

Uniform System Of Accounts For The Lodging Industry - Tenth Edition - Major Changes

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The Financial Management Committee of the American Hotel and Lodging Association (AH&LA), in conjunction with the Hospitality Financial and Technology Professionals (HFTP), published the tenth edition of the Uniform System of Accounts for the Lodging Industry (USALI) in the fall of 2006.

The first edition of the USALI was published in 1926 by the Hotel Association of New York City. The purpose of the first USALI was to establish a uniform responsibility accounting system for the lodging industry.

Since the first edition was published 1926 much has changed in the industry. The most recent edition of the USALI addressed the current industry trends, which emerged since the 9th edition was published in 1996. Some of the evolving issues which were addressed by the 10th edition included how to deal with condo hotels, reporting for internet wholesales, and resort fees, which seems to have particular relevance in this day and age of ala carte pricing which the airline industry has recently adopted. The 10th edition also provides clarification to ambiguous guidance found in the ninth edition (i.e. allowances, attrition and cancellation fees, definition of available rooms).

In conjunction with the publication of the 10th edition the Financial Management Committee prepared brief summaries of the key sections of the 10th edition, that highlight the major changes found in the tenth edition of the USALI. These summaries first appeared in Lodging magazine and The Bottom-Line. Reprint permission was received from both publications.

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To purchase a copy of the tenth edition of the Uniform System of Accounts for the Lodging Industry, please visit the Educational Institute of the AH&LA website at www.ei-ahla.org.

ROOMS DEPARTMENT

Group Rooms Revenue is defined as revenue derived from renting blocks of 10 rooms or more.

Contract Rooms Revenue is defined as revenue derived from a contract with another entity for a consistent block of rooms for an extended period over 30 days.

Available Rooms is defined as all rooms in the hotel that are used for guest overnight occupancy. The count of available rooms will not be reduced unless a room is out of order for a minimum of six consecutive months due to a non-discretionary event (i.e. fire, hurricane, etc...), or an entire rooms department is completely closed for a minimum of 30 days.

Complimentary Rooms is defined as a free room provided to a guest often for marketing purposes and not linked to existing contractual relationships (i.e. fourth room night free).

Group Attrition is recorded in Rentals and Other Income.

Revenue generated through an intermediary (i.e. wholesaler, dot.com wholesaler) is recorded at the net rate billed to the wholesaler.

Resort Fees are allocated to other departments based on the value of the components included in the fee.

FOOD AND BEVERAGE DEPARTMENT

Food and Beverage Department revenues will be combined and shown as one revenue line item on the summary operating statement and the statement of income.

Food and Beverage Department expenses will be combined and shown as one expense line item on the summary operating statement and the statement of income. Total Food and Beverage Department expenses is the sum of Cost of Sales, Total Payroll and Related Expenses, and Total Other Expenses.

Separate Food and Beverage departmental sub-schedules are allowed, but the data must be combined on the summary operating statement and the statement of income.

Departmental Income (Loss) is presented on the Food and Beverage Department schedule, as well as the Food Department sub-schedule and Beverage Department sub-schedule. Department Income (Loss) is not shown on the summary operating statement or statement of income.

Five classifications of Food and Beverage Revenue are approved: Outlet, In-Room Dining, Banquet/Catering, Mini-Bar, and Other.

Five classifications of Other Food and Beverage Revenue are approved: Audio Visual, Public Room Rentals, Cover Charges, Service Charges, and Miscellaneous Other Revenue.

Total Food and Beverage Revenue is defined as the sum of Food and Beverage Revenue net of Allowances and Other Food and Beverage Revenue net of Allowances.

On the Food and Beverage Department schedule, and each of the Food and Beverage sub-schedules, one Gross Profit number is provided for, and that amount is determined by subtracting from Total Revenue the Total Cost of Sales.

Cost of sales does not include breakouts for transfers between the Food and Beverage Departments. Such transfers are charged directly to the appropriate cost accounts in the departments receiving the items.

China, Glassware, Silver, and Linen are separate expense items within the department schedules and sub-schedules, and more extensive definitions of each category are provided.

An expense line item entitled Complimentary Services and Gifts has been created to capture the cost of gratis presentations for promotional purposes to guests and vendors of the Food and Beverage Department.

An expense line item entitled Management Fees has been created to capture any amounts paid to a third-party individual or company to operate or manage a food outlet within the property.

An expense line item entitled Royalty Fees has been created to capture all costs associated with the right to use a brand name in connection with a Food or Beverage Department activity.

OTHER OPERATED DEPARTMENTS AND

RENTALS AND OTHER INCOME

Guidance is provided to determine when to report revenue on a gross basis (Other Operated Department), or a net basis (Rental and Other Income).

In order to be classified as an Other Operated Department, the department must have revenue and operating expenses, and is operated with a motivation towards profitability. If not, the activity is reported in Rentals and Other Income.

If the operation is principally to provide a guest service and as a result revenues are minor or non-existent, it cannot be classified as an Other Operated Department. It should be charged to the department that benefits most from the service. An example would be complimentary shuttle service that would get charged to the rooms department.

The Telecommunications Department is reported as an Other Operated Department. It is no longer presented as a separate operated department on the Summary Operating Statement.

Sources of revenue that meet the requirements to be reported on a gross basis, but have limited corresponding expenses (i.e. no labor), are reported as a Minor Operated Department within the Other Operated Department schedule. Examples are movie rental and vending.

Attrition and cancellation penalties, proceeds from business interruption insurance, and the net proceeds from a third-party laundry and dry cleaning concession have been added as discrete accounts in Rentals and Other Income.

The sum of revenues from all Other Operated Departments is presented on the Summary Operating Statement as one revenue line item. Similarly, the sum of expenses from all Other Operated Departments is presented as one expense item. These two line items are supported by an Other Operated Department schedule that summarizes the total revenues and total expenses for each individual other operated department.

A standardized sub-schedule format is provided to report the detailed revenues and expenses for each individual Other Operated Department.

UNDISTRIBUTED OPERATING EXPENSES,

MANAGEMENT FEES, AND FIXED CHARGES

Security, Human Resources, and Information Systems can be created as departments, but must be summarized and reported on the Administrative and General line on the Summary Operating Statement.

New categories have been added to the Administrative and General Department for Centralized Accounting Charges and Corporate Office Reimbursables.

Transportation Expenses directly related to transporting guests are now reported as an expense of the Rooms Department, unless guest transportation is operated as a revenue-generating department and meets the criteria set forth under Other Operated Departments, in which case the cost of guest transportation is shown in Other Operated Departments.

Franchise fees are included in the Marketing Department. However, the fees paid for licenses other than the hotel brand (such as fees paid for a restaurant or coffee brand) are expensed to the appropriate operating department using the brand in an account named 'Royalty Fees.'

Revenue will not be credited to the Property Operations and Maintenance Department. Instead the revenue must be credited to an operating department. Costs will also be transferred to the operating department. For example, the revenue and expenses associated with the installation of electrical outlets for a trade show exhibition will be reported in the Food and Beverage Department.

Sewer costs and fees are reported on a separate line item in the Utilities Department.

Management Fees are a separate line item on the Summary Operating Statement, and reported as a deduction from Gross Operating Profit in arriving at Income Before Fixed Charges. It represents the aggregate amount of both Base and Incentive Management Fees.

Taxes on Utilities have been moved to the Utilities Department.

Insurance, which includes property, liability insurance, professional liability, theft and other incidental lines of coverages and the associated deductible costs for each line of insurance is reported under Fixed Charges and includes the costs of uninsured and under-insured losses. Employee related insurance costs for workers compensation coverage is included in Employee Benefits costs in the appropriate departmental schedule. This section also includes the costs of legal settlements and audits which result in changes to the underwriting assumptions used to assess premiums.

BALANCE SHEET

Changes to the Balance Sheet were made to reflect changes in GAAP since the release of the ninth edition of the USALI. Two significant changes are:

Operating Equipment

Operating equipment includes china, glassware, silver, linen, and uniforms.

Operating equipment determined to have a period of consumption of one year or less is recorded as a Current Asset.

Operating equipment with a period of consumption more than one year is recorded as an Other Asset.

Operating equipment is expensed ratably to the appropriate department expense account over its estimated useful life. Please note that Operating Equipment is no longer amortized.

Upon implementation of the tenth edition of the USALI, a property should expense the balance of any remaining china, glassware, silver, linen, and uniforms on its books.

Due To / Due From

Separate accounts have been established to report amounts due to or from owners, management companies, and related entities.

Examples of amounts due to or from these entities include advances for capital improvements, accruals for management fees, and other expenses, and advances provided to a property.

The accounts are classified as current or long term based on their payment terms.

The amounts are not offset against each other unless there is a contractual right to offset between the parties.

PAYROLL AND RELATED EXPENSES

Within each department that has personnel, payroll and related expenses are divided into two sections: Salaries, Wages, and Bonuses, and Payroll-Related Expenses. The following statements highlight the costs associated with each category.

Salaries, Wages, and Bonuses

Salaries and Wages includes regular pay, overtime pay, and shift differential pay.

Salaries and Wages also includes the costs for contract or leased labor. Contract or leased labor refers to situations in which the property enters in to an agreement with an outside service to provide employees to fill positions that would normally be filled by hotel staff paid on the regular payroll. The property would typically supervise these employees, track their hours, and pay for the service on an hourly basis. This differs from Contract Services, like pest control or carpet cleaning, where the individuals are supervised by the outside contractor.

Salaries and Wages are charged to the department for which the duties of the employee are performed. The salaries and wages for an employee that works for multiple departments should be charged to each department based on the actual hours worked in that department.

Bonuses and Incentives are also included in Salaries, Wages and Bonuses. Bonuses, incentive pay, and other types of performance pay are designed to reward employees for their efforts in connection with plans designed to drive revenue through sales, profit, or guest satisfaction measures.

Payroll-Related Expenses

Payroll Taxes includes all federal, state, and local government mandated payroll-related taxes or social insurance items such as FICA, FUTA, SUTA, and SDI.

Supplemental Pay includes personal days, vacation pay, sick pay, holiday pay, jury duty pay, relocation pay, paid time off, and severance pay.

Supplemental Pay also includes bonuses and incentive payments that are discretionary and not determined by results from operations.

Employee Benefits includes all other payroll-related expenses such as employer-paid health insurance expenses, cost of meals furnished to employees, pension contributions, and union fees.

The tenth edition contains a Schedule of Department Payroll Titles that lists the titles of positions typically found in the various operated and undistributed departments of a hotel.

RATIOS AND STATISTICS

New Definitions

Rooms Available is defined as the difference between the total number of rooms in the hotel and rooms that not available for transient rental, including seasonally closed rooms (where the entire hotel is closed for 30 or more consecutive days), rooms designated for permanent house use, and Extended Closed Rooms. Extended Closed rooms are rooms, which are expected to be closed for 6 months or longer as a result of an event beyond the control of the hotel such as a fire or hurricane.

Complimentary Rooms is defined as a free room provided to a guest often for marketing or promotional purposes. Complimentary rooms do not include rooms linked to an existing contractual relationship (i.e. a marketing program where the hotel provides a free room night after the purchase of a defined number of rooms, such as a fourth room night free program). Gratis rooms given in connection with the purchase of a block of rooms is likewise not considered a Complimentary Room.

Complimentary Rooms are excluded from the computation of average rate and occupancy statistics.

Under certain circumstances, rooms in a hotel that are owned in connection with a condominium regime are included in rate and occupancy statistics (see below). If the criteria for inclusion of condominium rooms in the Rooms department statistics is not met, then the income derived from the rental of the condominium rooms should be included in Rental and Other Income or Other Operated Departments. Supplemental reporting data should be developed for the purposes of determining rate and occupancy statistics for the entire property (see below).

Ratio Analysis

Expanded commentary is provided on financial benchmarking, fixed and variable costs, and methods of calculations and comparisons.

Revenue Ratios

Ratios have been provided to measure both Total Rooms Revenue (RevPAR) and Total Revenue (Total RevPAR) on a per-available-room basis.

The overall Average Room Rate (ADR) for a hotel is calculated by dividing Total Rooms Revenue by the Rooms Occupied. Total Rooms Revenue includes transient rooms revenue, group rooms revenue, contract rooms revenue, and other rooms revenue (no-shows, day use, early departure, late check-out, rollaways, cribs, portion of resort fees and surcharges allocated to Room Department). Complimentary rooms are not included in the Rooms Occupied.

Because most hotels do not distribute their allowances by revenue segment (transient, group, contract), the Gross Rooms Revenue, by segment, is used to calculate the ADR for each individual revenue segment.

Profitability Ratios

Ratios have been added to measure Gross Operating Profit, Income Before Fixed Charges, and Net Operating Income. These profit measures can be analyzed as a percent of total revenue or on a dollar per-available-room basis.

Occupancy

The overall Occupancy ratio for a hotel is calculated by dividing Rooms Occupied by Rooms Available. Complimentary rooms are not included in the Rooms Occupied.

Financial Ratio

Cash-on-Cash Return is calculated by dividing the Adjusted Net Operating Income, less debt-service, by the Average Owner's Equity for the period being measured.

Condo Hotels

Guidance is provided in the Rooms Department section of the tenth edition regarding the reporting of revenues and expenses for mixed-use properties.

When condo hotel revenue is reported within the Rooms Department, then the Rooms Occupied and Room Available within the condo portion of the operation should be included in the hotel's overall performance statistics.

When condo hotel revenue is reported within the Other Operated Departments, or Rentals and Other Income, then the Rooms Occupied and Room Available within the condo portion of the operation should not be included in the hotel's overall performance statistics. In this circumstance, it is recommended that a separate schedule be prepared to show the occupancy and ADR for just the condo hotel operation.

MIXED-OWNERSHIP LODGING FACILITIES

The Tenth Edition provides guidance for reporting operations derived from projects that include elements where ownership is held by a party other than the hotel owner. These projects include condo hotel operations, timeshare, fractional, and whole ownership elements where the hotel operator may be providing hotel services for the element owners. Due to the diversity of contractual arrangements that exist between owners and operators, the reporting of revenues and expenses will vary depending on the facts and circumstances of each contract. The Tenth Edition provides guidance with respect to determining whether revenues and expenses derived from condo hotel and other mixed ownership situations should be reported in the Rooms Department, Other Operated Departments, or Rental and Other Income. The Tenth Edition does not cover the reporting of results from Time Share operations and Fractional operations, both of which are covered by another publication. The following paragraphs summarize the factors to be considered.

Reported in Rooms Department

The hotel assumes the economic risk associated with operating the third-party-owned units pursuant to a contractual relationship that extends beyond one year. For example, when a hotel operator enters into an agreement with a unit owner to take the economic risk of marketing and filling the 'condo' unit for the owner, the revenues and expenses resulting from that activity are integrated in to the operations of the hotel. In other words, the revenues derived from these activities are included in the hotel's Rooms Revenue, while the expenses incurred are reported in their appropriate departments (i.e. rooms, maintenance, utilities, etc...)

In this circumstance, the available and occupied room counts should be included in the hotel's rooms statistics calculations.

Reported in Other Operated Departments

If the third-party owner of the unit shares in the risk associated with the operation of the unit, a management relationship exists. For example, the contract dictates that revenues are split between unit owners and management, as well as expenses. In this circumstance, hotel management is operating a condominium operation, and this operation is reported as a Condominium Department within Other Operated Departments.

In this circumstance, the available and occupied room counts should not be included the hotel's rooms statistics calculations. However, it is recommended that supplemental rooms statistics tables be created to capture the performance of the third-party owned units, as well as to report the statistics of the entire business unit.

Reported in Rental and Other Income

If hotel management receives a fixed dollar amount, a percent of revenue, or reimbursement that is net of specified expenses in exchange for marketing the condominium unit, then the fee received by the hotel is reported in Rentals and Other Income. For example, management is responsible for renting and maintaining the units. However, the unit owners retain all revenues and pay all expenses associated with ownership and maintenance. One of those expenses is the fee they pay to hotel management.

In this circumstance, the available and occupied room counts should not be included the hotel's rooms statistics calculations. However, it is recommended that a supplemental rooms statistics table be created to capture the performance of the third-party owned units.

SUMMARY OPERATING STATEMENT

The former 'Summary Statement of Income' is now entitled 'Summary Operating Statement' in order to provide a more operational review of hotel revenues and expenses.

The Summary Operating Statement is prepared for analytical purposes and is not in accordance with generally accepted accounting principals.

Account titles have been altered to reflect typical lodging terminology. For example, 'Gross Operating Profit' has replaced 'Income after Undistributed Operating Expenses.'

The Summary Operating Statement does not link to Net Income because a deduction is made for replacement reserves. This approach is more informative for the owner or manager who is focused on operating cash flows.

Due to the difficulties encountered allocating revenues and expenses between the Food and Beverage Departments, all food and beverage revenues and food and beverage expenses are presented in a combined manner on the Summary Operating Statement.

Telecommunications is now an Other Operated Department.

Revenue is reported in just four line items: Rooms, Food and Beverage, Other Operated, and Rental and Other Income.

There are just three matching operating department expense categories: Rooms, Food and Beverage, Other Operated Departments.

Undistributed expenses are to be assigned to one of four departments: Administrative and General, Sales and Marketing, Property Operations and Maintenance, and Utility Costs.

Management may create sub-schedules for each operated and undistributed department. However, the revenues and expenses in the sub-schedules must role up into the designated revenue and expense categories listed in the Summary Operating Statement.

Management fees, inclusive of base and incentive fees, are presented as a discreet expense item.

Fixed charges consist of Rent, Property and Other Taxes, and Insurance.

The term 'Net Operating Income' replaces 'Income Before Interest, Depreciation, Amortization, and Income Taxes.'

'Adjusted Net Income' is calculated by subtracting a replacement reserve (funded or non-funded) from 'Net Operating Income.'

The following table presents the format of the new Summary Operating Statement.

<u>10th Edition USALI Summary Operating Statement</u>	
Revenue	
Rooms	
Food and Beverage	
Other Operated Departments	
Rentals and Other Income	
Total Revenue	
Departmental Expenses	
Rooms	
Food and Beverage	
Other Operated Departments	
Total Departmental Expenses	
Total Departmental Income	
Undistributed Operating Expenses	
Administrative and General	
Sales and Marketing	
Property Operations and Maintenance	
Utilities	
Total Undistributed Expenses	
Gross Operating Profit	
Management Fees	
Income Before Fixed Charges	
Fixed Charges	
Rent	
Property and Other Taxes	
Insurance	
Fixed Charges	
Net Operating Income	
Less: Replacement Reserves	
Adjusted Net Operating Income	

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