Potential bottom line impacts of the new edition of the Uniform System of Accounts for the Lodging Industry

Ever since the first edition was published in 1926, the Uniform System of Accounts for the Lodging Industry (USALI) has remained the established international standard reference and guideline for accounting and reporting practices for the hospitality industry. William J. Forster (the F in PKF) was the initiator and one of the founding fathers of this globally accepted guide that helps businesses determine how to treat revenues and expenses and – most importantly – how to report on them in a uniform and comparable way. To this date, PKF remains part of the AH&LA (American Hotel & Leisure Association) Financial Management Committee – the publisher of USALI.

Last year, the Eleventh Revised Edition was published and the official implementation date of the changes was set for the financial year beginning on or after January 1, 2015. While there are still elements that have not been considered from an owner’s point of view, the new edition finally addresses a number of issues that have been frustrating owners’ for some time. However, it is now up to the contract parties to align their accounting and reporting standards according to the new set of rules.

A few notable changes to USALI, some of which could well impact a hotel’s bottom line results, include the following:

- “Revenue” has been changed to “Operating Revenue” and “Total Revenue” has been changed to “Total Operating Revenue”.
- “Fixed Charges” has been changed to “Non-Operating Income and Expenses” and now also features an account for “Non-Operating Revenue” to account for revenue below GOP i.e. outside the scope of most fee calculation clauses!
- “Rentals and Other Income” has been changed to “Miscellaneous Income”.
- “Information and Telecommunication Systems” has been added as a fifth Undistributed Operating Department.
- Certain definitions have been changed or adapted.
- The presentation of the financial statements has been adapted.
- Additional guidance on gross vs. net accounting of revenues is provided.
- Many minor changes that need to be incorporated to be “in accordance with the Uniform System”.

This new version of USALI provides a good opportunity for hotel owners to review whether both existing and new USALI standards are being followed (which is commonly a stipulation anchored in, amongst others, international management agreements). We regularly discover that the accounting guidelines are not being followed, which in some cases impacts the calculation of fees, etc. Therefore, this is not something which should remain neglected.

If you are a hotel owner or operator, there are a number of questions you should ask yourself. For instance, how do you treat non-operational revenue and what does this mean for the calculation of fees (e.g. base, incentive, marketing, franchise, etc)? Are you using the correct approach for all revenue types (gross vs. net accounting) or are fees being paid, for example, on third party revenue? Are the definitions in your operating agreement in line with new or amended definitions in USALI?
As a case in point, on a number of occasions for various hotels, we have encountered that revenues (generally in other operated departments) were reported on a gross basis while they should have been recorded on a net basis (i.e. net of associated expenses and therefore part of rentals and other income or, as it is called now, miscellaneous income). For instance, if your hotel features a garage that is operated by an outside contractor and where the operator merely collects the parking fees, then these revenues should generally be booked on a net basis i.e. only turnover actually being kept by the hotel (e.g. commissions) ought to be recorded. Other examples include audio-visual equipment for MICE events provided through a third party but billed through the hotel; entrance tickets to a nearby attraction that are sold by the hotel or included in packages; an outside contractor operating part of your resort’s facilities (e.g. golf or tennis) or a retail shop on the premises of your hotel. If a property is operating in any of the above or similar scenarios (where a third party provides services), it may well be worthwhile looking at the situation more closely and analysing how this is treated financially. Often the solution is not black and white but lies somewhere in a grey zone. Therefore, it is important to have well founded analyses and arguments at hand.

If you have any questions regarding USALI and/or need advice in assessing the nuances of how this could impact bottom line operating results of your hotel, then please feel free to contact our asset and performance management team. Better yet, we gladly invite you to visit us in Vienna (or alternatively in our offices in Istanbul, Kiev or London) to discuss how we might possibly assist you in getting your fair slice of the cake – a piece of Sacher cake will be on us!

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