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# STRUCTURE, CONTENT AND ELEMENTS OF THE ACCOUNTING POLICIES OF HOTELS IN BULGARIA<sup>1</sup>

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**ABSTRACT:** A main goal of the report is to analyze disclosed data about specific assets and liabilities, revenues and expenditures, in the accounting policies of 20 hotels, offering accommodation and food services at the territory of Republic of Bulgaria. Subject of research are the accepted and applied accounting rules and practices for intangible assets; property, plant and equipment; inventories; depreciation; national and foreign money in cash; employee benefits; leases agreements; receivables and loans, revenues and expenses. For the purposes of the analysis, data from officially published financial statements in the Commercial Register from 2014, 2015 and 2016 were used, as well as information from the official websites of the hotels. The conclusions contributes to better understanding of the accounting approaches of Bulgarian hotels, used for developing and disclosing accounting policies and its elements.

**KEY WORDS:** accounting policies, accounting policy elements, hotel, disclosure, development.

**JEL CLASSIFICATION:** M410, M490

## I. INTRODUCTION

According to the Ministry of Tourism in Bulgaria, the tourism industry makes a big contribution to the development of our country's economy. In January 2018, visits of foreign tourists have increased by 18.8% compared to the data from January 2017. It is expected that the share of travel and tourism in Bulgaria's GDP will reach up to 16.7% in 2027<sup>2</sup>. A factor with a negative impact on the tourism development is the low investments to the enterprises<sup>3</sup> from the industry, which primary rely on grants from the European funds and framework programs. The creditors' trust in small and medium-sized tourism enterprises is low, which additionally reduces the funds for the development of business projects in the sector<sup>4</sup>. The financial and non-financial data, that is disclosed in the financial statements of enterprises, have a direct impact on the credibility of the creditors. A main document that is giving a complete overview of the current

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**<sup>1</sup> THIS IS A WORKING PAPER BEFORE THE REVIEW. THE FINAL VERSION OF THE PAPER CAN BE FOUND IN: RESEARCH, DEVELOPMENT AND EDUCATION IN TOURISM, CAMBRIDGE SCHOLARS PUBLISHING, PP.162-180, ISBN (10):1-5275-3719-6; ISBN (13):978-1-5275-3719-4.**

<sup>2</sup>International tourism - Bulgaria. January 2018, p.1., Online available at: <http://www.tourism.government.bg/bg/kategorii/statisticheski-danni/statisticheski-danni-za-mezhdunaroden-turizum-v-bulgariya-za-2018-g>, last access on 09.04.2018; National strategy for sustainable development of tourism in the Republic of Bulgaria, 2014-2030 Updated version 2017, p.21., Online available at: <http://www.tourism.government.bg/bg/kategorii/strategicheski-dokumenti/aktualizirana-nacionalna-strategiya-za-ustoychivo-razvitiye-na>, last access on 09.04.2018.

<sup>3</sup> Although the author understands the fundamental differences between the terms "organization", "enterprise", "hotel", "entity" and "company", for the purposes of the current paper, they will be used equally as synonyms of a legal entity that offers accommodation and food services in the sector of "Hotels and restaurants".

<sup>4</sup> National strategy for sustainable development of tourism in the Republic of Bulgaria, 2014-2030 Updated version 2017, p.9, p. 36, Online available at: <http://www.tourism.government.bg/bg/kategorii/strategicheski-dokumenti/aktualizirana-nacionalna-strategiya-za-ustoychivo-razvitiye-na>, last access on 09.04.2018.

and periodical (annual) accounting, adopted and applied by an entity, is the accounting policy<sup>5</sup>. In Bulgarian accounting practices, the development of accounting policies, as a component of the financial statements, is considered as a formal requirement and not as a significant part of the accountability. For the purposes of complying with this "obligation", when developing this internal normative document, it is prioritized by the approach of "universalization" rather than the "individualization" of the accounting policies. However, the development of similar accounting policies is in contradiction with the principal purpose of the document, that is to ensure that the information in the financial statements is reliable, prudent, neutral, impartial, complete in all significant aspects and most of all necessary for making reasonable economic decisions<sup>6</sup>.

Main hypothesis that the author advocates is that Bulgarian hotels' accounting policies are not complete which can contribute to loss of reliability and prudent of the financial statements. The disclosed information, even of hotels that are audited, doesn't present the needed data regarding the principles, bases, practices and rules of accounting of all entity's assets, liabilities, revenues and expenses. In this aspect the accounting policy doesn't compete with its purposes and definition. Without any claims of comprehensiveness, the main purpose of this paper is to analyze the disclosed information in the accounting policies of hotels, operating at famous Bulgarian tourist destinations, regarding specific assets and liabilities, revenues and expenditures. In order to achieve this goal, the author sets out the following research tasks:

- To outline the main approaches of accounting policies disclosures.
- To point out the main elements of the accounting policies of hotels by sections.
- To analyze the disclosed data of some of the main elements of accounting policies. In particular, a main object of more in-depth analysis are the disclosed information regarding accounting policies and practices, adopted and applied by the hotels, concerning intangible assets; property, plant and equipment; inventories; national and foreign money in cash and in bank accounts; employee benefits; leases agreements; receivables and loans, depreciation, revenues and expenses.

## ***II. METHODOLOGY AND LIMITATIONS OF THE RESEARCH***

The findings and conclusions are based on data from officially published financial statements in the Bulgarian Commercial Register from 2014, 2015 and 2016. In addition information from the official websites of the hotels is used. The analyzed accounting policies are of organizations providing tourism services, such as hotel accommodation and meals. The hotels are selected based on officially published charts for the best hotels in Bulgaria<sup>7</sup>. Based on the

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<sup>5</sup> For the purpose of the paper, accounting policies is perceive as "specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements". International Accounting Standard 8 "Accounting policies, changes in accounting estimates and errors", Commission Regulation (EC) No 1126/2008 from 2008, amended and supplemented. Commission Regulation (EC) No 70/2009 from 2009, article 5.

<sup>6</sup> Dushanov, Iv. International accounting standards. Introduction and alphabet. Romina, 2003, p.20.

<sup>7</sup> For more information about the charts see: <https://profit.bg/klasatsii/balgarski/top-25-na-hotelite-v-balgariya-spored-tripadvisor/>, last access on 06.01.2018; <http://www.economy.bg/charts/view/19648/Vizhte-koi-sa-naj-dobrite-hoteli-v-Bylgariya>, last access on 06.01.2018; <http://www.economic.bg/bg/news/6/naj-luksoznite-hoteli-v-balgariya.html>, last access on 06.01.2018; <http://www.danybon.com/interesno/top-10-lux-hoteli-bulgaria/>, last access on 06.01.2018.

listed charts, main objects of analysis are the accounting policies of 25 hotels<sup>8</sup>, from which 3 hotels operate at Varna city, 1 – at Burgas city, 7 – Sunny beach city, 1 – at Obzor city, 2 – at Golden sands city, 2 – at Bansko city, 1 – at Borovets city, 1 – at Velingrad city, and 7 – at Sofia city.

It should be noted that no data on published accounting policies were found, neither in the Bulgarian Commercial Register nor at the official websites, for 5 hotels<sup>9</sup> from the target group. Based on the accounting standards in Bulgaria, accounting policies are part of the notes to the complete set of the financial statements<sup>10</sup>. It should be noted that according to legislative requirements of the Bulgarian accounting act (AA) the annual financial statements of the micro-enterprises<sup>11</sup> can include only abridged statement of profits or losses and abridged balance sheet<sup>12</sup>. The financial statements of two of the analyzed hotels for which no data about their accounting policies were found are audited. However the financial statements are published at the Commercial Register without any notes to the statements. Furthermore 2 hotels have published a complete set of annual financial statements, except for the notes, accounting policies and additional information. Based on the above and the collected data from the financial statements of the hotels, it is justified a conclusion that only one of the analyzed organizations falls into the hypothesis of a micro-enterprise. In this respect as a major limitation of the paper is that no researches of the reasons for not publishing the required additional notes to the financial statements of the hotels are made. However, the lack of published accounting policies for these organizations does not necessarily mean that the hotels do not prepare or apply accounting policies. An additional limitation is the use of published data from 2014 and 2015 for some of the analyzed hotels. In this respect, due to the fact that for some of the organizations it has not yet been published financial statements in the Commercial Register for 2016 and 2017, it would not be possible to analyze whether they have made use of the opportunity to switch from International Accounting standards (IAS) to implementation of the national ones (NAS)<sup>13</sup>. The author does not intend to analyze the effect of the transition to the use of NAS by the target group hotels.

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<sup>8</sup> Hotel „mOdus“; „Grand hotel London“; “Graffit Gallery” Hotel; “Grand Hotel Primoretz“; „Sol Luna Bay Resort“; „DIT Majestic Beach Resort“; “Iberostar Sunny Beach Resort“; Hotel „Dune“; Hotel “Aqua Nevis Sunny beach”; Hotel „Royal Palace Helena Park“; Hotel “Riu Helios”; Hotel “Jeravi“; „Grifid Vistamar Hotel“; Hotel & SPA „Asteria“; „Kempinski Hotel Grand Arena“; „Premier Luxury Mountain Resort“; Hotel „Radina's Way“; Hotel “Royal Spa Velingrad“; „Grand Hotel Sofia“; „Central Park Hotel“; Hotel „Best Western Premier Thracia“; „Radisson Blu Grand Hotel“; Hotel „Arena di Serdica“; Hotel „Hilton“; „Sofia Hotel Balkan“.

<sup>9</sup> “Graffit Gallery” Hotel; „DIT Majestic Beach Resort“; Hotel „Dune“; Hotel “Jeravi“; Hotel „Best Western Premier Thracia“.

<sup>10</sup> National accounting standard 1 "Presentation of financial statements", prom. SG. no. 30 from 2005, amended and supplemented SG. No. 3 from 2016, p.1.3. and p.2.4.2; International accounting standard 1 "Presentation of Financial Statements", Commission Regulation (EC) No 1126/2008 from 2008, amended and supplemented Commission Regulation (EU) No 475/2012 from 2012, p.10.

<sup>11</sup> Based on the Bulgarian accounting act micro-enterprises are enterprises that do not exceed at least two of the following indicators, by 31th of December of the current reporting period:

1. book value of the assets - 700 000 BGN;
2. net sales revenue - 1 400 000 BGN;
3. average number of staff during the accounting period - 10 people.

<sup>12</sup> Accounting Act, promulgated SG. № 95 from 2015, amended and supplemented SG. № 97 from 2017, art. 29, par.4.

<sup>13</sup> Ibid, Additional provisions, § 8.

### III. GENERAL PRESENTATION OF THE SURVEYED HOTELS

Concerning the applied accounting standards from the analyzed hotels, 40% of them apply the international ones for their current and periodic accounting. The financial statements of 90% of the hotels are audited by an independent financial auditor, which can be seen as a factor for higher degree of reliability of the disclosed data in them, including in the accounting policies as well (see table 1).

**Table 1. Applied accounting standards of the hotels from the target group.**

<i>Name of the hotel</i>	<i>International accounting standards</i>	<i>National accounting standards</i>	<i>Audited by an independent financial auditor</i>
Hotel „mOdus“		X	Yes
„Grand hotel London“		X	No data found
„Grand Hotel Primoretz“		X	Yes
„Sol Luna Bay Resort“	X		Yes
“Iberostar Sunny Beach Resort“	X		Yes
Hotel “Aqua Nevis Sunny beach“		X	Yes
Hotel „Royal Palace Helena Park”		X	Yes
Hotel “Riu Helios”	X		Yes
„Grifid Vistamar Hotel“		X	Yes
Hotel & SPA „Astera“	X		Yes
„Kempinski Hotel Grand Arena“		X <sup>14</sup>	Yes
„Premier Luxury Mountain Resort“		X	Yes
Hotel „Radina's Way“		X	Yes
Hotel “Royal Spa Velingrad“		X	No data found
„Grand Hotel Sofia“		X	Yes

<sup>14</sup> At 2016 the hotel changes the applied accounting standards from IAS to NAS.

„Central Park Hotel“		X	Yes
„Radisson Blu Grand Hotel“	X		Yes
Hotel „Arena di Serdica“	X		Yes
Hotel „Hilton“	X		Yes
„Sofia Hotel Balkan“	X		Yes

Source: Annual financial statements and auditors reports of the hotels for the years 2014, 2015 and 2016.

In terms of the legal status of the analyzed hotels, 60% are registered as Single-member limited liability companies, 25% as Joint stock companies, 10% are Limited liability companies, and 5% are Single-member joint stock companies.

#### ***IV. STRUCTURE AND ELEMENTS OF THE ACCOUNTING POLICIES OF THE ANALYZED HOTELS***

Accounting policies of non-financial enterprises, including hotels, contain such elements<sup>15</sup>, which correspond to the activities, missions and visions of the organizations at the market economy state in which they operate. Therefore, there is no unified model of accounting policy and the document itself must be prepared in accordance to the informational and accounting needs of the enterprise. There is no legal requirement, as in Russia, that the accounting policies of organizations should be divided into two parts – one for the purposes of financial reporting and one for tax purposes<sup>16</sup>. Because of that in the Bulgarian accounting practices it is perceived that in the accounting policies, which are disclosed with the financial statements, there must be data concerning current and periodic reporting, as well as taxation of the enterprises. As a result, in the accounting theory and practice, there are many suggestions for a structure and model of accounting policies<sup>17</sup>. Specialists in this field are united around the idea that the accounting policy can be structured into four main sections:<sup>18</sup>

<sup>15</sup> For the purposes of this study, as elements of the accounting policy are understood separate accounting policies, that includes data for an accounting object. In this respect, the accounting policy is a set of separate elements about the rules and practices for each accounting object of the organization.

<sup>16</sup> Положение по бухгалтерскому учету Учетная политика организации” (ПБУ 1/2008) (утверждено приказом Минфина России от 06.10.2008 № 106н, с изменениями от 11.03.2009 № 22н, от 25.10.2010 № 132н, от 08.11.2010 № 144н, от 27.04.2012 № 55н.

<sup>17</sup> Averkovich, Ек., Accounting policy of non-financial enterprises, Faber, 2012; Dushanov, I., S. Basheva, H., Oreshkova and al., Standardization in accounting, Economics Press, 2009, p. 83-84; Bonev, J., Entity’s accounts organization // IDES, vol. 2/2015, year XIX, p.6, online available at: <http://ides.bg/media/1264/02-2015-zhivko-bonev.pdf>, last access on 28.01.2018; Pancheva, St., Guidelines for development of an accounting policy model of lyceums in the country, Working Paper. Scientific electronic archive of NBU, 2011, online available at: <http://eprints.nbu.bg/832>, last access on 28.01.2018; Jeljkov, D., N. Kostova, Accounting policy of enterprises, Farkom, 1995, p.15; Merazchiev, V., Accounting policies of banks, AP „Tzenov“, 2004, p.13-14; Dushanov, I., Accounting policy and accountability // Bulgarian accountant, p. 23-24, 2009.

<sup>18</sup>The idea of an accounting policy model of hotels is developed based on: Pancheva, St., Guidelines for development of an accounting policy model of lyceums in the country, Working Paper. Scientific electronic archive

1. In the first section ("general information"), it is appropriate to be provided data for the legal status of the entity; detailed information about the scope of the business activities; data on incorporation and registration; management body; information about the type, number and nominal value of registered stocks (if the hotel is Joint stock company); data on the type and rights of the shares (if the hotel is a Limited liability company); as well as any other information relevant to the legal status and the business of the enterprise. From all the hotels under consideration, 85% apply the proposed approach, while 15% do not disclose, in their accounting policies, overall information about the enterprises. From the hotels that haven't disclosed such kind of general information one organization is audited from an independent financial auditor, and information about its legal status, business matters, incorporation and registration are being disclosed in the activity report.

2. At the second section the disclosed information should be about the legislative framework, principles and work rules. Firstly, at the section there must be data about the general<sup>19</sup> and specific<sup>20</sup> normative and accounting acts, as well as internal accounting regulations. Secondly, there should be disclosed data on the basic principles and requirements regarding the current and periodic accounting. All surveyed hotels point out in their accounting policies information about the legal framework on which they do their accounting. However, none of them disclose data regarding the general normative acts and internal regulations. When it comes to the specific normative acts, the preponderance of the hotels provide information regarding the accounting bases for preparing the financial statements and lists the applicable accounting standards. 10 out of 20 from the analyzed hotels do not disclose data on the accounting principles applied by the enterprises. Two out of the remaining 10 hotels only refer to the article of the Accountancy Act where the accounting principles are listed, 3 – only point out the principles applied by the organization, and 5 - apart from pointing them out, also present information about their application in the accounting system of the hotel. 60% of all the hotels disclosing the accounting principles, only provide information about the application of the going concern principle, for the purposes of their financial statements. 20% disclose the application of the principles regarding their current and periodic accounting, and 20% only to their impact on the current accounting. We share the view of L. Kamburova<sup>21</sup>, that the disclosure of the accounting principles in the accounting policy should not be made only by literally quoting or transcribing them from the Accountancy Act. It is appropriate and useful to be provided information about the extent to which the principles are applied, whether an advantage has been given to one principle in relation to another, as well as the effect over the hotel's business activities and the accounting policy when the organization is unable to apply a principle. For the purposes of presenting complete and reliable information, it is useful hotels in their accounting policies also to provide data on the principles that are used for the current and periodic (annual) accounting.

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of NBU, 2011, online available at: <http://eprints.nbu.bg/832>, last access on 28.01.2018 and Averkovich, Ek., Accounting policy of non-financial enterprises, Faber, 2012.

<sup>19</sup> The general normative acts serve only to subtract certain principles and rules that are used to develop the accounting policy model. For more information see: Averkovich, Ek., Accounting policy of non-financial enterprises, Faber, 2012, p.21.

<sup>20</sup> Those are normative acts, resulting from the accounting legislation, and regulating the basic requirements for the development of an accounting policy model. For more information see: Averkovich, Ek., Accounting policy of non-financial enterprises, Faber, 2012, p.21.

<sup>21</sup> Kamburova, L., Contemporary aspects of the accounting policy of non-financial enterprises, p.12-13, online available at: [http://konkursi.unwe.bg/documents/286Avtoreferat\\_L\\_Kamburova.pdf](http://konkursi.unwe.bg/documents/286Avtoreferat_L_Kamburova.pdf), last access on 06.02.2018.

3. The third section covers the organizational and technical issues of the hotels' accounting. The disclosed data should cover information about the accounting form, the specific accounts included in the individual chart of accounts and their use; information on the created internal documents included in the organization's paper workflow, and any other relevant information. Three of the analyzed hotels indicate in their accounting policies data of a similar nature. A main information that is disclosed is that the accounting of the hotel is based on a documentary justification and in accordance with an individual chart of accounts, approved by the management.

4. The fourth section includes information on the accounting methodology of organizations' profits and losses, assets, liabilities and equity. For the purposes of disclosing data in this section of the accounting policy there are two main approaches. The first one is chronologically to the consistent of the accounting standards used by the entity. The second one is chronologically based on the content and components of the financial statements<sup>22</sup>. It is believed that, when adopting the second approach, the burden of the accounting policy is shifted from the rules of current accounting to the rules of preparing the financial statements<sup>23</sup>. According to the adopted by NAS 1 "Presentation of financial statements"<sup>24</sup> definition of the accounting policy, it should provide data on the methodology of both periodic and current accounting. Although accounting policy is an element of the financial statements (as a note), its preparation and disclosure should not be directed solely to the fulfillment of this statutory requirement. The disclosed information in accounting policy can have a significant impact on the decision makers who uses data from financial statements. Based on the above, and in accordance to the requirements of the NAS 1, we believe that the disclosed accounting policies of hotels should contain data on the applied methodology of the current accounting for each accounting object. For the purpose of fairly interpreting the information in the financial statements, as additional disclosure there should be data on the bases, principles and rules of the periodic accounting. This information can be presented as a component of the accounting methodology for each accounting object or as a separate element of the accounting policy.

85% of the analyzed hotels perceive the approach of disclosing their accounting policies closely related to the components of the financial statements. 5% chronologically lists the applied standards of the organization, and 10% apply an individual disclosure approach that does not adhere to any of the previously mentioned. Therefore, the structural models of most of the analyzed hotels should be prioritized towards the principles, norms and rules of their periodic accounting. When adopting such approach, for each of the accounting policy element, there must be information of the applied rules, bases and principles concerning the preparation of the financial statements. The focus of the accounting policy is entirely on the principles and rules of preparing the statements only to 10% of the reviewed hotels. The opposite is the trend for 20% of hotels that disclose data in their accounting policies only about the current accounting without specifying any information relevant to the financial statements. The rest of the hotels (70%) disclose data regarding both their current as well as their periodic accounting. Seven of them, disclose the methodology regarding their current accounting, separate from the information concerning the financial statements. Preference is given to the simultaneous disclosure of the

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<sup>22</sup> Petrova, Z., D., Zheljkov, Accounting policy of an enterprise, Pluton-1, 2003, p.100.

<sup>23</sup> Kamburova, L., Contemporary aspects of the accounting policy of non-financial enterprises, p.19, online available at: [http://konkursi.unwe.bg/documents/286Avtoreferat\\_L\\_Kamburova.pdf](http://konkursi.unwe.bg/documents/286Avtoreferat_L_Kamburova.pdf), last access on 06.02.2018.

<sup>24</sup> Adopted by Council of Ministers Decree No. 46 of 2005, am. SG. No. 3 of 2016, p.25.1.

bases, principles and rules of current and periodic accounting for each accounting object and not as a separate element of the accounting policy. It must be noted that all seven hotels are audited by an independent financial auditor and also disclose numerical data from the financial statements as parts of their accounting policies. The rest of the hotels (7) disclose information regarding the periodic accounting only for some of their accounting objects but not for all of them. There is no information about the reasons for disclosing such data only for certain elements of the accounting policy, as well as there is no data of the reasons why these elements are selected. It should be noted that the primary objective of the accounting policy is that the information in the financial statements is complete, reliable, neutral and prudent. The unjustified choice of disclosure the principles, rules, bases, and procedures regarding the periodical accounting only for a certain accounting objects could be interpreted as an attempt to purposefully influence the users of the financial statements to make specific economic decisions.

The different elements of the accounting policy of a hotel can include the following information:

- Regarding the intangible and tangible assets hold and controlled by the hotels, it is appropriate and useful the accounting policy to provide data about:
  - The accepted criteria for accounting recognition. Only 20% of the analyzed organizations disclose the accounting criteria of which the assets are recognized as tangible or intangible.
  - The amount below which these assets, although they are long-lasting, are reported as current expense when they are acquired, not as assets. Such information is disclosed by the majority of the hotels (75%).
  - The approach adopted by the hotel when determining the initial measurement of internally generated and externally acquired tangible and intangible assets. 90% of the hotels provide data about the initial measurement of externally acquired assets; 5% - regarding the initial measurement of internally generate intangible assets, and 35% - about tangible assets under construction by the organization.
  - The chosen approach of measurement subsequent to initial recognition of assets. Such kind of information is disclosed by 60% of the analyzed organizations.
  - Information about the losses from decrease arising as a result of a revaluation of an asset, as well as data for the recovery of such losses. Information about the losses of decrease from revaluation of assets are disclosed by 60% of the hotels, and 45% of them disclose data about the recovery of asset's losses.
  - Information about the gains or losses on disposal assets is written in the accounting policies of 30% of the hotels.
  - The adopted approach of accounting the expenditures to construct and modernize the tangible and intangible assets as well as those for maintenance and repair them. 80% of the hotels disclose the mentioned data.
  - The adopted approach of accounting the assets that are withdrawn from use. At the accounting policies of 25% of the hotels such kind of data can be found.

The previously mentioned data should be disclosed into two separate elements of the accounting policy – one for the tangible and one for the intangible assets.

- It is appropriate and useful the depreciation policy to be written as a separate element of the accounting policy. Such approach is adopted by 30% of the hotels, while 70% disclose data

of the depreciation policy as a part of the tangible and intangible assets' information. Regarding the depreciation policy it must be disclosed information about:

- Classification of the long-lasting assets as depreciable and non-depreciable. Criteria of depreciability of the assets are not disclosed by any of the hotels. Only 30% of them have written in the accounting policy that land, assets under construction and fully disposed assets are not depreciable.
  - Determination of the useful life of depreciable assets. Sixteen of the hotels disclose data on the useful life of their depreciable assets. 62% of them present it in years, 25% disclose an annual amortization rate in percentages, and 13% write the both indicators.
  - Residual value of depreciable assets. Such information is disclosed by 15% of the analyzed organizations.
  - The time when depreciation begins is written in the accounting policies of 45% of the hotels.
  - The adopted depreciation method by group of similar depreciable assets. It is disclosed by all analyzed hotels. It can be pointed out that the majority of the hotels have chosen the linear depreciation method.
- Regarding current assets owned and controlled by the hotels, special attention should be paid, in the accounting policy, to the inventories. Accommodation and catering services offered by the hotels require disclosure of reliable information about the approaches adopted for classification, initial recognition and measurement subsequent to initial recognition of inventories by type of asset (goods, materials, production). In this respect, it is appropriate and useful for each type of inventories in the accounting policy to be provided more detailed information about the costs of the initial recognition. The data about the production should include the criteria for analytical accounting of direct and overhead costs, the bases for the allocation of fixed and variable total cost of production, and the method chosen for the calculation of actual cost. Additional information should include the chosen approach for reduction the inventories, as well as data on losses from decrease arising as a result of a revaluation of the assets and the recovery of losses from it. In addition there must be information about profits or losses from withdrawing from use of the inventories. A conclusion from analyzes of the accounting policies of the surveyed hotels is that the information regarding inventories at the document is strongly underestimated. It should be noted that two of the hotels that indicate in their financial statements value indicators of revenues from sales of food, goods and production, do not disclose inventories data in their accounting policies. Because of that, the data presented below is only for 18 hotels that have information about the inventories as an element in their accounting policies. Approximately 11% of them provide specific information about the classification of their inventories, while nearly 22% apply an approach of only listing their inventories. All 18 hotels disclose data about initial recognition of the assets, 12 of which also provide more detailed information on the types of costs that are included in the initial measurement. Data on the measurement subsequent to initial recognition of inventories is disclosed by 6 hotels, 5 of which provide information about losses from decreasing, arising as a result of a revaluation and 4 hotels regarding the recovery of those losses. All hotels indicate in their accounting policies the chosen approach for reporting the reduction of the inventories. Preferred is the weighted average cost approach, which is chosen by nearly 95% of the organizations under review. The approach of the specific cost is chosen by 5% of the hotels, and nearly 22% have chosen it as an additional approach for batch production consumption.

Information about profits and losses of withdrawing from use of the inventories is reported by 11% of the hotels under review. Although nearly 56% of the hotels report data of production, mainly related to food production and selling it at the hotels' restaurants, they don't disclose information regarding the criteria for analytical reporting of direct and overhead costs, as well as the method chosen for calculating the actual cost. The accepted bases for allocation of fixed and variable overhead costs is indicated only by one hotel.

- General information that should be disclosed at the accounting policy regarding financial assets is the main approaches of their classification, data about initial recognition and measurement, measurement subsequent to initial recognition and accounting of losses from it. Priority information concerning the financial assets of hotels is about the money in national and foreign currency, in cash or in the bank accounts of the organizations. 16 out of the 20 hotels in question report data about money in cash. In this regard, the following information is only for 16 hotels. About foreign currency transactions hotels should make disclosure regarding the accounting policies used for:

- initial measurement - data of similar nature is mentioned by nearly 81% of the hotels under consideration;
- measurement subsequent to initial recognition – equivalent to the previous one, nearly 81% make disclosure regarding measurement subsequent to initial recognition;
- accounting of the exchange rate - reported by approximately 63% of the hotels;
- the reduction of cash in foreign currency - indicated by 25%.

Regarding the cash in national currency, general information at the accounting policy should contain data about their classification (indicated by nearly 81% of the hotels) and information on their initial measurement (as recorded in the accounting policies of approximately 44% of the enterprises under review). It is believed<sup>25</sup> that information at the accounting policy concerning money in cash must contain data about a cash limit that is individual for each enterprise and is dependent on the specifics of the activity, the movement and the volume of the cash flows and other specific factors. The introduction of a cash limit in the document, could be considered as an approach to prevent the accumulation of turnover in the relevant cash account. However, in our opinion such information has no direct link to the nature and purposes of the accounting policy. In this context, setting of a cash limit should not be viewed as an element of the accounting policy but rather as a separate internal normative document.

- Loans and receivables are another element of the accounting policy in the section. In general the disclosure information should contain data regarding the initial recognition and measurement, measurement subsequent to initial recognition and losses that comes from it. Such kind of data is disclosed by 15 hotels. 8 of them provide information on the adopted classification and recognition criteria, 14 - regarding the initial measurement and measurement subsequent to initial recognition, and 9 - for accounting of the losses that comes from the subsequent measurement.

- It is relevant in the section to be disclosed information about:

- Reserves. Information for the type of the reserve, its purposes as well as the sources of forming is written in the accounting policy of 3 out of the 20 analyzed

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<sup>25</sup> Avrkovich, Ek., St. Pancheva, Accounting policy of non-financial enterprises, Faber, 2009, p.83.

hotels. It is noteworthy that at the financial statements of a total of 9 hotels, there are data on formed reserves.

- Financial result. In 8 of the accounting policies of the analyzed hotels, there are numerical data regarding the accounting result for the financial reporting period and in 4 of them there are comparative analysis with data from a previous reporting period.
  - Provisions (regarding the adopted approach for initial recognition, measurement, remeasurment, reversments and derecognition of the provisions). Such data is disclosed by 9 of the hotels under review. None of the rest (11 hotels) has accounted provisions during the financial period of the statements.
  - Liabilities (data about the approach used for classifying and reporting the liabilities, depending on the expected settlement time and contracting party). Due to the fact that the accounting requirements for employee benefits are a separate element of the accounting policy, they are not a subject of analysis here. Because of that, here liabilities are seen as attributable to outstanding short-term and long-term obligations to suppliers, tax institutions, financial and other related entities. Only 7 of the analyzed hotels disclose information about the classification and recognition criteria, and the accounting of their liabilities, and 2 of the hotels only write numerical data by type of the obligation.
- It is appropriate and useful, information regarding accounting recognition and reporting of employee benefits to be a separate element of the accounting policy. In the analyzed section the disclosed data should generally contain:
    - information about the adopted by the hotel approach for classifying, recognizing and accounting of the types of wages and salaries of hired staff;
    - recognition and reporting of payable amounts for compensated absences (paid vacations and sick leaves) as well as long-service or sabbatical leaves;
    - recognition and accounting of retirement benefits, including pensions and lump sum payments;
    - accounting of profit sharing and bonuses, medical and life insurance benefits during employment, and termination of employment contract benefits;
    - the adopted perceived rate of payment for each year that the staff worked at the same position, etc. essential data in accordance to the requirements of the standards and the legislative framework in the field.

Although the staff of a hotel have major importance for the performance of the organization's activities, information regarding the accounting of employee benefits is disclosed by 16 of the hotels under consideration. 25% of them only write numerical data about the amount of the paid wages and salaries.

- An element of disclosure, in the proposed accounting policy section, is information about the hotel's lease agreements. 13 out of 20 analyzed hotels report data on the recognition and accounting of leases contracts by type. One hotel just point out numerical data regarding the present information about the finance leases assets in the balance sheet. It should be noted that in the accounting policy of hotels, regarding leases, there must be information regarding:

- The criteria for classification, recognition (disclosed by 11 hotels having leases data in their accounting policy) and the accounting, according to the type of leases (written by 10 hotels).
- Useful life of the financial leases assets. Only 2 hotels have such kind of information in their accounting policies and they make references to the elements of the documents where information regarding the useful life of long-term assets is written.
- The adopted approach for accounting financial gains and losses for a future period is disclosed by all 13 hotels having data about leases.
- Depreciation policy for assets acquired under finance leases. Information of a similar nature is disclosed only by 6 of the hotels under review, which make a reference to their depreciation policy.

- Entities should disclose in their accounting policies information on the criteria for recognition and accounting of revenues and expense based on their sources. In the analyzed sector, main part of hotels' revenues are from sales of services (mostly overnight stays), sales of goods (mainly for meals) and financial revenues. Hotels' revenues are mainly for the purposes of creation and implementation of the hotels' products, and they can be grouped in three main groups - employees, inventories and external services (mainly overheads). One of the analyzed hotels discloses only numeric data for its revenues and expenses by type, so the following information is for 19 hotels. Nearly 95% of them report information on recognition of the revenue by type, and approximately 63% - for their accounting method. It is noteworthy that a priority for the hotels under review, is that the recognition and accounting of the expenses are not disclosed as a separate element of the accounting policy, but as part of the information of the other elements. An exception to the previous one is the data regarding financial expenses, which is disclosed as a separate element of nearly 58% of hotels.

## ***V. CONCLUSIONS AND QUESTIONS FOR FURTHER ANALYSIS***

As a conclusion it can be noted that accounting policy, as a part of the accountability of the analyzed hotels, is a highly neglected element. Not disclosing an accounting policy as an attachment to the financial statements and the lack of information in the document itself may result to unreasonable economic decisions by the financial statements' users. Despite this possibility, some hotels do not publish accounting policies regarding the financial period neither in the commercial register nor in the official website of the organization. The previously mentioned is inconsistent to the standards and could also worsen the hotels' image.

From a structural point of a view, priority is given to the disclosure of information by sections, starting with the general presentation of the hotel, its legal status and the used accounting principles and bases. It's noteworthy that 50% of the hotels do not disclose data on the accounting principles applied by the organization. For those hotels which report such data, it is typical to use an approach of listing the accounting principles or to literally citing them from the Accounting Act. It is appropriate and useful in the accounting policy of hotels to be reported both data on the principles of the current accounting and the periodic one as well. In this respect, only listing the accounting principles is not compatible to the requirement of true and fair presenting the information at the financial statements. Therefore the disclosed information in the accounting policy should contain data regarding the extent to which the accounting principles are

applied, whether an advantage has been given to one principle in relation to another, as well as the effect over the hotel's business activities and the accounting policy when the organization is unable to apply a principle.

After initial reporting of the legal status and used accounting bases, principles and rules, a following element of the accounting policies are the approaches for recognition and accounting by objects. A main disclosure approach of 85% of the hotels is chronologically to the content and components of the financial statements. The accounting policy of only 10% of the hotels under consideration is fully in line with the principles and rules for annual reporting. Majority of the hotels (70%) report data for both their current and periodic accounting. There are two main approaches for disclosing such data by the analyzed hotels. The first one requires hotels simultaneously to disclose the bases, principles and rules of current and periodic accounting for each accounting object and not as a separate element of the accounting policy. For the purposes of the second approach data for the periodic accounting is reported only for specific objects. However, the reasons for choosing these specific accounting objects are not disclosed by the compiler, which could be considered as an attempt to deliberately mislead the users of the financial statements when taking economic decisions. The previous one does not confirm the opinion of L. Kamburova that the accounting policy focuses entirely on the rules for preparing and disclosing the financial statements. In our opinion, the model of a hotel's accounting policy should contain data on the applied methodology for the current accounting by separate elements and objects. Additional disclosure should be information about the bases, principles and rules of the periodic accounting. This data should be presented either as a part of the accounting methodology for each accounting object or as a separate element of accounting policy.

When it comes to the completeness of the disclosed data, hotels which statements are audited by independent financial auditor, provide more detailed information regarding the elements of the accounting policy. However, there are omissions and even terminological errors. For example, one of the hotels uses the terminology introduced by the NAS at the accounting policy regarding inventories, even though its accounting base is the international accounting standards. Although the foregoing is not a fundamental error, the user of the information in the document may mislead if he or she does not pay attention to the bases reported for preparing the financial statements, at the beginning of the accounting policy. In addition, some hotels report in their financial statements data on particular accounting objects for which, however, information regarding their recognition and accounting is not disclosed in the accounting policy. In order to determine the reasons for the omissions in the reported data in accounting policies of the hotels, it is appropriate and useful a follow-up survey among the target group to be carried out.

It is noteworthy that for the purposes of accountability, some hotels provide numerical data and comparative information about their accounting objects (such as the value of the assets in the balance sheet or the wages paid to the staff). In this respect a major question should be raised - to what extent such kind of data should be disclosed in the accounting policy of enterprises? The answer to such kind of a question can be found out in the definition of accounting policy itself. According to it the document represents the bases, practices and rules of accounting and not a financial analysis of the entity. We do not believe that the reporting of numeric values or numbers from the financial statements would increase the credibility of the accounting policies. It should be noted that the availability of additional documents to the financial statements, such as an activity report or an auditor's report, in which part of the

accounting policy data is overlapped, should not be seen as a reason to omit such information from the content of the accounting policy.

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