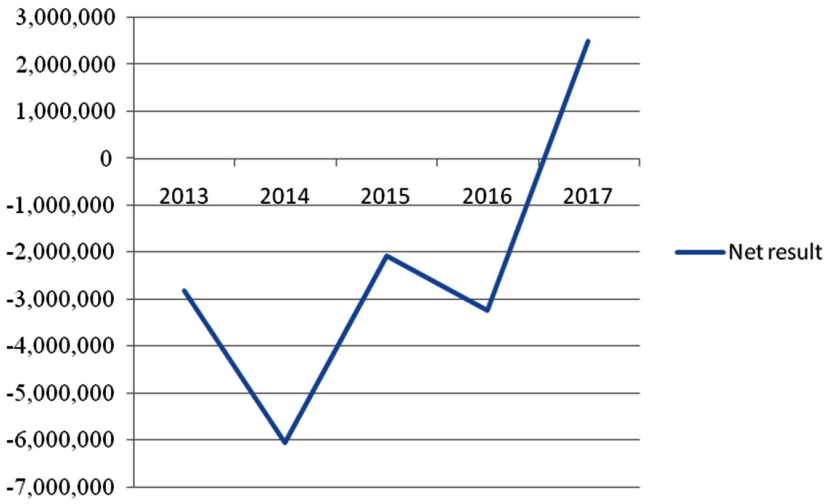

Figure 2. Net results in sector I in 2013-2017, in 000 RSD
Source: Financial Statements Annual Bulletin, 2014-2017

The greatest negative net result was realized in 2014 in the amount of 6,0 billion dinars. The sector continued to realize the bad financial performances in 2015 and 2016, but losses are reduced in comparison with 2014 (2,0 billion dinars and 3,2 billion dinars, respectively).

Apart from entering the profitability zone in 2017, this section of activities is also ranked as one of the sectors where the fastest growth of employees was achieved (6,2%). The following table shows the number of employees and the number of legal entities in this sector during the period 2013-2017 [13], [14], [15], [16].

Years	**2017**	**2016**	**2015**	**2014**	**2013**
Number of legal entities	3,689	3,560	3,204	2,949	2,939
Number of employees	25,903	24,380	22,440	20,351	21,298

Table 3. The number of legal entities and employees in sector I in period 2013-2017
Source: Financial Statements Annual Bulletin, 2014-2017

The Serbian Business Registers Agency publishes the macroeconomic announcements and the annual bulletin with aggregated information about business and financial performances of tourism sector, as well as the information about financial position and earning power of individual tourist enterprises.

Except the previous, the Agency leads the Register of Tourism that was established in 2010, in accordance with the Law of Tourism [17]. The key activity of the Register is to provide the information about registered entities in the sector of tourism, the tourist agencies and the tour operators. In this moment, 580 tourist agencies are registered in Serbia [18].

The Register of Tourism contributes to monitoring, analyzing and developing tourism, and indirectly provide the benefits to all stakeholders in this sector of economy: domestic and foreign users of tourism services, private sector companies as tourism services providers and public sector as a creator of tourism strategy in Serbia [18]. As an integrated and public base, the Register keeps records of tourist agencies, tourist organizations, categorized and non-categorized hospitality establishments, persons providing hospitality services in the private home and rural tourist households, providers of nautical services, tourist guides, etc. [18].

5. CONCLUSION

The activities that make tourist industry have become one of the leading world economy branches. Tourism is one of the key factors of progress, not only for the individual tourist destinations and countries, but also the global economy. This sector has a multiplied effect on local, regional and international development, as well as the development of complementary activities [19].

Having in mind that the tourism has become a significant generator of global economic development, it is very important to provide the fair and reliable financial reporting in this sector, as well as the comparability of financial information anywhere in the world. The financial statements have been useful to decision makers if they are relevant, important, reliable, comparable and credible presented [20]. The full transparency and reliable financial reporting contribute to strengthening the economic power, development of capital markets, and the efficient allocation of capital to the most promising entities [21].

A common need is to establish a unique set of reliable, understandable and enforceable global accounting standards that will be applicable on international level [1]. In accordance with the foregoing, the process of global harmonization, the IASB and FASB convergence process, as well as the adoption of high-quality global standards is becoming a necessity in modern business environment.

Despite numerous efforts and several significant joint processes of the FASB and IASB, the convergence of US Generally Accepted Accounting Principles and International Financial Reporting Standards is far from realization. The significant problems exist in the convergence process, but the IASB and FASB are working intensively to promote the comparability of financial information and creation a unique set of global accounting standards.

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