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HOTEL ACCOUNTING - A LOOK TO THE FUTURE

INCLUDING 12 POSSIBLE USALI ENHANCEMENTS

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Centered around the development of the Uniform System of Accounts for the Lodging Industry, the principles of which have largely remained as originally published in 1926, the hotel accounting history recently published by HOSPA and HFTP covers the period up to the current Eleventh Revised Edition.

This article takes the opportunity while the Twelfth Edition revision of the USALI is in progress to reflect on the potential for alternative views of hotel operating performance.

The departmental formats and related revenue and expense allocation standards used by the USALI have become prescriptive. This approach has resulted in there having been relatively few innovations in hotel management accounting despite the many changes in the structures of ownership and styles of operation that have taken place during the last century.

Examples of hotel operating KPIs that are not easily determined by referring to USALI style accounts include:

- revenue and profitability by customer
- revenue and profitability by market sector, such as leisure, corporate, group, MICE
- revenues and profit contributions from residents compared to non-residents
- identifying a hotel's variable, semi-variable and fixed costs
- enabling net profitability contributions from the various elements of the hotel's facilities to be established

Some lateral thinking is needed to explore ways more closely to match information to the users who are either managing the operation and its functions on a day to day basis, overseeing multiple operations, or owning a variety of investments that include hotels. One size does no longer fits all.

There are opportunities to develop further the principles of the USALI itself, and to improve the scope and effectiveness of operating reports based on its use. Some of these would not require fundamental changes to the USALI departmental structure.

Possible enhancements include:

1. Total Revenue Metrics - generation of statistics that aggregate overnight guest total spends separately, enabling hotels to distinguish between revenues from this source against other revenue sources. Current systems tend to lose the ability to identify separately resident guest revenue from the hotel's various points of sale, especially where this is not charged to a guest's room account. This makes it difficult to assess the impact of revenues generated from non-residents that, in city centre hotels in particular with multiple restaurants, bars, meeting and event venues, can often out-weigh those from residents.

2. Rooms Revenue (i) – refining the KPIs for room sales to show also net revenues that exclude the direct costs of acquisition such as commissions and reservation charges, and related levies or fees such as those from franchise, marketing and loyalty programmes. These could form elements of a Cost of Sales section in the Rooms Department.

3. Rooms Revenue (ii) – the proliferation of service charges and other surcharges is challenging the traditional approaches to recording and reporting departmental revenues. Consideration needs to be given to the reason for the existence and the purposes of these charges, against how they are treated in the USALI. In particular, whether or not payment of a service charge is termed discretionary, if such a charge is made and accepted there is strong case to say it should be included in the hotel's revenue (and in the Food and Beverage and any other department). Only where a surcharge is clearly labelled as a discretionary gratuity that will be paid to staff should it possibly be excluded from revenue. Resort or similar fees are also becoming subject to agents' commissions and their nature suggests that future treatment of these revenues may have to change.

4. Food and Beverage Revenue (i) – as mentioned in Rooms Revenue (i) above, the USALI does not provide data that identifies separately revenues generated by non-residents. In many properties, these produce the majority of the Food and Beverage department total revenue.

5. Food and Beverage Revenue (ii)– there exist many variations of arrangements for the operation of a hotel's restaurants, bars and other Food and Beverage outlets. These can range from space rentals to third parties who operate independently from the hotel, to directly managed and controlled operations. How the relevant revenues and costs are then accounted for can materially affect assessing and comparing the results of the operation. There are other guest and practical management issues – but decisions to operate or outsource

any of these facilities can have a major impact on owner/operator and brand obligations that need to be considered against management, franchise and lease agreements. The USALI should further address this subject.

6. Food and Beverage Cost of Sales (i) – the USALI as presented does not distinguish between production and service. This reduces the effectiveness of assessment and comparison of cost ratios, making purchasing decisions, and comparing in-house and outsourcing production options. Including in Cost of Sales the direct kitchen labour costs would greatly improve focusing on production costs when considering pricing and margin criteria, and the need also to be able to measure service economics.

7. Food and Beverage Cost of Sales (ii) – The USALI also needs to consider expanding the expense lines to include costs related to purchasing and storage. These can be material factors affecting the Cost of Sales that are not identifiable in the current format of the departmental Schedule for Food and Beverage.

8. Administration and General – a major element of cost in this department relates to the hotel's Human Resource function. There is a strong case for this to become a separate department (as has Information and Telecommunications Systems), with the related Labour and Related Expenses and the various recruitment, training and staff benefit expenses (other than those already included on the USALI Schedule 14) being allocated here.

9. Management Fees –the USALI Schedule 10 that shows the Base and Incentive Fees could be extended to summarise all expenses and shared service recharges to the hotel related to management, brand and franchise agreements. This Schedule could then show to where any departmental allocations have been made.

10. Pre-Opening Expenses – the USALI should include more information on this subject, as it affects every new property that is implementing the system. The list of costs that may be categorised under this heading and that are not part of the project's capital costs will depend significantly on factors such as whether the property owner accounts for such costs as a normal trading expense, or has a policy of deferring the write off of such costs over a period from when the hotel opens. Where a third party is involved, such as if management contract and/or pre-opening services contract exists, it is essential that the parties have a source of reference as to the content and treatment of this category of expense.

11. Revenue versus Capital expense - is a subject that raises many questions from USALI users. Inevitably, local GAAP and tax considerations are the principal factors affecting distinctions between capital and revenue categorisation. This is an example where international standards will vary from the USALI's focus on US GAAP, but where basic guidelines should be included.

12. International Considerations – use of the USALI is now global. For many of the worldwide hotel chains, the USALI is the standard for reporting on hotel operations and to support obligations under their typical management, franchise or similar contracts. Inevitably, there are local practices or legislation that can compromise the principle of uniformity. The USALI as published is itself constrained by US GAAP considerations. The compilation and publication of regional guides (such as the one produced for the Tenth Edition by the Hotel Controllers and Accountants Association in Hong Kong that was translated into Mandarin) would help considerably to encourage greater understanding and adoption of the USALI principles. HFTP's development of the Global Hotel Accounting Common Practices (GHACP) web site and tools is a big step towards this aim.

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