

Methodology for the Development and Use of the USALI Standard in International Practice

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Abstract

According to the World Tourism Organization (UNWTO), the tourism industry is one of the most dynamically developing sectors of the economy. It was expected that by 2020, the proportion of people employed in this area and the contribution of tourism to world GDP would amount to about 10%. The hotel industry in this sector is the most profitable and progressive. At that, the Russian hotel market volume lags significantly behind the world indicators and does not exceed one percent in the global hotel industry.

The active development of the tourism industry, and as a result, the hospitality industry, has created conditions for the intense development of the hotel business in Russia. A significant impetus to this in recent years have been the 2016 Winter Olympic Games and the 2018 FIFA World Cup. However, even in the preparatory stages for these large-scale international events, many experts expressed concerns about the idleness of most of the built facilities, the downfall of many accommodations and catering enterprises, and the decline of infrastructure after completion of these sporting events. These circumstances determine the objective need to find and implement mechanisms for effective management of hotel enterprises based on the study of international experience and Russian best practices in the hotel business.

Key-words: Hotel Business, International Experience, Tourism Industry, Hotel Industry.

1. Introduction

Russia's entry into the international market has required a review of the entire system of economic relations, including fundamental changes in the accounting system. The “Program of accounting reform according to international financial reporting standards”, adopted and approved by the Decree of the Government of the Russian Federation on 06.03.1998, No. 283, is based on the accumulated experience of world practice, and involves the development and implementation of

national accounting standards aimed at the unification and reliability, comparability, and usefulness of financial reporting indicators.

However, even though the hotel business has been actively developing in Russia for more than 20 years, as mentioned earlier, domestic economists have not found a single viewpoint on the goals and objectives of management accounting of the hotel business. In this regard, the international experience of financial management is borrowed. To a great extent, this is because Russian authors focus on individual issues, such as pricing, cost structure analysis, etc., but do not study the issues of financial management in the hotel in a comprehensive manner.

2. Methods

The theoretical basis for the study was the normative legal acts of the Russian Federation, the works of domestic and foreign authors devoted to the formation of management accounting and financial management systems, publications in various periodicals, internal documentation of the research object, as well as statistical information.

Analytical, theoretical, sociological, and comparative research methods were used.

3. Results and Discussion

When referring to international practice, two areas of accounting and financial reporting regulation can be distinguished. The first area includes countries with an extensive code of laws governing accounting, which are strictly regulated, and all accounting procedures are detailed. The second area includes countries with the general legal legislation, where framework limits are established in which individuals and legal entities have freedom of action. Accounting standards are not regulated by the state but are determined by professional organizations of accountants and industry associations. The adopted standards are quite flexible and variable under the influence of innovative processes taking place in the world economy.

For example, in developed countries, such as France, Belgium, Germany, Italy, etc., financial statements are mainly used for taxable profits, while in the USA and the UK, information obtained based on accounting is more focused on meeting the needs and requirements of investors and creditors [13].

In international practice, three main types of tax accounting can be distinguished:

- Tax accounting at which tax accounting indicators are formed exclusively from accounting data.
- Mixed tax accounting at which tax accounting indicators are formed based on accounting data but using certain methods for tax purposes.
- Absolute tax accounting at which tax accounting indicators are formed without the involvement of accounting (customs duties, state duties, water charges, etc.).

The accounting system is formed to meet the macroeconomic goals and priorities of a particular state, achieve the planned growth rates of its national economy, or to reduce inflation.

At that, it should be noted that the main investment and managerial decisions in the practice of international business are made based on data presented in the format of consolidated financial statements (CFS). The main standards for the preparation and presentation format of such statements are the International Financial Reporting Standard (IFRS), and the American Accounting Standard, known as Generally Accepting Accounting Principles (US GAAP) [2, 4].

The demand for this format among concerned users is primarily due to its versatility for evaluating the performance of companies engaged in various businesses and operating in different markets.

The international practice of financial management in the hotel business is based on many years of experience in the hospitality industry in European countries and the USA, as well as on the experience of leading hotel brands, such as Hilton, Hyatt, Marriot, Radisson, etc., which are the founders of the concepts of managing large hotels and hotel chains, including financial accounting. The most advanced practitioners, for example, Cornell University (Ithaca, USA) or American Hotel and Lodging Educational Institute (AHLEI), support and recommend using the Uniform System of Accounts for the Lodging Industry (USALI) for financial and management accounting purposes [3].

A unified billing system for the hospitality industry was first proposed by the Hotel Association of New York City (HANYC), and the first version of USALI was published in the USA in 1926. Its appearance resulted from growing competition among market players in this sector. They needed a single methodology for preparing reports, which was to provide a single information base for conducting a comparative analysis of the results obtained by individual business units and their structural divisions. In the same year, the Association approved a committee to create and publish newly revised editions of the system.

The main function of USALI, as it is invariably defined by the Financial Management Committee (FMC), is to provide operational reporting for enterprises in the hotel sector, structured in

such a way that users, i.e. owners, operators, and other parties concerned, would be provided with the necessary information and data that would correspond to the specifics of the operating activities of the hotel industry [1].

Until 1961, USALI standards were used exclusively by large hotels, but given regular requests from small and medium-sized businesses, the American Hotel and Motel Association (AHMA) commissioned the National Association of Accountants (NAA) to adapt the system to their needs. Since that time, the Finance Committee of the American Hotel and Lodging Association (AHLA), the legal successor of AHMA, in cooperation with the Hospitality Financial and Technology Professionals (HFTP), regularly releases new editions of the USALI system [11,13].

For a long time, USALI was used mainly in American hotels and hotel chains, and only after the ninth edition, published in 1996, the standard received characteristics focused on its use as an international system. This breakthrough was due to three factors:

- The leading role of the USA in the globalization processes in the world economy, including the tourism sector;
- Gradual expansion of the range of parties concerned, with whom the problems of applying the standard and the prospects for its updating were discussed;
- Gradual coordination with the provisions of IFRS [7, 9].

Since then, USALI has undergone not many changes; to date, its 11th version has been published. The USALI has been successfully adopted worldwide as a useful model for financial accounting and management accounting purposes for companies operating in the hotel sector but the principles that guided the authors of USALI, always remain unchanged. The main principle of the system is based on the concept of the center of responsibility. The hotel enterprise is divided into divisions, of which each is responsible for a certain block of income and/or expenses, and its effectiveness is analyzed using a set of standard indicators, which among others include the cost of a unit of service, break-even point, profitability, etc.

Although almost a century has passed since the first edition of the USALI manual, due to the constant updating of the system, each new edition reflects the existing needs of internal and external users of information, which is why the system is becoming increasingly important and is used by an increasing number of hotel business owners in many countries [10].

The terminology used in the USALI guidelines as well as the very guidelines are fully consistent with generally accepted accounting principles (USGAAP). At that, to make a single system

applicable to the hotel enterprises' performance around the world, terms have been introduced into the system, whose use is globally accepted [32].

According to a survey conducted among HFTP members who used the latest version 11 of USALI, below are graphical data on the location (Fig. 1) and management systems (Fig. 2) of hotels where the system is used. As can be seen from the presented data, for objective reasons, the system is currently most widespread in the USA (71.5%), however, it should be noted that more than 27.5% of respondents use this system outside of the US borders.

Figure 1– Location of Hotel Enterprises that use the USALI Standard

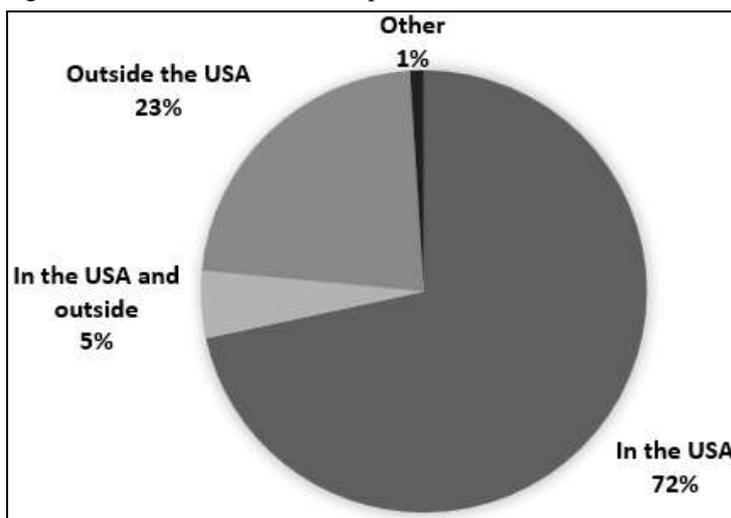
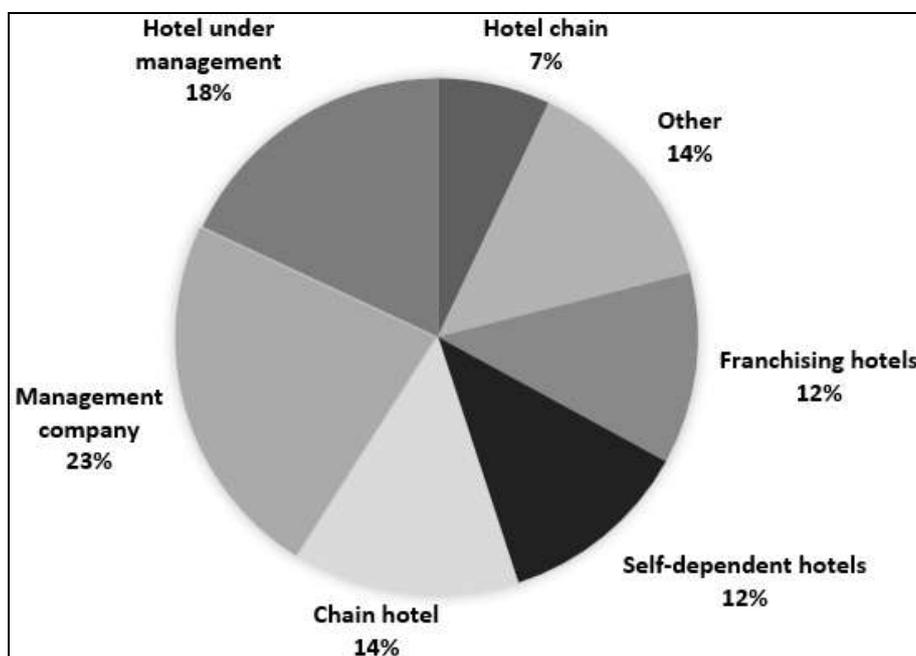


Figure 2 – Hotels Applying the USALI Standard, by Management Systems



From the data presented in the latter diagram, it can be concluded that the application of the USALI standard in the financial management of hotels in the world practice does not depend on their belonging to a particular type of management. The standard is equally applied by both chain and self-dependent hotels, hotel chains, and management companies [6, 8].

While for international chain hotels and domestic hotel enterprises operating under the management of foreign management companies, the use of USALI is a common practice of business turnover, an established standard, and a component of corporate culture, then most Russian hotels do not use USALI in their daily practice. Most private Russian hotel companies have only a general idea of international standards [3, 5, 7].

Some of them try to use certain USALI blocks. As a rule, this concerns the calculation of indicators for comparison with similar indicators of their competitors. Others transform accounting and financial reporting into the USALI standard based on management accounting data, doing this mainly to attract investment or obtain bank financing.

At that, the fundamental issues of accounting remain unresolved. Thus, for an ordinary nonchain Russian hotel, the USALI standard does not become a common practice, which is explained by a lack of understanding of the benefits and advantages of using the USALI standard. However, with proper implementation and regular use, this system becomes useful and promising. Therefore, the implementation of the USALI system is becoming an urgent and important issue for the Russian hospitality industry.

To clearly explain the purpose of USALI, it is necessary first to determine the main characteristics that can be obtained after its implementation in the enterprise accounting system. In this regard, three main models for building an enterprise accounting system can be distinguished.

The most common model is the traditional closed system, whose purpose is to ensure the preparation of financial statements that reflect the financial status of the enterprise at a certain time and for a certain period. The information obtained, although useful for analyzing and monitoring operational activities, is intended primarily for the external environment, namely, shareholders, investors, stock exchanges, government agencies, and other external users.

The second model of the accounting system is aimed at evaluating the effectiveness of individual divisions of the hotel enterprise. Its main goal is to ensure the comparability of actual indicators of Financial Responsibility Centers (FRC) according to established plans, standards, and budgets, as well as to help to optimize the management of responsibility centers in the business entity.

The third model of the system, which is the use of accounting information with limited application, is currently based on an approach that focuses on providing relevant information for managerial decision making. The purpose of this model is to use the calculated operational and statistical data to assess the contribution of various proposed options into managerial decisions, i.e. concerning a product launch, pricing, customer profitability, or conducting a marketing campaign [12, 13].

Theoretical aspects of the implementation and application of the USALI standard are covered in sufficient detail in specialized sources. One can highlight the following main advantages of full implementation of USALI:

- Getting information in a format generally accepted for the hotel business;
- Forming reports that are understandable to owners and investors, including foreign ones;
- Forming reports, whose indicators can be compared with those of competitors in different regions;
- Attracting financing, including bank loans and foreign investments;
- Planning and evaluating the performance of each service unit, department, and comparing indicators with similar ones in the industry.

However, it should be noted that when trying to implement USALI in practice, the enterprise may face certain problems. Among the most common difficulties when implementing USALI in Russian hotels are the following:

- The lack of USALI methodology developed and implemented taking into account domestic features;
- Difficulties in ensuring timely collection and proper quality of source data;
- Insufficient automation of information processing and accounting processes;
- Insufficient integration of the applied information systems;
- Insufficient qualification of system users [5, 8].

Besides, some experts argue that contemporary international standards for the organization of management accounting in hotels reflect the current state of development of information support in a typical Western hotel. Therefore, the direct application of these standards by Russian hotels is

impossible, and adaptation to the conditions of use in Russia should take place in parallel with the improvement of the management system of enterprises in the industry [2, 4].

Some chief financial officers working in the hotel business also draw attention to the fact that the USALI system has several contradictions with the operating activities of the hotel. Moreover, hotel operating activities may not be fully reflected in the USALI framework [6].

Nevertheless, the practice of using USALI in the domestic hotel business shows that the use of this system gives significant advantages to hotels that have implemented it, namely:

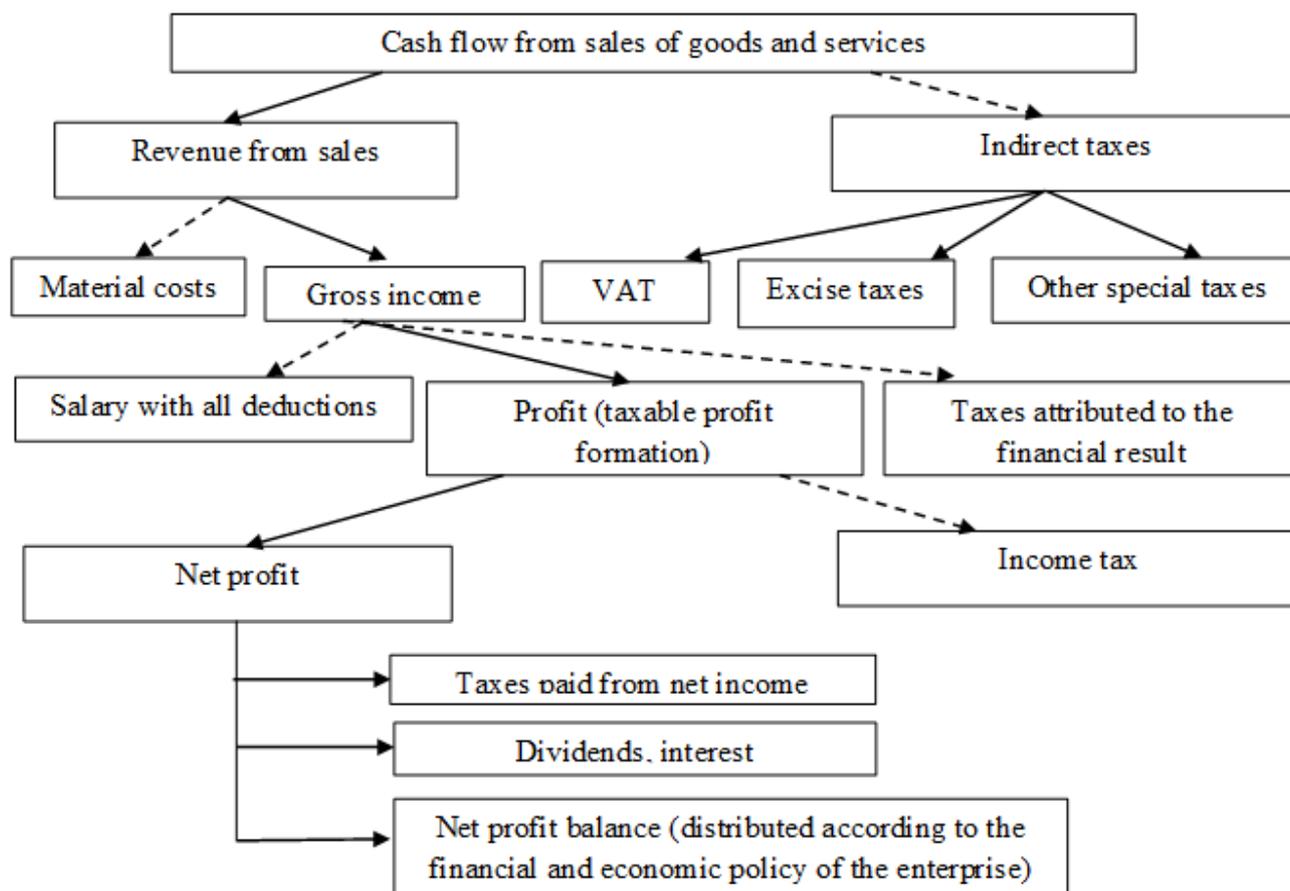
- The necessary information base for optimizing solutions to constant operational tasks;
- Increasing the involvement of each subdivision of a single enterprise in achieving the overall financial result, due to the set of specific performance indicators of its operation and ensuring their correct calculation, confirmed by actual data [7];
- Obtaining detailed accounting data that serve the basis for subsequent budgeting and forecasting of the company's activities;
- Identifying deviations from planned indicators at an early stage and, as a consequence, prompt response to them based on management decisions.

The peculiarity of hotels is that they operate in several areas, and, consequently, receive several types of revenue from sales, of which the main is revenue from the hotel room capacity.

Contemporary hotels provide their customers with a whole range of services. Today, a common practice is that hotels keep restaurants, bars, saunas, spa complexes, parking lots, etc. on their balance sheet. Therefore, in such a situation, the hotel complex may face different tax administration systems. In this case, to determine the financial result of hotel performance, as for any other enterprise, the standard scheme for allocating net profit from the total cash flow is applicable, which is presented below, where the subtracted value is indicated by a dotted arrow (Fig. 3).

Thus, the USALI system, which meets the requirements of IFRS, can be adapted to the conditions of Russian management accounting in the hotel business with an appropriate hotel management structure and an adjusted accounting policy of the enterprise aimed at management accounting. This document should provide for the operating chart of accounts, the procedure for compiling and presenting reports for management purposes, as well as the forms and timing of updating such reports. At that, the report updating formats and period should be subjected to change and be agile.

Figure 3 – Scheme of allocation of net profit from the total cash flow for the sale of goods and services



According to the basic principle of USALI, the formation of management statements is carried out for each department or service of the hotel enterprise (revenue centers/expense centers) separately, which is consistent with the concept regarding the definition of responsibility centers for the hotel business. Besides, the feature of this system is the ability to generate flexible and mobile management statements, which allows quickly receiving information for timely and informed managerial decision making.

Taking into account the requirements of the USALI standard, the following rule is the main condition for management accounting and management reporting: income, costs, and expenses should be recognized and reflected in the period when income is actually earned and costs and expenses are incurred.

Management statements include the following types of reports:

- Balance sheet;
- Profit and loss (PL);

- Cash flow statement (CFS);
- Equity change statement;
- Additional reports, including functionality reports (staff, loans, market share, inventory, capital turnover, etc.).

Responsibility centers are defined as a set of the company's budget articles united by common ground, whose planning, execution, and control are coordinated by one of the executives. FRC in hotels is special department, division, or service.

At that, it should be noted that income centers in the hotel business are equated to profit centers for management accounting purposes, which include operating departments/services, while expense centers are functional departments/services. Thus, for reporting purposes, the following structural units of the hotel enterprise are distinguished, which generate the hotel revenue:

- The hotel room capacity, whose reporting block forms the income and expenses related exclusively to the rooms intended for the accommodation of guests;
- Catering department or service,
- Divisions that provide additional services (gym or fitness center, business center, conference rooms, parking, etc.). The report for this center will reflect income and expenses related exclusively to the operation of the structural unit called "Other Income". However, one should consider the possibility of compiling a report on each service separately to distinguish its income and expenditure sides.

The cost centers of the hotel enterprise are not directly involved in the service of hotel guests but support the operating departments. These centers do not generate revenue, and the management of these departments is only responsible for controlling the corresponding expenses within the budget and minimizing them.

Taking into account the generally accepted model of managerial decision making and according to the basic principle of USALI, management statements are formed for each responsibility center (income and expenses center) of the hotel separately. Following USALI requirements, the information report format is designed in such a way as to provide easy reading, comparability of actual indicators for the current period/similar period of the previous year and the budget, as well as data for the current reporting period, and information accumulated since the beginning of the year.

The standard form of the USALI operational report is presented in a T-shaped format since this format is ideal for reading and analyzing data (Table 1).

Table 1 – The standard form of the operational report

Current period						Indicator	Cumulatively since the beginning of the year					
Actual (year-1)		Variance to Budget		Actual			Actual (year-1)		Variance to Budget		Actual	
Sum	%	Sum	%	Sum	%		Sum	%	Sum	%	Sum	%

It should be noted that the forms of the summary report are different in the lower part, where after the EBITDA columns (an analytical indicator equal to the amount of profit before interest, taxes, depreciation, and amortization) the operator's report shows the budget and the actual use of replacement reserves (repair, renewal of tangible assets, etc.), while in the owner's report this item is presented in more detail (depreciation, revaluation of assets, interest). At that, income tax and net profit of the enterprise are indicated in separate lines.

One of the important factors determining the company's stable status in a highly competitive environment is the speed and quality of information used to make operational and strategic managerial decisions. The management accounting and budgeting system should provide the business with the required information. A well-organized and efficient system allows determining the efficiency of individual departments, monitoring costs, planning revenues and expenses based on the budgets of departments, and comparing the results of the enterprise's performance with similar enterprises in the hotel industry. At that, as practice shows, accounting statements do not give an idea of the actual state of affairs at the enterprise or in its particular division, since the balance sheet is a momentary form of reporting and is compiled on a certain date – at the beginning and end of the reporting period [3].

4. Conclusion

To the above, one can add that when drawing up the balance sheet, usually, the "pool" method is used, which does not allow assessing the effectiveness of individual services and departments of the hotel enterprise. Therefore, the mandatory accounting report is usually supplemented with a management statement, designed to give its users prompt answers to their questions when conducting business activities of a hotel enterprise.

The reporting generated during the performance of the hotel enterprise has significant volume and its industry specifics. Therefore, users must be able to interpret the indicated data correctly to

analyze, control, and manage the process of providing hotel services. Based on the reporting used, managers draw two types of conclusions:

- Concerning current hotel performance.
- Concerning long-term business processes.

Management reporting users, as mentioned earlier, are shareholders, managers at all levels, heads of all services, and departments. At that, the information available to managers at the technical level is available to any user due to its common nature. The information provided to senior management is more private because in addition to publicly available information, it contains commercial classified information. Management reporting in the hotel business is used for the strategic and operational management of the hotel complex. Competently presented, reliable, and timely information allows the hotel management to make the right managerial decisions.

The validity and effectiveness of the implementation and use of USALI do not depend on the size of the hotel. The system has already proved its usefulness in hotels of various formats and with different room stock. In recent years, there has been a general trend of the growing interest of the Russian market towards full use of all the advantages the USALI provides for the hotel business. Thus, it is expected that in the near future USALI will become a necessity for Russian hotels and an integral part of the hotel business culture [2].

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