

Uniform System of Accounts for the Lodging Industry

Uniform System of Accounts for the Lodging Industry

Tenth Revised Edition



**Hotel Association of New York City
New York, New York**



**Hospitality Financial and Technology Professionals
Austin, Texas**



**American Hotel & Lodging Association
Washington, D.C.**

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Preface

The first edition of the *Uniform System of Accounts for Hotels* was published in 1926 by the Hotel Association of New York City. It represented the first successful organized effort to establish a uniform responsibility accounting system for the lodging industry and one of the first such efforts in any industry.

All members of the original committees, appointed by the Hotel Association of New York City to prepare a uniform system of accounts for hotels, deserve commendation for their untiring devotion to the completion of this task. The personnel of these committees were as follows:

Proprietor's Committee

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C. B. Stoner Hotels Statler Company Inc.

Accounting Societies

Chester P. Child, CPA, representing N.Y. State Society of CPAs

W. D. Cranstoun, CPA, representing American Institute of Accountants

One of the important results of the work of the Accountants' Committee was the organization of the Hotel Accountants Association of New York City. After the printing of the first edition of the manual, a Manual Committee of the Association was formed, which has been the medium through which the work of the original

group has been continued. The Hotel Accountants Association of New York City became the founding chapter of the organization now known as the Hospitality Financial and Technology Professionals. The names of those who worked on previous revisions of the uniform systems can be found in each of those revisions.

In 1961, to meet the needs of its members, the American Hotel & Lodging Association appointed the National Association of Accountants to develop a uniform system of accounts for small hotels and motels. In 1979 and again in 1986, members of the Committee on Financial Management of the American Hotel & Lodging Association revised the original uniform system of accounts for small hotels to reflect the changes in terminology used in the lodging industry. The names of the committee members involved in these publications can be found in the respective editions.

In 1996, a decision was made to combine the two uniform system books into one publication, called the *Uniform System of Accounts for the Lodging Industry*. A subcommittee of the Committee on Financial Management of the American Hotel & Lodging Association, with representation from the Hotel Association of New York City and Hospitality Financial and Technology Professionals, worked to produce the new guide. The names of those involved in the publication can be found in that book.

This publication is also the result of a joint effort of the Committee on Financial Management of the American Hotel & Lodging Association and Hospitality Financial and Technology Professionals. The committee members responsible for this edition are:

W. Peter Temling, CPA, Chairman—Continental Hospitality Holdings, LLC, Inc.

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Changes from the Ninth Revised Edition

This Tenth Revised Edition of the *Uniform System of Accounts for the Lodging Industry* contains a number of significant changes from the prior edition. These changes include some basic philosophical changes as well as content and format modifications to both the financial and operating statements.

Philosophical Changes

There are a number of fundamental philosophical changes in this Tenth Revised Edition. The first is the decision that this edition would focus on only the basic financial statements and the operating statements. As a result, Part I covers the basic financial statements, including the Balance Sheet, the Statement of Income, the Statement of Owners' Equity, and the Statement of Cash Flows. All of these statements are designed for external reporting purposes and must be prepared in accordance with generally accepted accounting principles (GAAP). Part II presents the departmental statements, which serve as the underlying basis for a new Summary Operating Statement. Part III continues the tradition of including information about ratio analysis and statistics. Deleted from this edition are sections on alternative financial statement formats, breakeven analysis, budgeting and control, guidelines for allocating expenses, and the sample chart of accounts. Sections on gaming operations and management companies have also been deleted. Part IV contains the Expense Dictionary in both alphabetical and departmental formats.

A second decision was to disallow, for external reporting purposes, alternative formats of the Summary Operating Statement, the departmental schedule presentations, and the accounts or line items shown on the Summary Operating Statement or supporting departmental schedules. Consequently, the Summary Operating Statement and each departmental schedule included in Part II designate the specific revenue and expense accounts that are approved as line items for reporting in conformity with the *Uniform System*, but the terms used may not be in accordance with GAAP. Individual properties may delete irrelevant line items, but the Tenth Revised Edition does not provide for the addition or substitution of other revenue or expense line items. Rather, properties will now have to develop a sub-account/sub-schedule to provide more detail related to a particular revenue or expense item. This sub-account/sub-schedule is then to be rolled into the appropriate line item on either the departmental schedule or the Summary Operating Statement. This method of presentation will permit external users of financial statements to compare the financial position and operational performance of a particular property with similar types of properties in the lodging industry.

Financial Statements

There are only a few changes to the Balance Sheet and no significant changes to any of the other statements in Part I. These changes reflect changes in GAAP since the

Ninth Revised Edition. Lodging-specific changes include accounting for operating equipment and reporting amounts due to or from owners, management companies, or other related entities.

Operating equipment includes china, glassware, silver, linen, and uniforms. Operating equipment that is 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 of more than one year is recorded under Other Assets. Operating equipment is expensed ratably to the appropriate department expense account over its estimated useful life. On the effective date of the implementation of this edition of the *Uniform System*, a property should expense, in accordance with this Tenth Revised Edition, the balance of any remaining linen, china, glassware, silver, or uniforms on its books.

The Tenth Revised Edition requires the separation of amounts due to or from the owner, a management company, or other related entities for loans, advances for capital improvements, management fees, and other expenses or advances provided to a property. The accounts are classified as current or long term based on their payment terms, and amounts are not offset against each other unless there is a legal right to offset them.

Operating Statements

There are numerous significant changes to the format and content of the departmental statements. The overall statement, now titled the Summary Operating Statement, differs from the previous edition's Summary Statement of Income in several ways.

First, account titles have been altered to reflect typical lodging terminology, such as replacing the term "income after undistributed operating expenses" with "gross operating profit" and the term "income before interest, depreciation and amortization, and income taxes (EBITDA)" with "net operating income."

Second, the Summary Operating Statement does not link to net income, as it deducts from net operating income the property's replacement reserves to obtain adjusted net operating income. The revision committee believes that this approach is more informative for the owner or manager who is focused on "operating cash flows."

Third, the Summary Operating Statement is prepared for analytical purposes and is not in accordance with generally accepted accounting principles. It allows for only four sources of revenue: rooms, food and beverage, other operated departments, and rentals and other income. Because of problems allocating resources between food and beverage departments, a property may present the results of its food and beverage operations as a single department on a combined food and beverage schedule. Those properties desiring to continue to show food and beverage as separate departments with separate food and beverage schedules may do so, but for the Summary Operating Statement, they must combine the results into a single food and beverage schedule. The Summary Operating Statement also requires that a property combine all operated departments other than rooms and food and beverage into a single revenue line item and a single expense line item. This means that Telecommunications is no longer shown as a separate department,

but is now one of the Other Operated Departments. Guidance is provided to distinguish when to present revenue and expenses on a gross basis (Other Operated Department) or net basis (Rentals and Other Income).

Finally, this Tenth Revised Edition requires that all undistributed operating expenses be classified into one of four categories: Administrative and General, Sales and Marketing, Property Operation and Maintenance, and Utilities. There is no longer an option to create separate schedules for Human Resources, Information Systems, and Security that existed in the Ninth Revised Edition; these expenses are now listed as line items under Administrative and General.

Room revenue is now divided into four parts: transient, group, contract, and other. Contract Rooms Revenue is derived from a contract with a third party for a consistent block of rooms for an extended period over 30 days. Other Rooms Revenue is defined to include no-show revenue, day use fees, late and early departure fees, and rentals of items such as rollaways and cribs. Group attrition and cancellation fees are included in Rentals and Other Income, not Other Room Revenue, and are therefore excluded from the computation of average daily rate.

The Tenth Revised Edition also develops more guidance concerning resort fees, wholesaler sales, and allowances. Resort fees and surcharges charged at either a flat amount or a percentage of the room rate are to be recorded as revenue. The revenue is allocated to all departments based on the relative value of the components included in the surcharge. Guestroom sales to wholesalers and other similar entities are recorded at the net rate received by the property for the room, exclusive of any taxes or other charges. Allowances includes only reductions in revenue due to a service problem, and not an error in posting. Errors in posting, such as posting an incorrect rate, are treated as an adjustment to revenue.

The Tenth Revised Edition also 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 could include timeshare, fractional, and whole ownership elements where the hotel operator may be providing hotel services for the element owners. The industry has also seen a new trend in hotel financing that has created another variant on the hotel structure. This new concept has become known as the condo hotel. Simply put, a condo hotel is a project wherein hotel developers finance new hotel projects and convert existing hotels by selling off elements of the hotel projects to third parties, while retaining key elements of the project for operational efficiency. Although the concept of a condominium project wherein owners of the individual units enter into a program for the purpose of retaining an operator to lease their units on a transient basis is not new, a purpose-built mixed-use building that combines elements of long-term ownership and transient rentals is becoming more commonplace. Another recent trend has seen developers purchasing existing hotels and then selling off the hotel units to individuals, who in turn retain the services of a hotel operator to market their units for transient rental. Regardless of the circumstances that give rise to mixed ownership of a hotel, the operator of the hotel is faced with the same issue: how to report hotel revenues and expenses and how to report rate and occupancy statistics. The Tenth Revised Edition does not deal with the timeshare and its "cousin," fractional ownership, which is covered by another publication. The

Tenth Revised Edition does, however, provide direction for reporting when a mixed-ownership project exists and operators find themselves managing certain of the units for third parties for a fee. Under generally accepted accounting principles, the revenues derived from such activities are for the account of the owner and therefore are reported on *Rentals and Other Income—Schedule 4*. The criteria for reporting rentals and other income are set forth in the discussion of Schedule 4. On the other hand, if the facts and circumstances of the relationship between the operator and the third-party owner of the unit are such that under generally accepted accounting principles the services performed for these owners result in a situation wherein the operator is required to report the revenues from the mixed ownership unit(s), that activity is properly reported in the Rooms schedule. The operating results from mixed-ownership projects should be reported in Other Operated Departments if the activity meets the criteria for reporting revenues and expenses as set forth in the discussion of *Other Operated Departments—Schedule 3* and the activity is expected to last less than one year.

Changes in the food and beverage department include the classification of food and beverage revenue sources and the format of the schedule. Food and beverage revenues are identified as coming from outlet, in room dining, banquet/catering, mini-bar, and other. Other Revenue includes audiovisual, public room rentals, cover and service charges, and miscellaneous. Total net revenue is now defined as the sum of food and beverage sales and other revenue less their respective allowances. Only one gross profit number is provided that is net of both cost of food and beverage sales and cost of other revenue.

All of the department schedules in the Tenth Revised Edition provide much more detail on expenses. Labor expenses are reported as Salaries and Wages and Bonuses and Incentives. In addition, more information is provided on payroll-related expenses. There are also more Other Expenses categories that are consistent across departments. Finally, a new schedule has been created—Employee Cafeteria.

Ratios and Statistics

The ratio and statistics section has been expanded to include added commentary regarding the use of ratios and statistics, along with a number of new ratios related to overall performance. These include ratios based on gross operating profit, income before fixed charges, and net operating income. Rooms available is defined as total rooms inventory less rooms not available for rent. Rooms not available for rent includes seasonally closed rooms, extended closed rooms, and rooms for permanent house use. Also, the calculation of occupied rooms has changed to provide consistency across measures. The numerator for the occupancy rate calculation, as well as the denominator for the average daily rate calculation, is rooms occupied. Complimentary rooms are not considered occupied rooms and thus do not affect the average daily rate and occupancy calculations.

As described under the previous heading, GAAP will dictate whether mixed-ownership activity is reported as an Other Operated Department or as Rental and Other Income. Less defined is how to deal with the operating statistics (rate and occupancy) for these types of projects. Until now, hotels have reported operating

statistics for the rooms division in conformity with the criteria set forth in the statistics section of the *Uniform System of Accounts*. However, in this Tenth Revised Edition, the reporting required for mixed-ownership projects requires that supplemental statistics be developed. Accordingly, the Tenth Revised Edition provides guidance on computing rate occupancy and RevPAR statistics that takes into account the operating statistics of the hotel as well as the results from mixed-ownership units of the hotel. Further, the Tenth Revised Edition requires that the hotel project report its statistics to reporting agencies based upon the alternative statistical computation, which takes into account the totality of the hotel's operating results.

The ratios and statistics section also provides guidance for mixed condo hotel projects where it is not clear whether the entirety of the project qualifies as a hotel for statistical reporting purposes. Thus, while there is currently *no* consensus as to what constitutes a hotel, generally speaking industry analysts have suggested that if a project places at least 30 percent of its rooms in a transient hotel program and the project has the elements of a hotel in its structure, such as a hotel lobby and a front desk, the project qualifies as a "hotel" for purposes of reporting rooms statistics. In such circumstances, the guidelines set forth in Part III: Ratios and Statistics should be followed for these projects as well.

Expense Dictionary

The Expense Dictionary has been totally overhauled. The dictionary now includes two ways of looking for expense items. The first section of the Expense Dictionary shows the expense items alphabetically, followed by the department or departments to which the expense is charged and then the specific line item or account name. The second section is organized alphabetically by department and then secondly by expenses appropriate to that department. In both sections of the Expense Dictionary, many items are repeated under different names so that users can more easily find an expense item based on what they perceive the correct item name to be.

Introduction

A uniform system of accounts establishes standardized formats and account classifications to guide individuals in the preparation and presentation of financial statements. The information set forth in this uniform system is based on a consensus of senior lodging industry financial executives, public accounting authorities, representatives from industry benchmarking companies, and leading academic experts, and is intended to be consistent with GAAP. The resulting standardization established by the uniform system of accounts permits internal and external users of financial statements to compare the financial position and operational performance of a particular property with similar types of properties in the lodging industry.

Uniform System of Accounts for the Lodging Industry, Tenth Revised Edition, is divided into four parts. Part I presents the formats and explains the line items appearing on the basic financial statements produced for external users, such as lenders and stockholders. The statements include:

- Balance Sheet
- Statement of Income
- Statement of Owners' Equity
- Statement of Cash Flows

The format and level of detail for these basic financial statements should be developed to meet an owner's financial statement needs, while remaining consistent with GAAP.

Part II details the financial reports related to the operational activities of a lodging property, as shown in the Summary Operating Statement and its supporting schedules. It details the required format and explains the line items for departmental statements essential in the reporting and analyzing of operating results.

The Summary Operating Statement is not a GAAP financial statement, but rather a statement that displays operating results, including property taxes, insurance costs, and replacement reserves. Terms such as Gross Operating Profit, Net Operating Income, and Adjusted Net Operating Income, which are used in the Summary Operating Statement, are not GAAP terms, but are widely used within the hospitality industry.

The statements provided were developed with full-service lodging properties operating food and beverage outlets in mind, but can be easily adapted to other types of properties. For example, limited-service properties would delete those schedules that do not apply to their business, such as the food and beverage schedule.

Likewise, individual properties may delete irrelevant line items, but the *Uniform System* does not provide for the addition or substitution of other revenue

and expense line items. Rather, if a property determines that more detailed information is required, sub-accounts/sub-schedules may be prepared. These sub-accounts/sub-schedules are then to be rolled into the appropriate line items detailed in the *Uniform System*.

Since the *Uniform System of Accounts for the Lodging Industry* is used by lending institutions and specifically cited in many management contracts, those preparing both the financial statements and the Summary Operating Statement and its supporting schedules must adhere to the prescribed statement formats and the classification of revenue and expense items if the financial statements are to be "in conformity with the *Uniform System*."

Part III deals with financial analysis and statistics and presents a series of ratios and other information useful in analyzing the financial and operating statements in both Part I and Part II. Part IV contains the Expense Dictionary.

Format of Accounts Outside the United States

The examples and formats used throughout this book follow U.S. accounting standards for the presentation of financial statements. Users of the book outside the United States should be aware that the accounting requirements of their own jurisdictions will not necessarily follow those of the United States. The laws of other jurisdictions and the application of accounting standards may significantly affect the format and presentation of financial statements.