APPLYING THE UNIFORM SYSTEM OF ACCOUNTS FOR THE LODGING INDUSTRY (USALI) FOR THE PURPOSES OF FINANCIAL AND MANAGEMENT ACCOUNTING

Dragan GEORGIEV

Abstract

Since long time ago uniform systems of accounts have been developed in many industries for the purposes of accounting, control and management of enterprises, as in the hospitality industry was created so named USALI (Uniform System of Accounts for the Lodging Industry). A study conducted in enterprises of the mentioned sector in Bulgaria in 2014, found that an extremely small share of their financial specialists know USALI, yet most of them are seriously interested in this tool of management accounting. The aim of the article is to survey the Uniform system in the following key aspects for the financial professionals: origin, development, basic principles, essential characteristics, benefits from its implementation, shortcomings and the taken measures for their overcome by the developers of the system.

The Uniform System of Accounts for the Lodging Industry, USALI, created as far back as 1926, has been successfully adopted worldwide as a useful model for creating accounting information for the purposes of financial accounting and management accounting for the companies in the hospitality sector. Nevertheless, the Uniform System is still relatively unknown in a number of countries, Bulgaria included. It can be viewed as a negative fact for the professional and scientific community that less than 4% of financial professionals (including financial directors, chief accountants, bookkeepers internal auditors, etc.) in the hospitality sphere recognize and are aware of the existence of USALI. The said finding is based on a research (Georgiev, 2014), carried out in 2014 and involving 24 companies which own and/or exploit a total of 86 hotels (or 15.13% of the beds in all high-category hotels in the country)^1. This finding can be related to and explained with the state of management accounting in the Bulgarian business practice and the factors that determine it, namely, that management accounting "is generally less common and unsystematically

^1 Department of Accounting, University of Economics – Varna, Bulgaria. e-mail: dragan.georgiev@ue-varna.bg
applied in practice; there is little in-depth knowledge of its methods and there is little awareness of the scope and capabilities of management accounting" (Atanasova, 2015a, p. 7), while its organization is "typical of a post-socialist, post-transitional economy in Europe" (Atanasova, 2015b, p. 206). It is a strongly impressive fact that respondents, with whom further in-depth conversations have been conducted in the process of research (Georgiev, 2015), are seriously interested in the Uniform System and wish to study its potential. Despite its proven significance in the management and accounting practice of the hotelier business worldwide, information about the system in Bulgarian specialized literature is scarce. The circumstances listed above underlie the aim of this paper – to research in a synthesized manner the genesis, essence and development of USALI in the key aspects of hotelier practice. In particular, to identify from a historical perspective the reasons why it was created and to follow the key points in its development so far. Secondly, to explore the nature of the system – its aim, underlying principles, specific characteristics, its structure and the benefits of applying the system. Thirdly, to identify its major disadvantages and the measures USALI developers took in order to overcome them.

For the purposes of accounting, control and company management in certain economic spheres there have been developed, for a long time now, the so called uniform (unified) accounting systems. Tourism and particularly one of its aspects, hospitality, is considered among the pioneers of the initiative (Harris & Brown, 1998) with the developed uniform system for the lodging and accommodation sector – USALI. It is believed to be the foundation for the chronologically later similar systems for management accounting for restaurants, clubs, spa centres and other.

The main concept in developing a system of accounts is "to define accounting standards and financial statements that reflect the terminology and unique character of the activities in the examined industry" (Kwansa & Schmidgall, 1999). When financial professionals in a particular industry implement uniform systems of accounts, this results in uniformity and standardization of the accounting procedures involved in preparing management and financial reports. Thus a possibility is provided for analysis of the operational characteristics of a particular industry and this analysis can meet the information needs of the external and internal subjects of business enterprises and economic groups.

The first edition of the Uniform System of Accounts for the hospitality industry belongs to the Hotel Association of New York City, HANYC) in 1926 and its creation is the result of the growing competition between the "players" in the examined sector. They needed a uniform methodology for preparing reports which should provide a uniform information base for performing a comparative analysis of the finan-
cial results achieved by the individual business units and their pertaining departments. The same year saw the foundation, within the association, of a committee for creating and publishing new revised editions of the system. Since then USALI has undergone a number of alterations, with 11 versions being published so far, all of them preserving to this day the system’s underlying principles.

Until 1961 USALI standards were exclusively applied by large hotels, but following a number of queries on the part of the American Hotel and Motel Association, AH&MA, the National Association of Accountants, NNA commissioned the system’s adaptation to the needs of small and medium-sized businesses, too. From that moment on, the American Hotel and Lodging Association, AH&LA, in cooperation with the Hospitality Financial and Technology Professionals – HFTP, periodically publish the new editions of USALI (Vinogradov, 2009).

For a long time USALI was applied mainly in American hotels and hotel chains and it was only after its ninth edition in 1996 that it gained the characteristics of an internationally oriented system (Quigley, 2011). This breakthrough is mostly due to three factors:

- The leading role of the USA in the process of globalization of the world economy, tourism sector included;
- The gradual expansion of the circle of stakeholders, within which the problems of applying the Uniform System and the prospects of its updating are discussed;
- Its gradual harmonization with the stipulations of IAS/IFRS.

Although nearly a century has passed since the first edition of the USALI guide, thanks to the system’s continual updating, every new edition reflects the contemporary needs of the internal and external users of information, which is why the system acquires an even greater importance and is applied by a growing number of businesses in many countries.

In order to clearly explain the aim of USALI, it is necessary to first identify the characteristics and focus of the generated data which are obtained when the system is implemented in the accounting information systems. In this connection three basic models of system are distinguished. Practically, the most common system is the traditional closed system, whose aim is to ensure the preparation of financial statements that represent the financial state of the business entity at a particular moment and for a particular period of time (Kirpalani, 1973). The information generated, though useful for management analysis and control, is designed predominantly for the business external environment – shareholders, stock exchanges, government institutions and others. The second model of a system of accounting is aimed at performance evalua-
tion. Its main purpose is to provide comparability between the actual performance of cost centres and profit centres according to set plans, standards and budgets and thus contribute to the optimization of the management of responsibility centres in the business entity. The third model of an accounting information system, with a rather limited application at present, is based on an approach that is orientated at providing the relevant information for management decision making. The aim is, by using accounting, operational and statistical data, to evaluate the contribution of various alternatives to management decisions (Mossman, 1974) – about launching a product or dropping a product, about pricing, about client profitability and about conducting marketing initiatives.

The guide to USALI implementation and application in the accounting information systems of the company, which professionals refer to as "the little Green Bible" (Quigley, 2011), reveals the underlying principles of the system – standardization, uniformity, comparability, consistency and decentralization of management by responsibility centres. It is exactly the last one of the principles listed above that gives ground for the classification of USALI-based accounting information systems as performance evaluation-oriented systems.

The accounting information system of a given business entity is a subsystem of its management information system, which presupposes the implementation of USALI in the remaining information systems as well, since the first one exchanges information with all the rest. That is to say, USALI should be integrated at a management information system level, so that a direct information flow of data can be carried out across the responsibility centres of the subsystems. (Fig. 1)
Depending on the focus of the generated data, the underlying principles and the place of the accounting subsystem in the management information system, the aim of the Uniform System can be defined as follows: by means of its implementation in all subsystems of the management information system of business entities to provide information about the reporting entity by responsibility centres, which should serve for preparing standardized management reports and financial statements as well as for applying a uniform set of tools of financial ratios and operating ratios in order to meet the information needs of the internal and external environment of the business entity (and the economic group).

The aim of USALI that has been brought forward determines its characteristics of a model of accounting oriented towards performance evaluation. The Uniform System requires that revenues and expenses from operating activity be reported and
analyzed in two types of responsibility centres – operational departments which are classified as profit centres and functional departments which are considered cost centres (Quigley, 2011). In order to follow the matching principle, indirect costs (general overheads) pertaining to departments that have supporting functions and do not generate income are classified as "undistributed operating expenses". The main argument of the creators of the model is that distributing indirect costs can be done by means of different theoretical approaches, and the resulting information may be subjective or even wrong, which in turn will lead to misleading interpretations of the performance of various operational departments (Carvalho & Fernandes, 2011). In order to perform a valuable comparative analysis by responsibility centres and also for the purposes of control, the system requires obtaining and presenting estimated, current and retrospective data concerning operating income and expenses in value, as well as in relative shares (defining the significance of the reporting entities in the income/cost structure).

The examined aim and conceptual characteristics of USALI determine the peculiarities and the functions of the elements interrelated in its structure (Fig. 2):

- For all the operational and functional departments in the typical hotel activities, USALI offers a set of standardized references about the income and expenditure by departments, which is the basis for preparing a summarizing operating statement. The content of each entry is clarified in detail in the guide and for certain articles referring to specific objects alternatives for reporting are examined and/or examples are presented.
Items/entries from standardized references are tied up into a uniform system of accounts, which is a connecting core among all the remaining elements of USALI. Every operating revenue and expense that is typical and meaningful for hotelier business is reported in a particular account, which in turn features as an entry in one of the standardized accounting references for the revenue and expense of an operational and functional department.

The guide contains a separate section with the main financial statements and a list of the key disclosures in the explanatory notes. The section explicitly states that it has been prepared according to the American Generally Accepted Accounting Standards (US GAAP), a circumstance that should be taken into consideration in case another accounting base is used, including IAS/IFRS (Hotel Association of New York City, 2014).

The guide to USALI contains a section of uniform definitions of the most frequently used in hospitality financial ratios and operating ratios (incl. non-financial ones), as well as methodologies for their calculation under a unified information base – the uniform system of accounts integrated in the standardized references and financial statements.

The underlying principles of USALI that have been preserved to this day, its essential characteristics and specific structure, its regular updates and its American origins are the key factors for the system’s development and its establishment worldwide as an information instrument which brings a number of benefits to both the external and internal environment of the enterprises.

In the first place, USALI has established itself in the accounting practice worldwide as a preferred model of information system for the purposes of financial accounting in big hotels and hotel chains in Europe and USA (Ni, 2010), as the system brings about greater comparability and consistency in preparing the internal and financial statements. The unification and standardization achieved by USALI is a prerequisite for its usage as a basis for cost control and income control at the hotel group level (Dittman, Hesford & Potter, 2008). Besides, it provides a uniform base for the consolidation of financial statements of economic groups. The Uniform System features as an accounting basis in a number of branch contracts, management contracts, debt agreements and other documents (Miller, 2014). Complying with the form and terminology of the system, the said documents explicitly state that statements have been prepared in accordance with USALI.

In the second place, the system standardization facilitates conducting a comparative analysis and benchmarking in real time for various hotel operations ratios (Quigley, 2011, p. 47) on the basis of actual and estimated data, as well as carrying
out a structural analysis of income and expenditure (Carvalho & Fernandes, 2011). For this reason a number of organizations, creditors and consultancy firms use the system in order to identify the average value of financial and operating ratios at a regional, national and international level.

Thirdly, USALI application guide offers detailed reports on performance evaluation per department, where the entries for revenues and expenses are grouped together on the basis of responsibility centres classification. The financial results of individual departments are used in order to evaluate managers’ abilities. The use of USALI also facilitates management information assurance concerning the performance of their functions of control, supervision and optimization of hotel operations (Mia & Patiar, 2001).

In the fourth place, introducing the Uniform System as a model for building a management information system provides an opportunity for performing analysis, monitoring various hotel management ratios, as well as providing statistical data (Carvalho & Fernandes, 2011). The third part of the guide "Financial ratios and operational measures" is aimed precisely at the said USALI applications, by providing a methodology for setting specific hospitality industry ratios based on the financial statements and operating reports from the first two parts of the book. This methodology is a foundation for the methodological set of tools used for creating successful computer programs\(^3\) for analysis of hospitality ratios and for the implementation of other instruments of management accounting.

Despite the wide range of applications and the proven usefulness of economic information prepared according to USALI, like any abstract accounting model, the system does have certain shortcomings. Some of these are identified in the criticisms concerning the application of the Uniform System for the purposes of management accounting, the focus being on the relevance of the generated information to the information needs of hotel management. Another part of the system’s shortcomings concerns its application for the purposes of financial accounting and these deficiencies are connected mainly with debatable reporting entities and with reflecting certain accounting assumptions found in IAS/IFRS.

Regarding the first group of shortcomings, a point should be made that in the short term, managers in the hospitality sphere target their efforts mainly at revenue management, which gives the leading role to their marketing departments (marketing professionals). The latter often use information from the accounting department in making a particular range of marketing decisions. Provided a USALI-based accounting model is used, the obtained information is directed to the profitability of individual services and the hospitality product as a whole. In this case no information is pro-
vided about the costs involved in serving certain guest segments, as well as the marginal income generated by these guests. Although the accounting practices connected with revenue management (yield management) have undergone serious development, hotel information systems are still not adjusted to provide information on client profitability (Karadag & Woo, 2006). Therefore, at this stage the Uniform System cannot provide all the information necessary to marketing management that is crucial to tourism businesses.

In connection to the said problem, the Financial Management Committee (FMC) of AH&LA has responded adequately over the last few years, by focusing its attention precisely on the issues of distribution mix and client profitability. Committee members report that in 2012 Cindy Green of Kalibri Labs and her colleague Mark Lomanno produced a scientific report with the title "Distribution Channel Analysis: A Guide for Hotels" (Braak & Anand, 2015). In her study, Cindy Green finds out that identifying the optimal distribution mix for the hotel and the management of this goal is an urgent necessity in a reality where, in order to attract clients, hotels incur costs amounting to 15% - 25% of the revenues received (Green & Lomanno, 2012). That is, identifying the nature of demand in any market and identifying the most profitable mix in a particular competitive position is vital information that is used for defining the expected revenues, as well as for identifying the goals in sales management, marketing and commission costs for third parties.

The report is expected to be updated and published in 2016 as part of the research initiative sponsored by AH&LA Consumer Innovation Forum. Committee members will use the report findings as a basis for the optimization of USALI concerning distribution channels. They recognize the need to work with other hotel professionals in order to standardize the definitions in the said sphere regarding distribution channels and the costs of their maintenance. The efforts made so far in this field have resulted in introducing new metrics of revenue by distribution channels in the last edition of the guidebook to the Uniform System.

In connection with identifying and overcoming the deficiencies stemming from the application of USALI for the purposes of financial accounting, professionals from HFTP (Hospitality Financial & Technology Professionals) held a round table in November 2008. Participants analyzed in detail the tenth edition of USALI from 2006 in order to identify problem areas and mark possible changes in USALI. Because the system is widely used by international hotel chains ("global players"), participants believe it is feasible that further editions be more internationally orientated, so that the system is applicable in various lodging and accommodation facilities worldwide. (Ramirez, 2009)
Following the discussion about changes in USALI, HFTP carried out a survey (Venegas, 2011), aiming to identify problem areas in management and financial accounting, as well as plan measures for overcoming the problems. The research covers opinions of financial professionals in the hospitality industry on debatable questions: report forms, revenue reporting, calculation of hotel operating ratios, secondary department reporting and adapting the system to IAS/IFRS.

The round tables and surveys carried out among hospitality professionals illustrate the successful approach of USALI creators of constantly revising the system. This approach supports its topicality for a dynamically changing hotelier product and its ability to match the information needs of the internal and external environment of the business entity.

To recapitulate, the latest, eleventh edition of 2014 is a product of professional consensus across a wide range of stakeholders with different and sometimes conflicting interests and one that was achieved by including these stakeholders in the process of the system update through a great deal of in-depth research and debate. Supporting the above statement is also the fact, that, unlike the first edition, prepared to match the needs and views of a narrow group of US hotel owners and professionals, the committee responsible for composing and updating of USALI today has greatly expanded over the years to include owners of individual hotels and hotel chains, lecturers, professional accountants, representatives of Smith Travel Research/PKF Consulting, representatives of management companies owners, hospitality consultants. The latest edition reflects the changes in accounting practice as well as those occurring in modern hospitality regarding technological improvements, sustainable development, globalization, new terminology, service clusters, distribution channels, optimized analysis of operating ratios. Impressive efforts have been put by the editors of USALI in the field of training the system’s users, helping them with electronic resources and optimizing communication with users by creating a section for frequently asked questions and explanatory articles. Obviously, USALI editors bear in mind the fact that no matter how useful an instrument of management accounting is, if it is not clarified and provided with the necessary user training resources, it will remain useful in theory but not in practice.

**Conclusion**

The uniform system USALI was created via the joint efforts of the business and academic community of USA – the world economic leader. The system is the first and unique in character model for unified financial reporting based on the principle of decentralization of management by responsibility centres. Through its implementation
in all subsystems of the management information systems in business entities information on reporting entities is provided by responsibility centres and this information is used both for preparing standardized management and financial reports, and for applying a uniform set of tools comprised by financial ratios and operating ratios thus meeting the information needs of the internal and external environment of business enterprises and economic groups. The outlined aim of USALI determines its specific characteristics and structure of an accounting model that is performance evaluation oriented. These features, combined with the system’s regular updating and its American origin are the key factors for its development and adoption worldwide as a set of information tools bringing a number of benefits that are examined in this paper.

Typically, as is the case with any abstract model of an accounting information system, USALI has certain shortcomings. They are mostly connected with the focus of the generated information and with debatable reporting issues. USALI editors have managed to identify them by means of a number of surveys, round tables and discussions involving representatives of all stakeholders. Apart from seeking and finding solutions and overcoming problems, USALI editors continuously address the most recent changes in hospitality financial reporting by periodically releasing new editions of the Uniform System.

The present study explores the genesis, the nature and the development of USALI system while providing a foundation for future research into the conceptual framework, the implementation and application of the system from a theoretical and methodological as well as practical perspective. Serious scientific contribution to the examined topic could result from research into:

- the theoretical model of the Uniform System and the opportunities for its optimization;
- the extent of implementation, the problems and benefits of practically applying USALI (in Bulgaria and abroad).

**End Notes**

1. According to data from the National Statistical Institute following an inquiry on the activity of lodging and accommodation facilities by statistical zones, statistical regions and districts for 2013.
2. Until 1996 a separate guidebook to the Uniform System and a *Uniform System of Accounts and Expense Dictionary for Small Hotels, Motels, and Motor Hotels* were published, and afterwards the two systems were combined as USALI.
3. A number of software products prepare balanced evaluation scorecards out of information collected in databases in order to facilitate the information needs in
hotel management, such as SAP, Navision, Oracle, Microsoft Dynamics and other, structured according to the USALI model. Internet webpages like HotStats.com disclose results from analyses of hotel ratios by geographical regions, by hotel-star category or according to other criteria calculated in accordance with the methodology and information model of the Uniform System.

References


