

Accounting Guide Needs Revision

By Stanley Turkel

The recently issued Ninth Edition of the Uniform System of Accounts for the Lodging Industry adds many useful features and instructions for uniformity. It also simplifies some of the language of former editions. So far, so good. The American Hotel &

Motel Assn. select subcommittee, however failed once again to correct a major shortcoming in the USALI: no allocation of undistributed and occupation expenses. This failure creates a profit and-loss statement that distorts all the revenue-producing departments (rooms, food, beverage, telephone and other income).

"The difficulty is most dramatically felt in the food and beverage outlets where f&b managers can declare with certainty that their profitable. Hotel owners and lenders should be wary of these astounding conclusions. These f&b managers are merely reflecting the limitations built into the USALI. Their assertions of profitability should be more properly defined as departmental profits, meaning that only direct food-and-beverage costs are deducted from revenue, including:

⟨ cost of sales;

⟨ payroll, payroll taxes and employee benefits; and

⟨ other direct expenses such as uniforms, laundry, printing and stationery, decorations, music and entertainment, china, glass and silverware, etc.

The balance is inaccurately called profit, without regard for all the other undistributed and occupation expenses.

Some people believe that the USALI that mandates this kind of reporting format distorts the operating statement which, in turn, leads to poor decision making regarding critical management issues.

The only way to obtain a true picture of the genuine profitability of a hotel's food-and-beverage department is to ascertain and allocate the proportional share of the two main categories of the overhead expenses:

⟨ undistributed expenses such as administrative, general, marketing, sales, repairs, maintenance and energy costs; and

⟨ occupation expenses such as insurance, real-estate taxes and depreciation.

While the USALI provides a basis for allocating these overhead costs, it does not require implementation in the preparation of the hotel's profit-and-loss statements. It is, therefore, left to the ingenuity of an individual controller to develop a reporting method that can illuminate the food and beverage department. Some controllers are unwilling to continue reporting mythical profits when, in actuality, the restaurants, room service and banquet departments are suffering staggering losses.

The only way to determine the real costs is by realizing that the USALI format provides only a partially accurate statistical picture. Many hotel owners believe that their food-and-beverage departments are necessary evils to be provided strictly for guest convenience. Except for some high-volume banquet operations in large convention hotels, the losses are usually greater than operators will admit to themselves or to their owners.

Once the revised profit-and loss statement is produced with fully allocated overhead expenses, a more accurate picture emerges. This statement might reveal losses of such magnitude that owners would be forced to take a harder look at their food-and-beverage operations and ask some tough questions such as:

⟨ Is food service a necessary amenity?;

⟨ Are there alternative, nontraditional ways of providing food service to guests?;

⟨ Should hoteliers return food-and-beverage services to the restaurant industry and concentrate on selling rooms?; and

⟨ Are hotels serving the kinds of foods guests want to eat?

In a recent consulting assignment, this type of analysis led to significant improvements in the subject hotel's performance.

At a three-star convention hotel, the management company operated two restaurants: a family-style coffee shop and a smaller signature restaurant.

The coffee shop was open for all three meals, with its activity dependent upon the hotel's occupancy. The signature restaurant, open for only lunch and dinner, was a disaster, with only a handful of patrons no matter the occupancy.

However, the large volume of banquet income distorted the f&b results. It was only after the indirect costs were allocated to each food outlet that the true magnitude of the real losses was revealed.

After a market research study was completed, the signature restaurant was converted into a 24-hour delicatessen. This renovated outlet featured moderate prices, a cafeteria-style operation and a accessibility from an adjacent large medical center with 15,000 employees. With this dramatic renovation, the new deli has turned a loser into a genuine profit center. An important additional change subsequently was instituted: All hotel room service was discontinued. Today guests pick up their own food from the deli and seem to appreciate the informality and availability of the facility.

The time has come for the AH&MA to revise the USALI to provide uniform methods to distribute overhead expenses to operation departments. However, until then, hotel owners can evaluate the performance of their food-and-beverage departments by determining and allocating proportional amounts of overhead expenses. For controllers who want to produce more realistic financial statement, the table on the other side shows the allocation basics which seem to work.

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