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An Empirical Investigation into Hospitality Accounting Systems of Hotels in Swat, Pakistan

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ABSTRACT

Operating a hotel isn't like running a standard business, you're balancing dozens of distinct revenue streams, from room bookings, room service to events and laundry service, all while tracking heavy day to day costs across multiple departments. To keep everything accurate, hotel accounting relies on specialized sub-ledgers and standardized industry reporting rules tailored specifically to hospitality.

The accounting systems in hotels are analyze in this paper, while a descriptive data from 140 traditional hotels in Swat KP, Pakistan was contacted for the survey. Only 106 hotels participated in this research. A thirty-one items questionnaire was designed on 5-point Likert scale with Cronbach Alpha `>.7 was devised called "An assessment of accounting systems at hotels", validated and test-retest reliability assessed through a pilot study of 10 hotel was carried out. The descriptive data was analysed through SPSS.

The results demonstrated that Manual system of accounting was used 77.4% by the given sample while only 22.6% of the sample utilized the software system. Only 29.2% of participants strongly agreed that an accounting system played a significant role in the decision making of the hotel business. Ther hotels utilizing either manual and software system, 78.3% were significantly satisfied with their present accounting system while 21.7 % hotels go for more efficient and digitalized system for ease, speed and accuracy. The research data conclude that the hotels in Swat might have been culturally influenced in using traditional systems of accounting. Observing the level of satisfaction with present system it could be assumed that the lack of awareness to modern accounting systems or unqualified accountant in this field. This study recommends detailed study and investigation.

Introduction

The Swat Valley hotel industry is the largest hospitality cluster in Khyber Pakhtunkhwa (KP).

According to All Swat Hotel Association (ASHA) 860 plus properties. Empirical studies of the valley show that 70.6% of hotels are medium-sized and over 80% are locally owned (Alam, M; et al; 2024). A hotel accounting system in the hospitality industry bridges front-office property operations, food and beverage (F&B) point-of-sale (POS), procurement/inventory, and financial ledger

management. The Swat hotel industry operates as a high-season mountain tourism destination, its accounting workflows must handle sharp seasonal cash-flow swings, group/tour operator billing, multi-outlet charges, and local tax/regulatory compliance.

This case study examines the accounting systems implemented in selected hotels in District Swat, scaling their financial management practices. In hospitality industry's some unique challenges rise i.e. a robust accounting system is crucial for accurate financial reporting and informed decision making in daily operations. This review investigates aspects such as internal controls, compliance with regulations, and integration with hotel operations. It also explores the use of technology, staff training, and cost control measures. The study aims to provide insights into how hotels in the district manage their finances, handle customer billing, and recognize revenue. By evaluating these key areas, we seek to understand the effectiveness of accounting practices and identify areas for improvement within the hotel industry in District Swat.

Accounting

As per the American Accounting Association (AAA), accounting is the systematic procedure of recognizing, quantifying, and conveying economic data to enable informed assessment and choices by individuals who rely on this information. According to Wood & Sangster, (2005) financial accounting is the systematic method of identifying, considering, documenting, classifying, and summarizing financial transactions and events in terms of money. It entails not just sharing this information but also analyzing and interpreting it. Accounting serves as an integral component of the information framework responsible for generating precise financial data. Sunder, (1999) highlighted that accounting is among the most enduring management concepts, with its roots stretching back through many generations of business managers. The original principles of accounting, established decades ago, have remained relatively stable, although certain modifications have been introduced over time. It is to be expected that accounting will continue to evolve in response to the changing landscape of organizational strategies and tactics. Analyzing present business environment trends might offer valuable insights about prospective changes that accounting firms may see over the course of the next ten to twenty years.

The gathering, identification, classification, and recording of financial transactions and events is done via the artistic process of accounting and its main goal is to generate crucial data that stakeholders and interested parties may use, often in the form of financial statements (Cahyadi, 2022).

Understanding the accounting system

The system is defined by several specialists, but it all fundamentally means the same thing. Mulyani & Arum, (2016) defines a system as a collection of sub-systems and components working together with a shared goal to produce predetermined outcomes. Likewise, Hutahaean, (2015) characterizes a system as a network of interconnected procedures assembled to facilitate activities and accomplish specific objectives.

A system encompasses a combination of interconnected elements, whether physical or non-physical subsystems, working together collaboratively to accomplish specific objectives. Within a corporate context, accounting serves as a highly influential system that significantly impacts day-to-day operations by furnishing critical financial insights and data pertaining to the company's financial position (Cahyadi, 2022).An accounting system is a structured arrangement comprising forms, records, and reports that are organized in a manner to furnish essential financial information required by management for effective company management. In accordance with Howard F. Settler, as quoted by Baridwan (2010: 3), and in alignment with various experts, an accounting system encompasses forms, records, procedures, and tools utilized for processing business data within an economic entity. Its primary purpose is to generate reports that aid management in monitoring business activities while also serving the interests of stakeholders such as shareholders, creditors, and government agencies in evaluating the outcomes of company operations (Mulyani & Arum, 2016).Additionally, (Stefanou, 2006) emphasizes that the primary goal of an accounting information system (AIS) is to gather and store data and information about organizational events that have an economic impact, as well as to maintain, process, and communicate this information to stakeholders at all levels.

Types of Accounting System

The accounting cycle is the step-by-step sequential process from recording daily transactions and posting to ledgers to adjusting entries and closing the books—that a business follows during a specific accounting period (Weygandt et al., 2019), whereas an accounting system is the overarching technological and procedural framework (such as software, sub-ledgers, and internal controls) that automates and supports this entire workflow (Romney & Steinbart, 2018). Within specialized industries like hospitality, this

system integrates property management software and departmental sub-ledgers to capture high-volume daily revenue streams while enforcing standardized financial reporting (Alam, 2023; Coltman, 2010).

Manual Accounting:

A manual accounting system is characterized by the practice of employees manually executing the entire accounting cycle at regular intervals. Such a system employs individual journals to streamline the processes of journalizing and posting transactions (Arcega et al., 2015). In a manual system, the procedure includes recording transactions in a diary, posting them to the appropriate accounts, and then putting together financial statements. (Wells, 2018). According to Ama, (2004), a manual accounting system employs special journals to facilitate the journalizing and posting processes, especially when dealing with a high volume of transactions. These transactions are categorized into classes and recorded using double-entry record keeping. In a manual system, the general journal, general ledger, and worksheet are all manually filled up by an accountant or bookkeeper.

Computerized Accounting:

In the early stages of accounting, accountants and auditors initially viewed computers as optional tools, considering them a 'black box' that could be easily acquired if necessary, due to their affordability during the early years of the computer revolution. However, accounting was among the first functional areas to embrace computerization in numerous organizations (Doost, 1999). According to Simmons & Hardy, (2011), a computerized accounting system utilizes both hardware and software to efficiently carry out recording and reporting functions. This computerized system integrates information system ideas with accounting principles to store, process, evaluate, and provide users with financial data for well-informed decision-making (Gelinas et al., 2005). According to Marivic, (2009) a computerized accounting system is a process for recording, organizing, summarizing, analyzing, and communicating financial data from company transactions to stakeholders using computer-based systems, such accounting packages. It emphasizes the mechanization of processes, including database recording and report generation, highlighting the importance of accurate accounting records for financial and legal compliance.

Research Objective

Following are the main objectives of the study.

- To assess the nature of accounting system used in hotels of District Swat.
- To assess the individual view of value addition from their accounting systems of hotels in District Swat.

Literature Review

Hotels adopt accounting management practices into their operations (Lunkes, Costa, Bortoluzzi, & da Rosa, 2018). Some notable practices included the utilization of costing and standard costing methods, the implementation of an annual budget for planning and cost control, the application of profitability measures, and the analysis of both product and customer profitability (Tabitha & Ogungbade, 2016). Moreover, hotel managers indicated potential changes for the coming three years, which encompassed the incorporation of non-financial measures linked to innovation and the adoption of activity-based management techniques (Lunkes et al., 2018). Although, most people use the traditional system of accounting because of its convenience and history, some people may be unaware of what can be done to improve the system of accounting, this can be said in the light (Edwards, 2013). To examine hotel accounting systems, researchers must anchor their analysis in foundational accounting theory before evaluating sector-specific applications. The structural mechanics of financial reporting rely on the accounting cycle—the sequential progression from transaction logging to periodic closing (Weygandt et al., 2019). While Warren et al. (2018) distinguish this recurring operational workflow from the overarching technological infrastructure of a firm, Romney and Steinbart (2018) emphasize that modern Accounting Information Systems (AIS) serve as the vital mechanism automating transaction processing, sub-ledger posting, and internal controls. In the lodging and hospitality sector, these core accounting systems encounter heightened complexity due to simultaneous, high-volume revenue streams across distinct operating divisions (Coltman, 2010). Consequently, specialized hotel accounting systems must seamlessly interface with operational departments—such as front office, food and beverage, and housekeeping—to reconcile inventory, daily sales, and departmental sub-ledgers while upholding internal control standards (Alam, 2023; Kasavana, 2014).

The focus was on investigating the characteristics and factors that influence accounting systems related to decision-making and control in the context of hotel outsourcing, a significant degree of variation among hotels in terms of their accounting system

involvement in managing outsourcing arrangements (Pavlatos & Paggios, 2009). The accounting information systems employed in the majority of hotels within the research community lack the capability to effectively control the cost of hotel services within acceptable or planned limits (Pavlatos & Paggios, 2009). The impact of various components of the accounting information system, including People, Process, and System, on risk assessment for the purpose of enhancing business performance within the hotel industry (Amanamah et al., 2025).

The effective systems of accounting beneficial in the financial terms but are basic to the decision making of its managers and directors. Studies have shown the direct or indirect effects of accounting systems on the general decision making of its leaders (Pedroso, Gomes, & Yasin, 2020). The implementation of management accounting information systems in the decision-making process of hotel tourism businesses and travel agents in North Minahasa, Management accounting information systems are applied in the decision-making processes of tourism-related businesses, particularly hotels and travel agencies in North Minahasa Regency, aiming to provide a comprehensive and in-depth understanding of the field's actual conditions, aligning with established scientific norms, that the application of management accounting information systems in the decision-making processes (Tampenawas, Rombot, Tene, & Rompas, 2020).

Research Methodology

Sample

There are approximately 329 hotels in the Swat district of KP Pakistan[1]. We selected a total of N=140 hotels using the systematic sampling method. All of them were approached for data collection. Only N=106 of them approved and consented to our research and accepted to meet and provide data. We used Random Sampling through which hotels from different parts were choose for the study. These hotels consist of considerable numbers of rooms and other facilities. These included hotels using both software and manual entry.

Instruments

The instrument was a self-made questionnaire created after an extensive literature review. This was validated through a pilot study; statistical analysis illustrated the Cronbach Alpha value to be greater than 0.70. After the fact, the questionnaire was reasonably applicable in the research. We used only one questionnaire called An Assessment of Accounting System of Hotels: A Case Study of District Swat, which had 5 demographic questions such as hotel name, job position, employee age and gender, experience, qualification and accounting system used. Other than that, the scale consisted of 31 items and was scored through a five-point Likert scale. Strongly agree, agree, neutral, disagree and strongly disagree.

There were no items with a negative scoring system. All items were scored in a descending form from 5 to 1 point on each item. The maximum score on the entire scale is suggestive of strong agreement with the accounting system in place at the respective hotel.

Procedure

We started off with the selection of our systemized sample which are the top tourist destinations at the district Swat area namely (hotels at Kalam, Bahrain, Madyan, Malam Jabba and Mingora City), within the huge strata of Populous. In the Population of a total 329 hotels in the district Swat area, we selected a total of N=140 hotels. Amongst them only n=106 hotels agreed to participate in the study. The appointment date and time was fixed through a phone call. We approached the participant at their respective hotel location and asked for their consent verbally. The data was analyzed through the SPSS software, through descriptive analysis through SPSS data. This data was explained in detail through the results of the present study.

Data Analysis

The analysis delves into the landscape of accounting systems in the hotel industry, presenting a nuanced exploration through a series of tables.

[1] Reported by All Swat Hotels Association in entitled “Losses incurred by Tourism Industry in Swat Valley due to COVID 19”.

The study surveyed a sample of individuals within the hotel industry to gain insights into their accounting systems and practices. Most respondents (77.4%) reported using a manual accounting system, while 22.6% utilized computerized systems. This indicates that manual systems are still prevalent within the hotel industry, even though computerized systems offer efficiency advantages.

The item's goal was to analyze how much the participants agreed that their accounting system was well integrated with the overall functioning of the hotel. 75 % of them strongly believed that it was so, while the 25 % were just agreed. Regarding the usefulness of accounting systems for decision-making, 29.2% strongly agreed that accounting systems provide valuable predictive information. Additionally, 67.9% agreed with this statement, emphasizing the significance of accounting data in informed decision-making processes within hotels.

Table 1: Hotel Account System in Swat Valley

Nature of accounting system	**Frequency**	**Percent**
Manual	82	77.4
Computerized	24	22.6
Total	**106**	**100**
Accounting software/ system is well integrated with the hotel's overall operation?	**Frequency**	**Percent**
Very	6	25
Extremely	18	75
Total	24	100
Accounting system's able to provide predictive information as beneficial for decision making?	**Frequency**	**Percent**
Strongly Disagree	1	0.9
Disagree	2	1.9
Neutral	72	67.9
Strongly Agree	31	29.2
Total	106	100
The competency and qualifications of the accountants overseeing the financial activities.	**Frequency**	**Percent**
Very Dissatisfied	1	0.9
Dissatisfied	3	2.8
Neutral	48	45.3
Satisfied	26	24.5
Very Satisfied	28	26.4
Total	106	100
Computers can retrieve information accurately and quickly.	**Frequency**	**Percent**
Agree	4	16.7

Strongly Agree	20	83.3
Total	24	100

The item requested participants to assess the competence and qualifications of the accountants responsible for overseeing financial activities. As displayed in the table above, 26.4 % of the participants were highly satisfied, 24.5 % expressed satisfaction, 45.3 % remained neutral, 2.8 % expressed dissatisfaction, and only 0.9 % expressed high dissatisfaction.

Table 2: Statements of effectiveness

satisfaction on the systems in place to record and track inventory?	**Frequency**	**Percent**
Very Inaccurate and Delayed	2	1.9
Inaccurate and delayed	12	11.3
Neutral	42	39.6
Accurate and Timely	27	25.5
Very Accurate and Timely	23	21.7
Total	106	100

The table 2, this item inquired about participants' satisfaction with the inventory recording and tracking systems in place. The table shows that 21.7 % responded as "Very Accurate and Timely," 25.5 % responded as "Accurate and Timely," while 39.6 % of the responders remained neutral, 11.3 % found it "Inaccurate and Delayed," and only 1.9 % responded as "Very Inaccurate and Delayed." A high %age (83.3%) strongly agreed that their computers accurately and quickly retrieved accounting information, reflecting confidence in the reliability of their hardware.

Table 3: Internal controls for prevention

The effectiveness of internal controls in preventing errors, fraud, or misappropriation of assets?	**Frequency**	**Percent**
Very Dissatisfied	7	6.6
Dissatisfied	21	19.8
Neutral	54	50.9
Satisfied	6	5.7
Very Satisfied	18	17
Total	106	100

The item inquired about assessing the efficacy of internal controls in preventing errors, fraud, or misappropriation of assets. As noted in the table above, 17 % of the participants were very satisfied, 5.7 % expressed satisfaction, 50.9 % remained neutral, 19.8 % expressed dissatisfaction, and only 6.6 % were highly dissatisfied.

Table 4: Accuracy, promptness and recommendations

Accuracy and promptness in the hotel calculate and pay tax liabilities?	**Frequency**	**Percent**
Ineffective	2	1.89
Neutral	44	41.51
Effective	44	41.51
Very Effective	16	15.09
Total	106	100
Hotel implement the recommendations from previous audits to enhance the accounting system?	**Frequency**	**Percent**
Very Low	7	6.6
Low	19	17.9
Neutral	39	36.8
High	32	30.2
Very High	9	8.5
Total	106	100

The data in table 4, this item asked about the accuracy and timeliness of the hotel in calculating and paying tax liabilities. The data presented in the table above indicates that 15.1 % of the participants evaluated it as “highly effective” 41.5 % as “effective," 41.5 % as “neutral,” and only 1.9 % as "ineffective”. The item's purpose was to measure how effectively the hotel implements recommendations from prior audits to improve the accounting system. According to the table data, 24.5 % of the participants rated it as “Very High,” 30.2 % as “High,” 36.8 % remained neutral, while 17.9 % rated it as “Low,” and 6.6 % rated it as “Very Low”.

Conclusion

The study concluded that manual accounting system is more popular than computerized accounting system in 106 hotels in the Swat region. Digital literacy is very low among the owners and accountants of these hotels. Hotel businesses are vastly under the influence of cultural values and tradition. That is why the people are still unfamiliar with IT and digital innovation. This accomplishes our first objective that manual system is used more by the sample as compared to the digital accounting system. The second objective is realized by the fact that although the accountants are very satisfied with the performance of their current accounting system. There is a massive room for digital improvements.

Recommendation

This study is generalized for hotel accounting system focusing on swat. Therefore, further research should be conducted to obtain more explicit results. Moreover, this research did not discuss the payment methods used in hotels of the study area. This could be an interesting topic for future research. This is a descriptive study however correlational study is recommended to analyze the root causes of preference for manual accounting system over computerized accounting system. It is recommended that hotels should continue to invest in computerized accounting system. They need to develop and implement internal controls to prevent errors, fraud, and misappropriation of assets align with govt financial system and institutions.

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