THE ACCOUNTING TREATMENT OF THE TOURISM UNIT'S FINANCIAL STATEMENTS IN AGREEMENT WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS

BOGDAN RĂVAŞ *

ABSTRACT: *Financial statements should be presented on a going-concern basis unless management intends to liquidate the tourism unit or cease trading. If not presented on a going concern basis, the fact and rationale for not using it should be disclosed. Uncertainties related to events and conditions that cast significant doubt on the tourism unit's ability to continue as a going concern should be disclosed. The Statement of Financial Position provides information about the financial position of the tourism unit and it should distinguish between major categories and classifications of assets and liabilities current or noncurrent distinction.*

Departure from the requirements of an IFRS is allowed only in the extremely rare circumstance in which the application of the IFRS would be so misleading as to con-flict with the objectives of financial statements. In such circumstances, the tourism unit should disclose the reasons for and the financial effect of the departure from the IFRS.

KEY WORDS: *financial; statement; tourism; standards; performance.*

JEL CLASSIFICATION: *M 41; M 48.*

The objective of this paper is to prescribe the basis for presentation of general purpose financiall statements and what is is necessary for these statements to be in accord with IFRS. The key issues is to ensure comparability both with the tourism unit's financial statements of previous periods and with the financial statements of other entities. It also enables informed users to rely on a formal, definable structure and facilitates financial analysis.

The paper is focused on the following issues:

* *Assist.Prof., Ph.D., University of Petrosani, Romania, ravasbogdan@yahoo.com*

- *what constitutes a complete set of financial statements (namely, Statement of Financial Position, Statement of Comprehensive Income, statement of changes in equity, cash flow statement, and accounting policies and notes);*
- *overall requirements for the presentation of financial statements, including guidelines for their structure;*
- *the distinction between current and noncurrent elements; and*
- *minimum requirements for the content of financial statements.*

Performance reporting and the reporting of comprehensive income are major issues dealt with, and voluntary name changes are suggested for key financial statements.

The financial statements should present fairly the financial position, financial performance, and cash flows of the tourism unit. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income, and expenses set out in the framework. The application of IFRS is presumed to result in fair presentation.

Departure from the requirements of an IFRS is allowed only in the extremely rare circumstance in which the application of the IFRS would be so misleading as to conflict with the objectives of financial statements. In such circumstances, the tourism unit should disclose the reasons for and the financial effect of the departure from the IFRS.

The presentation of the current assets reflects the following:

- *assets expected to be realized or intended for sale or consumption in the tourism unit's normal operating cycle,*
- *assets held primarily for trading,*
- *assets expected to be realized within 12 months after the Statement of Financial Position date, and*
- *cash or cash equivalents, unless restricted in use for at least 12 months.*

The presentation of the current liabilities reflects the following:

- *liabilities expected to be settled in the tourism unit's normal operating cycle,*
- *liabilities held primarily for trading, and*
- *liabilities due to be settled within 12 months after the Statement of Financial Position date.*

Noncurrent assets and liabilities are expected to be settled more than 12 months after the Statement of Financial Position date. The portion of noncurrent interest-bearing liabilities to be settled within 12 months after the Statement of Financial Position date can be classified as noncurrent liabilities if

- *the original term is greater than 12 months,*
- *it is the intention to refinance or reschedule the obligation, or*
- *the agreement to refinance or reschedule the obligation is completed on or before the Statement of Financial Position date.*

Financial statements should provide information about an tourism unit's financial position, performance, and cash flows that is useful to a wide range of users for economic decision making.

Departure from the requirements of an IFRS is allowed only in the extremely rare circumstance in which the application of the IFRS would be so misleading as to conflict with the objectives of financial statements. In such circumstances, the tourism unit should disclose the reasons for and the financial effect of the departure from the IFRS.

The presentation and classification of items should be consistent from one period to another unless a change would result in a more appropriate presentation, or a change is required by the IFRS.

A complete set of financial statements comprises the following:

- *Statement of Financial Position (Balance Sheet)*
- *Statement of Comprehensive Income (Income Statement)*
- *Statement of changes in equity*
- *Cash flow statement*
- *Accounting policies and notes*

Entities are to be encouraged to furnish other related financial and nonfinancial information in addition to the financial statements. The financial statements should present fairly the financial position, financial performance, and cash flows of the tourism unit.

The following aspects should be addressed with regard to compliance with the IFRS: *compliance with the IFRS should be disclosed, compliance with all requirements of each standard is compulsory, disclosure does not rectify inappropriate accounting treatments, premature compliance with an IFRS should be mentioned.*

Financial statements should be presented on a going-concern basis unless management intends to liquidate the tourism unit or cease trading. If not presented on a going concern basis, the fact and rationale for not using it should be disclosed (Monea, et al., 2008). Uncertainties related to events and conditions that cast significant doubt on the tourism unit's ability to continue as a going concern should be disclosed.

The accrual basis for presentation should be used, except for the cash flow statement. Aggregation of immaterial items of a similar nature and function is allowed. Material items should not be aggregated.

Assets and liabilities should not be offset unless allowed by the IFRS. However, immaterial gains, losses, and related expenses arising from similar transactions and events can be offset.

With regard to comparative information, the following aspects are presented: *numerical information in respect of the previous period*, *relevant narrative and descriptive information*

Financial statements should be clearly identified and distinguished from other types of information. Each component of the financial statements should be clearly identified, witli the following information prominently displayed: *name of reporting tourism unit*, *own statements (distinct from group statements)*, *reporting date or period*, *reporting currency*, *level of precision*

The Statement of Financial Position provides information about the financial position of the tourism unit and it should distinguish between major categories and classifications of assets and liabilities current or noncurrent distinction. The Statement of Financial Position should normally distinguish between current and noncurrent assets, and between current and noncurrent liabilities. Disclose as current amounts to be recovered or settled within12 months (Monea, et al., 2008).

Where a presentation based on liquidity provides more relevant and reliable information (for example, in the case of a bank or similar financial institution), assets and liabilities should be presented in the order in which they can or might be required to be liquidated.

The treatment of the current assets in this case reflects:

- *assets expected to be realized or intended for sale or consumption in the tourism unit's normal operating cycle*
- *assets, held primarily for trading*
- *assets expected to be realized within 12 months after the Statement of Financial Position date, and*
- *cash or cash equivalents unless restricted in use for at least 12 months.*

The treatment of the current liabilities in this case reflects:

- *liabilities expected to be settled in the tourism unit's normal operating cycle,*
- *liabilities held primarily for trading, and*
- *liabilities due to be settled within 12 months after the Statement of Financial Position date.*

Long-term interest-bearing liabilities to be settled within 12 months after the Statement of Financial Position date can be classified as noncurrent liabilities if

- *the original term of the liability is greater than 12 months,*
- *it is the intention to refinance or reschedule the obligation,*
- *the agreement to refinance or reschedule the obligation is completed on or before the Statement of Financial Position date.*

Capital disclosures encompass the following:

- *the tourism unit's objectives, policies, and processes for managing capital*
- *quantitative data about what the tourism unit regards as capital*
- *whether the tourism unit complies with any capital (adequacy) requirements*
- *consequences of noncompliance with capital requirements, where applicable*
- *for each class of share capital: number of shares authorized, number rof shares issued and fully paid, number of shares issued and not fully paid, par value per share, or that it has no par value, reconciliation of shares at beginning and end of year, rights, preferences, and restrictions attached to that class, shares in the tourism unit held by the tourism unit itself, subsidiaries, or associates, number of shares reserved for issue under options and sales contracts*

Other information that must appear on the face of the Statement of Finandal Position or in notes includes the following: nature and purpose of each reserve, shareholders for dividend not formally approved for payment, amount of cumulative preference dividend not recognized

Information about performance of the tourism unit should be provided in a single Statement of Comprehensive Income or in two statements: a separate income statement followed immediately by a statement displaying components of other comprehensive income. Minimum information on the face of the Statement of

Comprehensive Income includes the following: *revenue*, *finance costs*, *share of profits or losses of associates and joint ventures*, *tax expense*, *discontinued operations*, *profit or loss*, *each component of other comprehensive income*, *total comprehensive income*, *profit or loss attributable to non-controllteg interests*, *profit or loss attributable to owners of the parent*, *comprehensive income attributable to non-controlling interests as well as to owners of the parent*

Other information on the face of the Statement of Comprehensive Income or in notes includes: *analysis of expenses based on nature or their function (see the example at the end of the chapter)*, *if expenses are classified by function, disclosure of the following is required:*, *depreciation charges for tangible assets*, *amortization charges for intangible assets*, *employee benefits expense*, *dividends recognized and the related amount per share*

IFRS no longer allows the presentation of any items of income or expense as extraordinary items.

The statement of changes in equity should reflect information about the increase or decrease in net assets or wealth. Minimum information on the face of the changes in equity statement includes the following:, *profit or loss for the period*, *each item of income or expense recognized directly in equity*, *total of above two items showing separately the amounts attributable to minority shareholders and parent shareholders*, *effects of changes in accounting policy*, *effects of correction of errors*

Other information on the face of the changes in equity statement or in notes includes the following:, *capital transactions with owners and distributions to owners*, *reconciliation of the balance of accumulated profit or loss at beginning and end of the year*, *reconciliation of the carrying amount of each class of equity capital, share premium, and each reserve at beginning and end of the period*

Accounting policies and notes include information that must be provided in a systematic manner and cross-referenced from the face of the financial statements to the notes: *disclosure of accounting policies*, *measurement bases used in preparing financial statements*, *each accounting policy used, even if it is not covered by the IFRS Judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements*, *estimation uncertainty*

Key assumptions about the future and other key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next year

Other disclosures include the following: *domicile of the tourism unit*, *legal form of the tourism unit*, *country of incorporation*, *registered office or business address, or both*, *nature of operations or principal activities,, or both*, *name of the parent and ultimate parent*

Financial analysis should appli analytical tools to financial statements and other financial data to interpret trends and relationships in a consistent and disciplined manner. In essence, the analyst is in the business of converting data into information, thereby assisting in a diagnostic process that has as its objective the screening and forecasting of information. The financial analyst who is interested in assessing the value or creditworthiness of an tourism unit is required to estimate its future cash flows, assess the risks associated with those estimates, and determine the proper discount rate that should be applied to those estimates. The objective of the IFRS financial statements is to provide information that is safe to users in making economic decisions. However, IFRS financial statements do not contain all the information that an individual user might need to perform all! Of the above tasks, because the statements largely portray the effects of past events and do not necessarily provide nonfinancial information. IFRS financial statements do contain data about the past performance of an tourism unit (its income and cash flows) as well as its current financial condition (assets and liabilities) that are useful in assessing future prospects and risks. The financial analyst raost be capable of using the financial statements in conjunction with other information to reack valid investment conditions.

The notes to financial statements are an integral part of fe IFRS financial reporting process. They provide important detailed disclosures required1 by IFRS, as well as other information provided voluntarily by management. The notes include information on such topics as the following: *specific accounting policies that were used in compiling the financial statements*, *terms of debt agreements*, *lease information*, *Off-Statement of Financial Position financing*, *breakdowns of operations by important segments*, *contingent assets and liabilities*, *detailed pension plan disclosure*

Supplementary schedules can be provided in financial reports to present additional information that can be beneficial to users. These schedules include such information as the five-year performance record of a company, a breakdown of unit sales by product line, a listing of mineral reserves, and so forth. The management of publicly traded companies in certain jurisdictions, such as the United States, is required to provide a discussion and analysis of the company's operations and prospects. This discussion normally includes the following: *a review of the company's financial condition and its operating results*, *an assessment of the significant effects of currently known trends, events, and uncertainties on the company's liquidity, capital resources, and operating results*, *the capital resources available to the firm and its liquidity*, *extraordinary or unusual events (including discontinued operations) that have a material effect on the company*, *a review of the performance of the operating segments of the business that have a significant impact on the business or its finances*, *the publication of such a report is encouraged, but is currently not required by IFRS.*

Ratio analysis is used by analysts and managers to assess company performance and status. Ratios are not meaningful when used on their own, which is why trend analysis (the monitoring of a ratio or group of ratios over time) and comparative analysis (the comparison of a specific ratio for a group of companies in a sector, or for different sectors) is preferred by financial analysts. Another analytical technique of great value is relative analysis, which is achieved through the conversion of all Statement of Financial Position (or Statement of Comprehensive Income) items to a percentage of a given Statement of Financial Position (or Statement of Comprehensive Income) item.

Although financial analysts use a variety of subgroupings to describe their analysis, the following classifications of risk and performance are often used:

- Liquidity. An indication of the tourism unit's ability to repay its short-term liabilities, measured by evaluating components of current assets and current liabilities.
- Solvency. The risk related to the volatility of income flows, often described as business risk (resulting from the volatility related to operating income, sales, and operating leverage) and financial risk (resulting from the impact of the use of debt on equity returns as measured by debt ratios and cash flow coverage).
- Operational efficiency. Determination of the extent to which an tourism unit uses its assets and capital efficiently, as measured by asset and equity turnover.
- Growth. The rate at which an tourism unit can grow as determined by its retention of profits and its profitability measured by return on equity (ROE).
- Profitability. An indication of how a company's profit margins relate to sales, average capital, and average common equity. Profitability can be further analyzed through the use of the Du Pont analysis. Some have questioned the usefulness of financial statement analysis in a world where capital markets are said to be efficient. After all, they say, an efficient market is forward looking, whereas the analysis of financial statements is a look at the past. However, the value of financial analysis is that it enables the analyst to gain insights that cam assist in making forward-looking projections required by an efficient market. Financial ratios serve the following purposes:

Financial ratio analysis is limited by the use of alternative accounting methods. Accounting methods play an important role in the interpretation of financial ratios. Ratios are usually based on data taken, from financial statements. Such data are generated via accounting procedures that might not be comparable among firms, because firms have latitude in the choice of accounting methods. This lack of consistency across firms makes comparability difficult to analyze and limits the usefulness of ratio analysis. The various accounting alternatives currently found (but not necessarily allowed by IFRS) include the following: *First-in-first-out (FIFO) or last-in-first-out (LIFO) inventory valuation methods*, *Cost or equity methods of accounting for unconsolidated associates*, *Straight-line or accelerated-consumption-pattern methods of depreciation*, *Capitalized or operating lease treatment*

IFRS seeks to make the financial statements of different entities comparable and so overcome these difficulties such as:

- *the homogeneity of a firm's operating activities. Many firms are diversified, with divisions operating in different industries. This makes it difficult to find comparable industry ratios to use for comparison purposes. It is better to examine industry-specific ratios by lines of business.*
- *the need to determine whether the results of the ratio analysis are consistent. One set of ratios might show a problem, and another set might prove that this problem is short term in nature, with strong long-term prospects.*
- *the need to use judgment. The analyst must use judgment when performing ratio analysis. A key issue is whether a ratio for a firm is within a reasonable range for an industry, and the analyst must determine this range. Although financial ratios are used to help assess the growth potential and risk of a business, they cannot be used alone to directly value a company or determine*

its creditworthinessThe entire operation of the business must be examined, and the external economic and industry setting in which it is operating must be considered when interpreting financial ratios.

Financial ratios mean little by themselves. Their meaning can only be gleaned by using them in the context of other information. In addition to the items mentioned above, an analyst should evaluate financial ratios based on the following:

- *Experience. An analyst with experience obtains a feel for the right ratio relationships.*
- *Tourism unit's goals. Actual ratios can be compared with company objectives to determine if the objectives are being attained.*
- *Industry norms (cross-sectional analysis). A company can be compared with others in its industry by relating its financial ratios to industry norms or a subset of the companies in an industry. When industry norms are used to make judgments,care must be taken, because*

- *many ratios are industry specific, but not all ratios are important to all industries.*
- *differences in corporate strategies can affect certain financial ratios. (It is a good practice to compare the financial ratios of a company with those of its major competitors. Typically, the analyst should be wary of companies whose financial ratios are too far above or below industry norms.)*
- *economic conditions. Financial ratios tend to improve when the economy is strong and to weaken during recessions. Therefore, financial ratios should be examined in light of the phase of the economy's business cycle.*
- *trend (time-series analysis). The trend of a ratio, which shows whether it is improving or deteriorating, is as important as its current absolute level.*

The financial sttements should provide insights into the microeconomic relationships within a firm that help analysts project earnings and free cash flow (which is necessary to determine entity value and creditworthiness), provide insights into a firm's financial flexibility, which is its ability to obtain the cash required to meet financial obligations or to make asset acquisitions, even if unexpected circumstances should develop. Financial flexibility requires a firm to possess financial strength (a level and trend of financial ratios that meet or exceed industry norms); lines of credit; or assets that can be easily used as a means of obtaining cash, either by selling them outright or by using them as collateral and also provide a means of evaluating management's ability. Key performance ratios, such as the ROE, can serve as quantitative measures for ranking management's ability relative to a peer group.

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