



Hospitality Finance, Revenue and IT Professionals  
Professional Development

**Uniform System of Accounts for the Lodging Industry – the Eleventh Revised Edition  
By Howard Field, author of the ‘Guide to the Uniform System 10<sup>th</sup> edition’**

The arrival of a new edition of the Uniform System of Accounts for the Lodging Industry (USALI) is a significant event for the hospitality industry. Containing changes that are evolutionary rather than revolutionary, it is important that readers and users understand their significance. In this article I discuss the changes from the 10<sup>th</sup> edition that have been outlined on the website of the American Hotel and Lodging & Education Institute. These changes are in blue font in the following discussion and my comments are in black font.

Additional changes are presented throughout the USALI, which is available now online at: <https://www.ahlei.org/Products>

Part I of the USALI is now the Operating Statements section. A small but important change to the sequence of sections so that readers immediately access those related to hotel management accounting. Financial Accounting aspects are now covered in later sections.

**a) Summary Operating Statement**

The following statements highlight the material changes made to the presentation of the Summary Operating Statement.

1. "Rentals and Other Income" has been changed to "Miscellaneous Income"
2. "Revenue" has been changed to "Operating Revenue" and "Total Revenue" has been changed to "Total Operating Revenue"
3. "Information and Telecommunications Systems" has been added as a fifth Undistributed Operating Department (see Part I, Schedule 6)
4. "Fixed Charges" has been changed to "Non-Operating Income and Expenses" (see Part I, Schedule 11)
5. "Net Operating Income" has been changed to "EBITDA" (Earnings Before Interest, Taxes, Depreciation and Amortisation)
6. Two Summary Operating Statement formats have been developed:
  - For operators, a Replacement Reserve is deducted from EBITDA, and the bottom-line is "EBITDA less Replacement Reserve"
  - For owners, Interest, Depreciation, Amortisation, and Income Taxes are deducted from EBITDA, and the bottom-line is "Net Income."

HF: It is not just terminology that has changed. As will be seen later on, some of the changes relate to the nature of the transactions and where they will be found in future in the management accounts. At the least, the new terms will have to be learnt, and presentation formats will need to be brought into line.

## Operating Schedules

The following statements highlight the material changes contained in the operating schedules.

### b) Multiple Departments

1. In all departments, readers are advised to refer to the Appendix at the end of the book that provides enhanced guidance on the reporting of revenues and expenses on a gross versus net basis

HF: Section V of the book is a very useful and important addition, explaining the accounting logic as to whether the hotel should be accounting for a service as an Operated Department with revenue, costs and profit - or as Miscellaneous Income based on the difference between the amount billed to a customer and the costs incurred by the hotel. It sets out the criteria and gives examples.

This does not represent a change in practice so much as providing useful explanation of the relevant principles.

2. Additional guidance is provided in each revenue-producing department regarding the handling of surcharges, service charges, and gratuities

HF: Also in Section V, is a significant section on these subjects. Mixing them all together underestimates their potential importance.

The treatment of resort fees and surcharges relating to the provision of services or use of facilities is set out with examples.

US GAAP is then cited to cover the treatment these and service charges in relation to what should be accounted for as revenue.

The principle stated here is that the charge to the customer represents hotel revenue when it is

- compulsory or non-discretionary
- automatically added to the account by the hotel
- the amount is not determined by the customer
- the customer is not in control of any distribution

The hotel therefore is generally obliged to treat the amount charged as revenue, and not to credit the amount to any expense account.

The explanation here is quite detailed, and reflects the result of considerable discussion of a subject that was not fully explored in earlier USALI editions. Service charges were only referred to in connection with Food and Beverage operations, and the distinction between the treatments of service charges and gratuities was not clarified.

It has been recognised in the new edition that there exists a wide variety of different practices, especially in non-US hotels. Practices range from service charge on all types of revenue, including rooms, and many variations of how the revenues are accounted for and whether there is any distribution made to employees (also see below).

The treatment of service charges, is probably the most significant change in the new USALI edition. Where service charges that meet the stated criteria are applied to room rates, they often amount to between 5 and 10 percent of the basic charge. In the Food and Bev-

erage outlets, the range is commonly between 8 and 15 percent. These are substantial amounts and, if not currently being treated as revenue, they will materially affect future reported revenues and the related operating statistics.

Where agreements for management and franchise fees, or rents, commissions and other charges are related to revenues, it will be essential for reference to be made to the relevant agreement terms. In cases where no mentions were made of the subject, it may be necessary for supplementary terms to be drafted. In some cases, new terms will have to be agreed, and it may be that changes in operating practices will also have to be made.

Fundamentally, the accounting principles applying to service charge revenues should always have been as are now reflected, and the problem is the lack of any uniformity of practice within the hospitality industry and the confusion between what is a service charge and what is a gratuity.

This whole subject deserves wider consideration, not just for the purposes of the USALI.

### 3. [The aggregated salaries and wages of management and non-management personnel are presented on the department schedule.](#)

HF: Categories have been added to each department schedule to provide additional information regarding Labour Costs and Related Expenses.

A comprehensive list of payroll titles is included in Part I. Many hotels organise their labour flexibly, to account for peaks and troughs of demand, and multi-skill their labour force to improve efficiency. Hotels may find that the distinctions in the USALI between management and non-management and the allocations of specific job titles to departments, do not match their practices.

### 4. [Service Charge Distribution is presented as a distinct cost category within Salaries, Wages, Service Charges, Contracted Labor and Bonuses. It has been moved from Payroll-Related Expenses-Supplemental Pay](#)

HF: See above for more on the subject of service charge. It is only where a distribution is made to employees that this cost category will apply. In some jurisdictions where local practice and tax issues apply, it may prove difficult to identify precise amounts distributed to a particular department.

### 5. [Contracted, leased, and outsourced labor costs are presented independently](#)

HF: This is distinguished from services such as contract cleaning carried out by outside companies and not as replacement for the hotel's own employees that forms part of other departmental expenses.

### 6. [New expense categories have been added to account for cluster services and department-specific reservations expenses](#)

HF: Where cluster services are provided that include a range of services, it is not always possible for these to be split into labour and other categories, or by department.

### 7. [Administrative telecommunications expenses are no longer recorded within each department. All administrative telecommunications expenses are now recorded in the new Information and Telecommunications Systems-Schedule 6](#)

### c) Rooms Department

1. The segmentation that is used to record rooms revenue reflects efforts to provide greater detail and definitions and to align with industry practices

HF: The greater details referred to here, that are to show on the rooms schedule, will not be those used by every hotel. It is not clear why they need to set out in detail on this schedule rather than on supporting schedules that can be suitably customised.

2. Resort fees are now recorded in Miscellaneous Income-Schedule 4. They are not included in the calculation of average daily rate

HF: Service charges will however be part of total rooms revenue and will affect these statistics.

3. Enhanced guidance is provided regarding the handling of revenues and expenses associated with mixed-ownership lodging facilities

4. Enhanced guidance is provided regarding the allocation of package revenues and the handling of package breakage, which has moved to Miscellaneous Income - Schedule 4

HF: This guidance as to how to allocate package revenues contains subtle wording changes from the last edition. The example shown has not changed from the last edition of the USALI. This subject remains open to interpretation and practices vary widely.

The treatments of package breakage, and of service charge revenue, are among material items that will have an impact. Accounting for package and inclusive revenues remains a subject that requires further consideration.

### d) Food and Beverage Department

1. Food and Beverage-Schedule 2 presents the revenues from both food and beverage venues. Separate food and beverage department schedules are not mandatory
2. Enhanced guidance is provided regarding the handling of gift certificate revenue
3. The term "cover" has been replaced with the term "customer" to reflect the number of people served

### e) Other Operated Departments

Telecommunications is no longer an Other Operated Department. Guest room-generated revenues and cost of sales are now accounted for in Guest Communications on Minor Operated Departments-Schedule 3-xx. Function room-generated revenues and cost of sales are accounted for in Audiovisual on Food and Beverage-Schedule 2. All telecommunications-related labor expenses, administrative telecommunications costs, and the costs associated with complimentary phone and Internet services are recorded on the new Information and Telecommunications Systems-Schedule 6

### f) Miscellaneous Income

1. All resort fees and package breakage are recorded in Miscellaneous Income-Schedule 4
2. Additional guidance is provided regarding the handling of commissions, business interruption insurance, foreign currency exchange, unused or forfeited gift certificates, and interest income

### **g) Undistributed Departments**

The information and telecommunications systems department has been created to consolidate all system-related technology expenses.

1. Additional guidance is provided regarding the handling of non-guest-related foreign currency exchange income and expenses
2. The segregation of sales and marketing expenses was eliminated
3. Revenue management and catering sales functions have been clarified as sales and marketing expenses
4. Utility Taxes was eliminated as a separate expense category on Utilities-Schedule 9

HF: This elimination may cause some confusion where costs such as the purchase of carbon credits apply, that relate directly to the consumption of power and reflect operating efficiency. Consensus until now was that this was the appropriate category, as part of the hotel's utility costs.

5. Contract Services was added as an expense category on Utilities-Schedule 9 to incorporate the cost of energy audits

HF: For operating management, the key hotel performance measurement is Gross Operating Profit (GOP), so any changes as to what goes above or below this line are the most relevant.

After management fees, the remaining items shown on the Summary Operating Statement are not always known by the hotel management unless they are involved in handling the administration of the related payments and accounting.

### **h) Non-Operating Income and Expenses**

HF: Given that certain revenues as well as costs are non-operating, and rarely are they fixed, the change of title from fixed charges is logical.

1. The net revenue generated by ownership that is not managed or maintained by the hotel is recorded as Non-Operating Income
2. An Owner Expense category has been added to account for such items as asset management fees, receiver fees, and owner directed market studies and audits
3. Additional guidance is provided regarding the handling of equipment rental, unique municipal charges, and various employee housing expenses

HF: After deducting the management fees and non-operating items from the GOP, the net line is called Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA). This is the key management accounts figure that reflects the hotel's financial result that will be mirrored by its financial accounts.

In the USALI Summary Operating Statement, there is then a deduction of Replacement Reserve. This relates to a common provision in hotel management agreements that is explained in the book, but which will not be relevant for many hotels.

There is then an owner's version of the Summary Operating Statement that contains some of the items such as interest, tax and depreciation that are financial items rather than those relevant to operating management.

## **j) Financial Statements**

HF: This whole section refers to financial accounting, and largely to US GAAP. As a section of the USALI book, it has been moved from the Part I to Part II, so as not to be confused with the basis of the USALI as the industry's management accounting standard.

The following statements highlight the material changes contained in the financial statements:

1. Revenue and expense categories have been added to the Income Statement to reflect changes made to the Summary Operating Statement
2. A Statement of Comprehensive Income has been added to supplement the Income Statement. An illustrative statement is provided
3. A reference to International Financial Reporting Standards (IFRS) was added
4. Gift certificates and cards have been removed from Other Current Liabilities and made a separate line item
5. Additional guidance is provided regarding the handling of inventories, operating equipment, and pre-opening expenses

## **k) Financial Ratios and Operating Metrics**

HF: Operating Metrics are now covered before the Financial Ratios, and the explanations have been considerably extended.

The following statements highlight the material changes contained in Part III--Financial Ratios and Operating Metrics:

1. In recognition of the importance of operational and financial analysis, the name of this section has been changed from Ratios and Statistics to Financial Ratios and Operating Metrics
2. Ratios are presented for both operating departments and undistributed departments
3. For each department, a recommended schedule of key ratios is provided
4. A recommended labor cost schedule is provided that presents detailed labor cost data for each department
5. Additional utility and waste consumption ratios are provided, as is a discussion regarding the growing trend to measure sustainability and environmental impact

## **l) Revenue and Expense Guide**

Guidance is provided regarding the proper recording of both revenues and expenses and is available in an electronic format that is both sortable and searchable.

HF: It will take some time for the industry to absorb and implement changes arising from the new USALi edition. To remain in compliance with the Uniform System, the new formats should be in place by January 2015. This will involve considering the extent of restatement of comparative figures, revising budget and operating statement formats, upgrading charts of account, and related software changes. HOSPA's Finance Technical Committee will maintain links to resources as issues arise.