HOTEL UNIFORM ACCOUNTING IN THE SPECIAL ADMINISTRATIVE REGIONS OF CHINA: CURRENT AND FUTURE ISSUES

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M.Phil

THE HONG KONG POLYTECHNIC UNIVERSITY

2011

THE HONG KONG POLYTECHNIC UNIVERSITY

SCHOOL OF HOTEL AND TOURISM MANAGEMENT

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A thesis submitted in partial fulfillment of the requirements for the degree of

MASTER OF PHILOSOPHY

JUNE 2010

CERTIFICATE OF ORIGINALITY

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NI Shanshan

ABSTRACT

At present, the *Uniform System of Accounts for the Lodging Industry* (USALI) sets the accounting standards for the hotel industry by providing detailed guidance for categorizing, organizing, and presenting financial information with the intent of establishing uniformity. In order to keep pace with the dynamic hotel business environment and its corresponding needs for modifying the reporting format, the USALI is regularly updated every five to ten years. The changes are based on contemporary information obtained from the US lodging industry. However, the applicability of USALI outside the US, such as in the Asian regions investigated in this study (Hong Kong and Macau), is limited. The aims of this research are to determine the extent of implementation and applicability of the 10th edition of USALI to the lodging industry in Hong Kong and Macau, investigate current and potential ambiguous items and problem areas, and propose enhancement options to substantiate the hotel performance reporting content in the local context.

To achieve these objectives, a qualitative research approach supplemented by a minor quantitative method was employed in this exploratory study. The data collection process was carried out in two stages. In the first stage, seventeen in-depth interviews and two focus group discussions were held with the operational management personnel (department heads) of hotels in Hong Kong and Macau. Based on the proposed modifications on the existing schedules of USALI and suggested new

reporting features collected from the first-stage discussions, a semi-structured questionnaire, together with an interview topic guide, was developed for further investigation of these topics. In the second stage, one focus group interview was conducted with ten committee members of the Hotel Controllers and Accountants Association of Hong Kong in attendance. In addition, nineteen in-depth interviews were conducted with local hotel financial controllers and accounting managers.

The study found that all the non-casino hotels in Hong Kong and Macau adopted the USALI system as a basic framework. However, minor changes were implemented to suit local conditions and the special requirements of the particular chain. Modifications in terms of new additions and some deletion of certain revenue/expense line items in two major revenue-generating departments (i.e., Rooms and Food & Beverage Departments) were proposed. However, the accounting system adopted by casino hotels in Macau is significantly different from non-casino hotels. Casino hotels apply casino accounting practices and are not aware of the USALI. Based on the comments of the interviewees, a Profit and Loss report framework for integrated casino resorts was proposed. This study also identified common areas of concern when USALI was applied in non-casino hotels. Ambiguities were found in applications to items of operating equipment, frequent-guest program, and service charges. The guidelines on accounting treatment for operating equipment were vague. The deletion of cost allocation guidance in the 10^{th} USALI was found to be inappropriate, and some new revenue/cost drivers were not fully reported.

Finally, enhancement options were recommended to remedy the identified deficiencies. Sub-accounts, sub-schedules, and notes sections were suggested to enrich the in-depth details of departmental schedules and strengthen understanding of management of operation performance. The HCAA of Hong Kong strongly supported the idea of setting up an e-addendum to reflect Asian business features through an expense dictionary and updated accounting treatments.

This study probes into an area that has thus far received minimal academic attention. It undertakes a serious secondary data review by comparing the major changes in the 8^{th}, 9^{th}, and 10^{th} editions of USALI. Thus, this study represents the first attempt to map the extent of implementation and identify the issues related to applicability of the latest version of the USALI. It contributes significantly towards fine-tuning hotel operational performance reporting in Hong Kong and Macau by proposing enhancement options to remedy the areas of concern identified by local hotel professionals. The findings contribute to the body of knowledge not only on hotel performance reporting format in Special Administrative Regions (SARs) of China, but also on some overlooked accounting treatment for service charges, frequent-guest programs, operating equipment and casino operations. The results may also be considered as contribution to enrich the content of professional and tertiary education in the hospitality field.

Key words: USALI, hotel, performance, report, Hong Kong, Macau

ACKNOWLEDGEMENTS

The School of Hotel and Tourism Management of Hong Kong Polytechnic University has had a profound influence on my life. Aside from the Bachelor's Degree in Hotel Management I obtained from this school in 2006, I have been given the opportunity to pursue my MPhil starting in 2008. The two-year MPhil research project, a long-term endeavor, afforded me the opportunity to work with people whose ideas have helped me in writing this study.

First, I want to express my deepest gratitude and respect to my chief supervisor, Dr. Wilco Chan, for his continued guidance, support, and dedication to my project. Whenever I needed his advice or comments on my research, he is always there to help me. I also wish to thank my co-supervisor, Dr. Kevin Wong, who offered a great deal of support and guidance that were beneficial to my study. I am lucky to have worked with two excellent supervisors, whose insights and constructive comments on my project have made my whole study process enjoyable and successful.

Sincere thanks are extended to all the interviewees and participants from hotels in Hong Kong and Macau who shared their time and perspectives for this study. Without their valuable ideas and information, this thesis would not have been possible.

To the School of Hotel and Tourism Management, for the use of its facilities and resources, and to the School Head, Professor Kaye Chon, who provided an excellent study environment for the students, gratitude is extended.

I wish to thank all my research friends for standing by me and for providing color to my life in Hong Kong. To Ms. Doris Wu, Ms. Xin Jin, Ms. Corrine Wu, Ms. Karen Xie, Ms. Haiyan Kong, Mr. Yong Chen, and Mr. Jason Chen, who provided strong support and enduring advice necessary to handle the pressures during my study, my deepest thanks.

Most importantly, my thanks to my parents for their love, support, and understanding. There are no suitable words to express my gratitude and I will love them always.

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1. Introduction

Section 1 provides the background of the study. First, it introduces the uniform system of accounts in the hospitality industry and gives a historical review of the *Uniform System of Accounts for the Lodging Industry* (USALI). Then, the general development of hotel industry in Hong Kong and Macau, and the envisaged changes in the hotel business environment, are discussed. The problem statement is identified contextually, followed by the specific objectives and potential contributions of this study.

1.1. Background of the Study

1.1.1. The Uniform System of Accounts in the Hospitality Industry

Uniform systems of accounts have existed for many years in several industries. In some industries, market environment changes necessitated the development of a such system (e.g., the U.K. printing industry), while in other cases the system emerged as a result of demands by trade associations (e.g., US men's clothing industry). The lodging industry was one of the pioneer industries "to create guidelines for preparing accounting standards and financial reporting practices that reflect terminology and activity unique to that industry" (Kwansa & Schmidgall, 1999). When industries develop and adopt uniform accounting systems, the goal is to create consistency and uniformity in accounting practices and financial reporting, while providing outsiders with a common tool to understand the operating characteristics of the industry (Kwansa & Schmidgall, 1999; Kotas & Conlan, 1997).

The “uniform systems of accounts” on reporting property-level financial information in the key sub-sectors of the hospitality industry has represented a significant development in hospitality accounting in the past decades (Harris & Brown, 1998). The three most well-known systems in the industry are those for the lodging, food service, and club areas, as listed below:

the *Uniform System of Accounts for the Lodging Industry* (USALI),
the *Uniform System of Accounts for Restaurants* (USAR), and
the *Uniform System of Financial Reporting for Clubs* (USFRC).

At present, the USALI, acts as an important reference for hotel accounting practices worldwide, particularly for the large hotel businesses and international hotel chains in Europe and in the US (Kotas & Conlan, 1997; Harris & Brown, 1998). The benefits of this system have been frequently described by the users in terms of its contribution towards greater “standardization,” “uniformity,” “comparability,” and “consistency.” The system provides detailed accounting guidance for categorizing, organizing, and presenting financial information and promotes a standardized reporting system that facilitates the comparison of results of various hotel operations (Kotas & Conlan, 1997; Harris & Brown, 1998; Potter & Schmidgall, 1999; Guilding, 2009). Thus, it has become possible for trade associations, creditors, and consultancy firms (e.g., PKF Consulting, Horwath HTL, and Smith Travel) to produce industry averages on a regional, national, and international basis (Potter & Schmidgall, 1999). The first appearance of the USALI can be traced back to 1926. Currently the book is in its 10th

edition. A detailed historical review of the USALI is provided in Section 1.1.2.

For the food service industry, the USAR, first published in 1927 and currently in its 7th edition, “provides sample statements, analyzes blueprints, classification of accounts, and an expense dictionary” (Weygandt et al., 2009). This publication assists restaurant operators by suggesting a common language with which the industry compiles, interprets, and compares financial statistics (Dopson & Hayes, 2009).

Following real estate developments, the club industry has experienced tremendous growth in the past decades,. The industry’s numerous new residential projects include clubs fully equipped with amenities and services such as tennis courts, gymnasiums, and golf courses, among others. The 1st edition of Uniform System of Accounts for Clubs was presented in 1954. The current 6th edition is known as the USFRC. The USFRC is a financial reporting system geared specifically toward member-owned, not-for-profit city and country clubs (Weygandt et al., 2009; Dopson & Hayes, 2009).

These uniform systems have been revised many times by financial experts from different segments of the hospitality industry. In 2005, a new sector joined the family of uniform system of accounts in the hospitality industry. This is the *Uniform System of Financial Reporting for Spas* (USFRS) (International SPA Association, 2005). Another system for the gaming industry is currently being developed (Weygandt et al., 2009).

1.1.2. Historical Review of the USALI

The 1st edition of hotel uniform accounting system, the *Uniform System of Accounts for Hotels* (USAH), was published by the Hotel Association of New York City (HANYC) in 1926. It was recommended to its members because, "It represented the first successful organized effort to establish a uniform responsibility accounting system" (HANYC, 1986). From the 1930s to the 1970s, when most hotels were smaller and motor hotels (motels) were popular, two systems existed: the *Uniform System of Accounts for Hotels* (USAH) and the *Uniform System of Accounts for Smaller Hotels.* There was also an *Expense Dictionary* where expenditures were categorized under specific accounts. The USAH evolved with industry trends; its 9th edition combined all three books into a seamless system of accounts for the entire lodging industry, and was renamed as the *Uniform System of Accounts for the Lodging Industry* (USALI) (Weygandt et al., 2009). The USALI also includes sections dedicated to the gaming and casino industry, suggesting statement presentation formats and guidelines. Since the 9th edition, the financial management committee of the American Hotel and Motel Association (AH&MA), with representatives from the HANYC and the Hospitality Finance and Technology Professionals (HFTP), have been responsible for updating and revising this document (Schmidgall & Damitio, 1999; Kwansa & Schmidgall, 1999). The latest edition of USALI, the 10th edition, was prepared in early 2000 and published in November 2006.

A corresponding development on uniform hotel accounting system took place in the UK. In 1969, *A Standard System of Hotel Accounting* was published by Her Majesty's Stationery Office. Two years later, a companion volume, entitled *A Standard System of Catering Accounting*, was produced (Kotas & Conlan, 1997). However, the spread and influence of US hotel groups worldwide, with their established uniform system of accounts, has resulted in a situation where most UK and European hotel groups have adopted the US system (Chin et al., 1995). Additionally, the separation of hotel ownership and management has necessitated a formal set of uniform accounts for contracting and evaluation (Dittman et al., 2008). Given the popularity and uniformity fostered by the USALI, it has gradually become the most widely used source of terminology for hotel management contract agreements (Field, 1995). It has also become the industry standard, particularly for medium-and-large-sized hotels, as well as for international and global hotel corporations (Kotas & Conlan, 1997; Harris & Brown, 1998).

In practical terms, the USALI establishes standardized formats to guide individuals in the lodgings industry in the preparation and presentation of financial statements. The resulting standardization permits internal and external users of financial statements to compare the relative financial position and operational performance of similar types of lodging properties (Karadag & Kim, 2006; Guilding, 2009). In Hong Kong, the executives of the Hotel Controllers and Accountants Association (HCAA) call it the bible for hotel accounting systems. When hotel accountants are unsure of the classification of certain revenue or expense items, they always consult this bible. For newly opened properties, the USALI serves as a turnkey accounting system that can be adapted quickly to the needs and requirements of the business (Schmidgall, 2006; Weygandt et al., 2009).

1.1.3. The Hotel Industry in Hong Kong and Macau

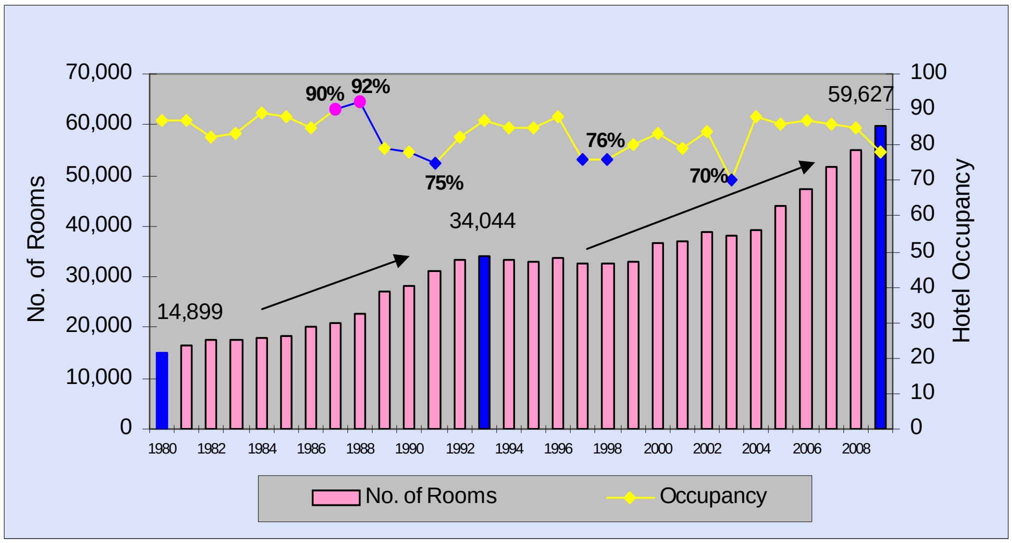
While there have been ups and downs in the local business environment over the past few years, the hotel industry in Hong Kong and Macau has generally experienced a rapid growth. Thus, the competition in the local hotel industry has become intense.

The Hotel Industry in Hong Kong

From 1980 to 1989, the hotel industry in Hong Kong grew dramatically with the upsurge of inbound tourists (Figure 1.1). In 1989, the number of hotel rooms was almost as twice that of the 1980 figure. Hotels built during this period were characterized by the large number of rooms, ranging from 400 to 800, as well as by being managed by international hotel chains. Presumably, the internal report format of these foreign chain hotels have contents quite similar to the USALI because, generally, management agreements required hotels to follow or refer to this system.

Due to the oversupply of rooms in the late 1980s, the average occupancy dropped significantly (Figure 1.1). In the early 1990s, hotel development sprawled out in two directions (Chan, 2002). In one direction, hotels tended to be built in the extended business zones such as Wanchai, North Point, and Mongkok. In the other direction, hotels appeared in the newly developed real estate complexes with a mix of upper-to-medium-class residences, office buildings, and shopping complexes.

Figure 1.1 Number of Hotel Rooms and Occupancy in Hong Kong (1980 - 2009)



Source: Hong Kong Tourism Board

Due to the 1997 Hong Kong handover and the massive infrastructure development (i.e., reclamation, new airport, and new rail route), hotel investment increased in the late 1990s. Hotel development was further strengthened by the planned Disneyland theme park. Unfortunately, the outbreak of SARs in 2003 hit the local hotel industry severely and set the lowest record of occupancy rate (70%) since 1980s (Figure 1.1).

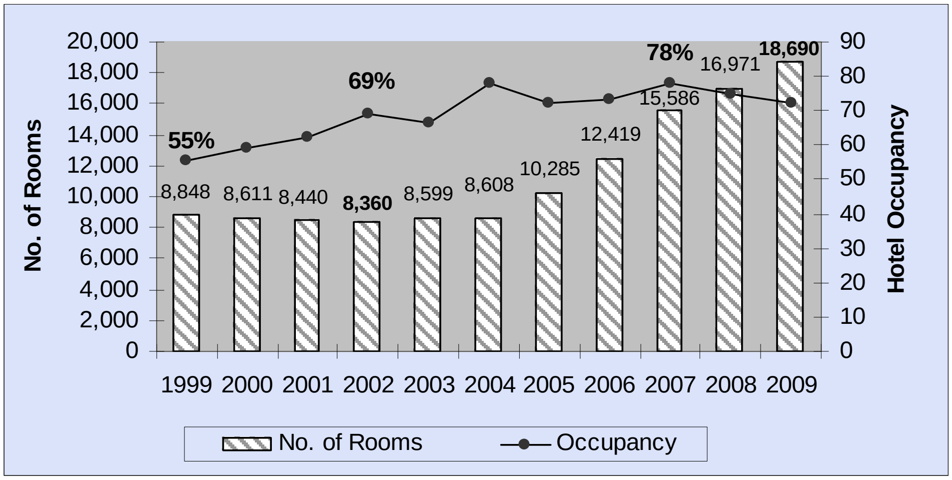
In July of 2003, the launching of Individual Visitor Scheme brought an immediate surge in the number of Mainland visitors. Hotel room supply regained its momentum to further grow and occupancy rate soared to 88% in 2004. With the slow recovery after 2008 financial tsunami, the number of rooms was expected to further increase by 1000 in the next four years (Appendix 1A). Directions of future hotel development include building hotels near the airport, developing budget- and medium-tariff hotels for the Mainland market, and constructing high-end hotels in first-grade locations.

The Hotel Industry in Macau

Since the liberalization of the gaming industry in 2002, Macau has become one of the most popular gaming destinations in Asia. The hotel industry in Macau has benefited immensely from gaming and tourism industries boom, entering a new period of rapid development. Additionally, its Individual Visit Scheme in 2003 has brought in a substantial number of Mainland Chinese tourists. Due to these favorable factors, the average occupancy rate of hotels in Macau soared to 78% in 2007 (Figure 1.2). The number of hotel rooms also rose significantly. In 2007, 15,586 hotel rooms are available for guests (Figure 1.2).

The rise and development of the hotel industry of Macau are associated with its gaming industry. Most hotels accommodate the gambling houses, while others are located near gambling houses (Wu, 2007); therefore, the main sources of guests are the gambling houses. In this respect, requirements and convenience of gamblers are taken as the first consideration in all aspects of management and service. For instance, some hotels provide free shuttle bus service to the wharf. In addition, most hotels are equipped with first-class in-house facilities and advanced security systems to meet the needs of gamblers (Su, 2007).

Figure 1.2 Number of Hotel Rooms and Occupancy in Macau (1999 - 2009)



Source: DSEC, Macau Statistics and Census Service

In addition to being the leading gaming center, Macau aims to become a major convention and conference destination. Many large-scale international gambling companies and hotel chains are trying to widen their casino and hotel development projects in Macau (Scoviak, 2006). Approximately 31,400 new rooms have been under construction since 2008 (Jones Lang LaSalle, 2008). Newly developed hotels have become more luxurious. In general, these future projects are large, mixed-use developments that incorporate entertainment, hotels, conventions, exhibitions, sports and trade events. Iconic structures employ some of the most famous "starchitects" and designer groups in the world. Most carry luxury brand names such as Four Seasons, Mandarin Oriental, Marriott, Hyatt, Hilton, Shangri-La, Banyan Tree, and others (Lodging Econometrics, 2007). The adoption of the USALI is believed to accelerate its momentum in Macau because the USALI is widely applied by international hotel chains.

1.1.4. Envisaged Changes in the Hotel Business Environment

With the rapid development of the hotel industry in Hong Kong and Macau, the competitive environment has intensified. In order to maintain competitiveness, continuous improvements on existing products and the introduction of new products and services are constantly undertaken. This has led to greater variation of business drivers and corresponding evolutions in hotel business practices. However, many of these newly emerging hotel business drivers as discussed below are not fully reported in financial and management accounting statements.

New Hotel Business Drivers

One example of a new business driver is the spa (Chan & Wong, 2007). Spas have become increasingly important to the hotel and tourism industry recently. The development of spa tourism started years ago in many countries such as France, Austria, New Zealand, Germany, Switzerland, United States, Israel, and Japan. Popularity of spa in some developing countries, including China and Malaysia, has been growing. In addition, revenue from spa businesses has become an essential source of non-room revenue for international hotels in Hong Kong and Macau. Thus, proper records of such revenues and corresponding expenses are important. Additional formal guidelines, as well as individual schedule, should be established to record the details of spa operation.

Another change in business drivers is reflected in the Telecommunications department. The popularity of portable phones has relegated the telephone business to a minor revenue-generating department in most hotels. The percentage of telephone revenue was approximately 4.0% of the total revenue in the early 1990s, while in 2006 it was only 1.0% (HKTB, 2008). The prevailing low cost of long distance calls and the trend of using the Internet to make calls have further decreased the revenue from Telecommunications. This percentage is forecast to become even smaller in the future. As a result, there is a need to transform Telecommunications from a profit-making center to an auxiliary service center.

Changes in Governmental Rules and Regulations

Aside from new business drivers, the hotel business environment is also affected by changes in governmental rules and regulations. If international hotel firms wish to prosper in Hong Kong and Macau, they have to appreciate local regulatory and financial systems that are continually changing. For instance, depreciation rate of hotel refurbishment/renovation in Hong Kong is currently placed at 20% per year for a 5-year period, whereas it was only 2% per year before 1996 (Halkyard, 1996). In 1998, after the economic depression of 1997, hotel accommodation tax was decreased to 3% to encourage recovery. This is contrast with 5% tax on room sales revenue before 1998. Since July 1, 2008, hotels have been exempted from hotel accommodation tax, and that alcohol duty has also been abolished. All of these policies affect the hotel industry directly, and should thus be fully reflected in the accounting reporting system.

According to Haktanir and Harris (2005), financial measures, as part of performance management systems, should change with the business context. In response to the hotel business environment that grows continuously and changes substantially, the structure and content of accounting statements, as far as hotel accounting system is concerned, should be updated accordingly to reflect the latest operating characteristics. So that managerial decisions can be made based on essential and accurate financial information.

For the same reason, to keep up with the dynamic hotel business environment and corresponding needs for modifying reporting format, the USALI is regularly updated every five to ten years to offer up-to-date accounting guidelines. The 10th edition of the USALI has kept pace with the evolving business trends in the United States (i.e., condo-hotels, revenue through high-speed Internet access, Internet wholesales, and resort fees) and has provided better clarification to ambiguous guidance found in the 9th edition of USALI (i.e., allowances, attrition and cancellation fees, and definition of available rooms) (HFTP, 2006). Furthermore, it has incorporated significant changes, specifically in the areas of enrichment of schedule content, deletion of alternative financial statement format, break-even analysis, budgeting and control, gaming operations, and sample chart of accounts. Another significant change is the addition of the expense dictionary (HANYC, 2006).

1.2. Problem Statement

The revision of the USALI is based on contemporary information derived from the US lodging industry; thus, the USALI is beneficial specifically to the US hotel industry. Updating on the US side may not have taken into account the changing business environment in other places around the world. This significantly affects its applicability and usefulness in the regions outside the US, such as the areas investigated in this study: Hong Kong and Macau.

Specifically, the developments of the hotel industry in Hong Kong and Macau have outpaced the revisions of USALI. The changing business drivers have led to the formation of several new profit and cost centers in hotels. As stated earlier, spa has become a major revenue-producing center, while telecommunications should be classified as a cost center. In addition, cultural festival products and convention services are two illustrations of new profit centers in the Hong Kong and Macau hotel trade landscape. According to Chan and Chan (2008), traditional Chinese cultural festival products in Chinese restaurants (e.g., year cake, moon cake, festival rice dumpling, dried seafood, and potted food products as takeaways) may generate revenues equivalent to approximately 34 normal days. This figure is close to 10% of total annual business for Hong Kong restaurants. These could also be a significant revenue source for hotels. Moreover, Hong Kong is an established Meetings, Incentives, Conventions, and Exhibitions (MICE) destination, and Macau aims to be a new convention destination as well. In these cities, high-end hotels that target commercial guests are equipped with excellent meeting facilities. These hotels may obtain an exceptional high proportion of their revenue from convention services; thus, the classification of these revenues under the Food and Beverage Department may be inappropriate.

Due to the different social, cultural, and financial systems, some of the new business drivers in Asia are quite different from those in a mature Western market such as the US. Therefore, certain unique reporting features in Asia may not be reflected in the latest edition of the US-based USALI. In order to provide essential and accurate information for further performance evaluation, financial statements have to be sufficiently comprehensive to reflect the latest situations of business units. These statements should likewise consist of components that are specific to individual industry characteristics. As far as this is concerned, the performance of these new profit and cost centers in Asian hotels should be reflected in the performance reporting system.

This study aims at the hotel industry in SARs of China (i.e., Hong Kong and Macau) because of the following reasons.

First, the mature stage of hotel development in Hong Kong serves as an excellent background for the case study. Hong Kong is one of the premier business centers and

MICE destinations of Asia; many of the best luxury hotels of the world are located here. To some extent, the innovative hotels in Hong Kong act as industry leaders among Asian hotels. The new business drivers currently appearing in Hong Kong may become future development trends adopted by other hotels in Asia.

Second, the hotel industry of Macau has benefited immensely from the liberalization of its gaming industry and, consequently, has entered into a period of rapid development. The opening of Venetian Macau and MGM Grand Macau in 2007 marked the debut of a new generation of integrated casino resorts that is predicted to transform Macau into the Las Vegas of Asia. The finance reporting of casino resorts and their leisure facilities are two other noteworthy emerging areas, particularly in relation to the application of the 10^{th} edition of USALI to this type of environment. Moreover, the appropriate reporting of the local taxation aspects and operational practices of some large-scale hotel in Macau may present another area for investigation.

Table 1.1 Hotel Room Supply in Hong Kong and Macau in the Next Few Years

	Hong Kong		Macau	
Year	No. of rooms	No. of hotels	No. of rooms	No. of hotels
2008	54,804	149	16,971	54
2009	59,627	167	18,690	59
2010	62,907	190	NA	NA
2011	66,748	209	NA	NA
2012	69,381	222	47,682	134

Source: Hong Kong Tourism Board (2010); Macau Government Tourism Office (2007).
Note: The above statistics are subject to change due to the 2008 Financial Tsunami.

Third, there are currently a significant number of hotels affiliated with multinational/international hotel chains in Hong Kong and Macau. Particularly, more hotels will be built in these two regions in the next few years (Table 1.1). An addition of 14,000 new rooms in Hong Kong and 30,000 rooms in Macau are expected to be realized between 2008 and 2012. Many of the existing hotels, as well as the new hotels, may adopt the 10th edition of USALI. Pine and Phillips (2005) found that Hong Kong-, Macau-funded hotels produce better performance levels than the hotels with other types of ownership in China. Therefore, it is necessary to investigate the applicability of the USALI in the hotels of these two special administrative regions of China. However, there is a paucity of study in the field of hotel accounting systems in Hong Kong and Macau. Only Gibson (2004, 2002, 1998) has conducted studies regarding the desired attributes, behavioral roles, and decision-making roles of hotel financial controllers in Hong Kong; unfortunately, his work is not related to the application of the USALI in Hong Kong Hotels.

Although some of the hotel projects in Macau (Table 1.1) have been put on hold due to the global financial tsunami, the current contraction of the hospitality and gaming industries is expected to be temporary (Lau, 2008). According to the business cycle theory, after the contractionary and recessionary phases of a traditional business cycle, the expansionary and prosperous phases again follow (Arnold, 2002).

While the content of the USALI has undergone continuous revision and updating, the original concept based on conventional cost-oriented accounting methods has persisted without due recognition accorded to current changes (Harris & Brown, 1998). According to Kotas (1975), “The orientation of a business must necessarily have important implications for the choice of accounting and control methods.” Since there appears to be a growing belief that hotels have to be market-oriented businesses (Kotas, 1973; Rogers, 1976; Harris, 1992; Downie, 1995), logically, the subsequent editions of the Uniform System should take greater account of the need to develop explicit recommendations that address the revenue accounting emphasis required by users.

Field (2002) highlighted some significant problems in applying the USALI to the UK with regard to the allocation of package price to various departments, sales taxes, commission accounting treatment, the composition of alcoholic drinks, and similar items that were not addressed in the 9^{th} version of USALI. As such, a detailed examination of costs, revenues, and profits of existing hotels should be conducted to determine if they are included in the latest edition. Field also pointed out that some recent changes in hotel operations are less well-addressed than “the overall desire for uniformity for comparison purposes.” For example, the absence of customer profitability analysis and activity-based management increasingly lessens the usefulness of the USALI.

Recognition of the accounting profession of environmental reporting by incorporating green reporting in financial reports commenced in the late 1990s (International Federation of Accountants, 1998). Deng and Burnett (2002a, 2002b) suggested installing or adding suitable water, electricity, and gas sub-meters to monitor energy use of various end-users, facilitating the breakdown of the total energy cost into relevant departmental accounts. Subsequently, there has been increasing consideration given to environmental costs in the accounting notes section of departmental income statements (Chan, 2005). Thus, call for environmental indications in financial reports is investigated in this study.

To summarize, the above-discussed business changes in the hotel industry point to the need for investigating and updating issues of the uniform accounting framework in Hong Kong and Macau, so as to correlate with the ongoing development in new business drivers, metamorphosis of hotel projects, and recent calls for revenue accounting and environmental indicators.

1.3. Objectives

In view of these changing accounting needs of the lodging industry in Hong Kong and Macau, the primary objective of this research is to substantiate the current content of the hotel uniform accounting by examining any reporting problems and providing enhancement options. Specifically, this study seeks to:

1. Determine the extent of implementation and applicability of the 10th edition of

USALI on the lodging industry in Hong Kong and Macau,

2. Investigate current and potential ambiguous items and problem areas that need to be addressed,

3. Examine enhancement options and critically evaluate them for appropriateness and applicability.

1.4. Structure of Thesis

This dissertation is divided into seven sections. Section 1 provides the introduction of this research, including the background of the study, problem statement, and objectives. Section 2 examines and discusses previous literature. The methodology of this study is explained in Section 3, where the research design, data collection procedures, data analysis, and trustworthiness of data are outlined. The findings and discussions of the study are detailed in Sections 4, 5, and 6. Section 4 discusses and compares the findings on the extent of implementation and applicability of the USALI in hotels in Hong Kong and Macau. Section 5 identifies the common areas of concerns with regard to the USALI in non-casino hotels in Hong Kong and Macau. Section 6 proposes enhancement options for the identified problems when applying the USALI in Hong Kong and Macau. Finally, in Section 7, major findings are reviewed, and significance of this study is presented. In addition, recommendations for future research are discussed.

2. Literature Review

This section discusses the current hotel industry performance reporting based on the USALI, and reviews the existing studies on the extent of usage and implementation of the 9th edition of USALI. This section also discusses the major changes throughout the past three editions of USALI over three decades, including the overall and specific changes in Financial Statements, Operating Statements, and Ratios and Statistics. An examination of accounting treatment of cost allocation follows. Finally, the implications from literature review are summarized.

2.1. System Theory and Hotel Industry Performance Reporting

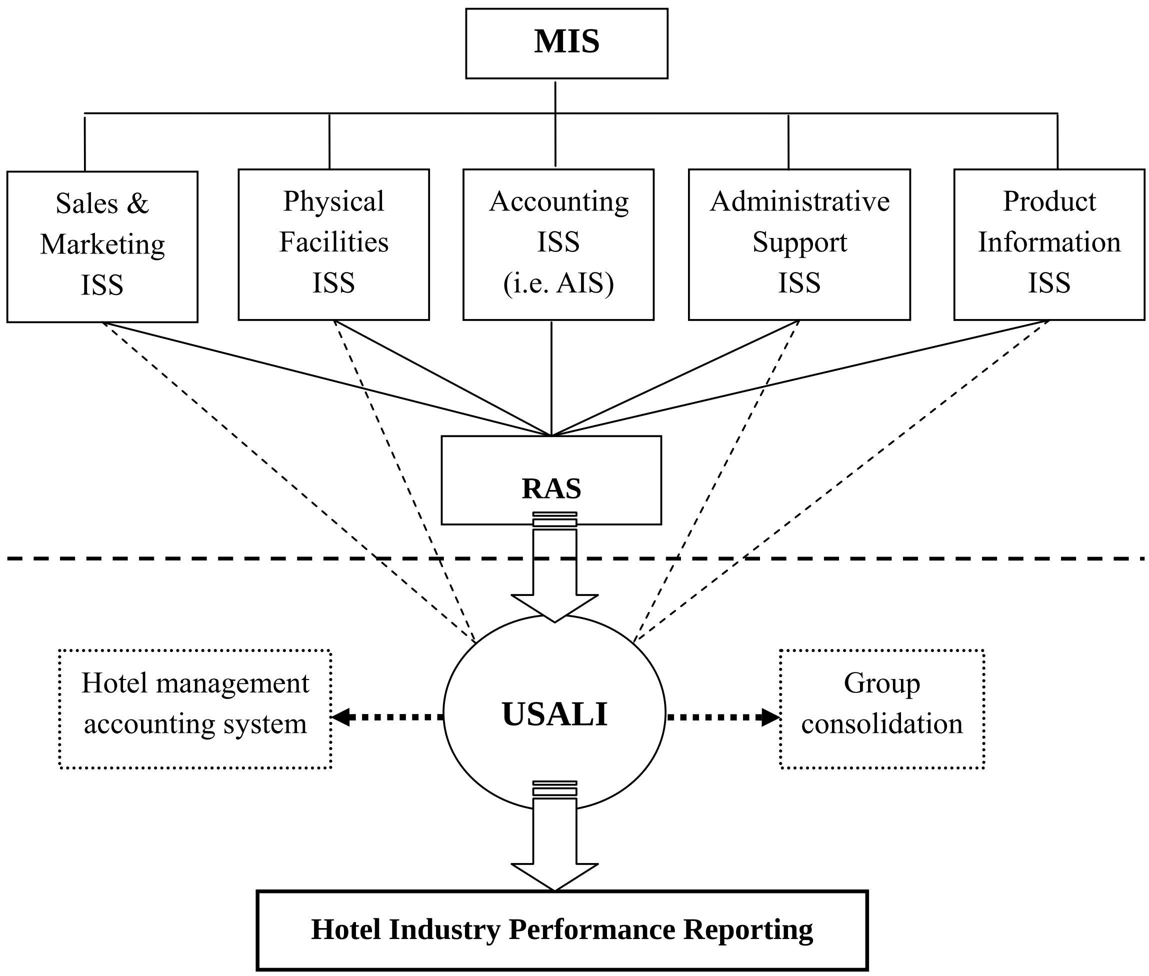
2.1.1. System Theory

A system is a set of independent parts that together accomplish specific objectives. A system must have organization, interrelationships, Integration, and central objectives (Gibson, 1997). Systems theory is a transdisciplinary approach, that abstracts a system as a set of independent and interacting parts (Hahn, 2007). Barnard (1938) first identified organizations to be systems consisting of many sub-systems that share a mission and strategic plan. Morgan and Smircich (1980) stated that each system affects the environment as they transform, which in turn makes the environment change and may subsequently require the system to consider changes. Miller (1972) further pinpointed that most organizational research is conducted at the subsystem level where it is easier to measure and test data. Within an organization, the accounting subsystem provides useful information to the decider subsystem for decision making. (Cooper et al., 1981).

A Management Information System (MIS) consists of factual information that helps the manager make a decision that affects his/her organization's operational functions. MIS helps the manager make a decision the affect his/her organization's operational functions. The Accounting Information System (AIS) is a subsystem of the MIS (Figure 2.1) and its job is to identify, record and report every financial transaction. The other subsystems of the MIS include Sales & Marketing Information Sub-Systems (ISS), Physical Facilities ISS, Administrative Support ISS and Product Information ISS (Gibson, 1997).

Responsibility Accounting System (RAS) is a subsystem of the AIS (Figure 2.1) and a key mechanism for how management accounting interfaces with organizational strategies and structures (Anthony & Govindarajan, 2001; Simons, 2000). RAS is traditionally based on the assumptions that individual managers are responsible for an organizational subunit, also called responsibility center, such as a department or division (Rowe et al., 2008; Horngren et al., 2006). RAS reports financial transactions relating to the operating performance of an organization and provide information for management to take decisions on operational matters. RAS has four specific operational objectives, namely to control planning, implementation of the plans, checking and decision making.

Figure 2.1 Theoretical Role of the USALI



Source: The upper part above the dashed line is from Gibson (1997).

The USALI represents an established and widely adopted management tool for responsibility accounting (HANYC, 1986). It classifies operating departments as profit centers or cost centers, and delineates corresponding schedules to report the direct revenues and expense (Moncarz & Portocarrero, 2004; Schmidgall, 2006). Referring to Figure 2.1, content flow lines exist between RAS and five ISSs. However, the relationships and actual details between the USALI and the ISSs are not elaborated and reported in literature. Thus, during the investigation process, the four informational sub-systems would serve as a reference to help respondents understand the conceptual role of the USALI in the MIS.

2.1.2. Hotel Industry Performance Reporting

Performance measurement is an important managerial activity in hotel operations. It is implemented on a regular basis for the evaluation of departmental and overall hotel performance (Chan & Wong, 2007). The use of comprehensive performance evaluation incorporating both financial and non-financial indicators (such as customer and staff satisfaction, staff development, teamwork, and so on) is vital for survival of hotels in the current dynamic environment (Fitzgerald et al., 1991; Kaplan & Norton, 1992; Phillips, 1999a; Phillips, 1999b; Mia & Patiar, 2001). A number of researchers have tried to develop performance measurement frameworks that balance both financial and non-financial measures. Examples are the Balanced Scorecard (Kaplan & Norton, 1992) and the Results and Determinants (Fitzgerald et al., 1991) models. Moreover, Phillips (1999b) proposed a multidimensional contingency model of hotel performance, while Phillips and Louvieris (2005) introduced a performance measurement system for hotels from a balanced scorecard perspective.

However, despite the emphasis on a balanced performance measurement system in academia, hotel owners and practitioners continue to emphasize financial dimensions primarily (Chan & Wong, 2007; Mia & Patiar, 2001; Atkinson & Brown, 2001). Traditional accounting-based performance evaluation can provide valuable information for assessing performance of various profit and cost centers, as well as the performance of corresponding departmental managers. Subsequently, this approach can assist managers to enhance the quality of decision making and foster the improvement of hotel operations. In order to ensure sound management of hotels, an income statement with appropriate performance reporting format that can satisfy information needs of managers is imperative. Revenue per available room (RevPAR) has been regarded as the most effective indicator of the balance between hotel room supply and demand in hotel industry. However, Slattery (2002) pointed out his concerns that the reported RevPAR is unreliable from an industry wide perspective reported RevPAR is unreliable as the loose definition of RevPAR in the 9th edition of USALI has caused sloppy practice in the industry and produced an inflated while simultaneously leaving cash flow and returns unaltered. Thus, the explanations of hotel supply and demand performance derived from RevPAR are flawed. The connection between RevPAR, cash flow and returns is also broken. He suggested that for reported RevPAR to perform effectively as an important measure of hotel supply and demand performance, the latitude with RevPAR's definition must end and RevPAR must be tied to hotel cash flow.

At present, two different sets of hotel industry performance statement formats are used in Hong Kong and Macau. In Hong Kong, the format developed from the US USALI is widely used in international hotels (Chan & Wong, 2007). In contrast, in Macau, another format set by the Macau Statistics and Census Service is mainly used for statistical purposes. Corresponding examples using these two formats are the annual publications *Hong Kong Hotel Industry Review* and *Hotels and Similar Establishments Survey in Macau*. The former performance reporting format is produced by Horwath HTL. Horwath HTL conducts surveys of overall financial and operational performance for hotel markets in key countries around the world, in cooperation with local tourism organizations and hotel associations (Horwath HTL, 2009). Based on a standard statement format from the USALI, these hotel performance reports not only track the operating and financial characteristics of specific hotel markets, but also set consistent standards for benchmarking.

The USALI is an accounting guidebook detailing departmental performance reports in which accounts are grouped based on revenues and expenses taxonomy. One prominent feature of the USALI is its concept of and role as management tool for responsibility accounting. It delineates schedules in order to report the direct revenue and expenses of each department, and the resultant income or loss from these operated departments. The level of net profit closely reflects and measures the abilities of the management unit (Moncarz & Portocarrero, 2004; Schmidgall, 2006).

Figure 2.1 shows the theoretical role of the USALI. Aside from establishing the current hotel industry performance reporting format based on the USALI, the hotel management accounting system and group consolidation reporting are likewise determined.

The management accounting system in hotels provides necessary information for managers to control, monitor, and improve operations (Mia & Patiar, 2001). The current management accounting in hotels is still driven by performance reporting. The fundamental principle of responsibility accounting in USALI works as a core subsystem of managerial accounting in hotels. This is because the costs are assigned to various hierarchical levels of management that are in charge of controlling the difference between budgeted and realized cost (Markrigiannakis & Soteriades, 2007). Most hotel managers routinely need to make use of the operating schedules to support their decision making. Moreover, given the uniformity provided by the USALI, it has become the basis for inter-property control and cost management (Dittman et al., 2008). For large international chains with multiple hotels, the USALI provides a common basis for group consolidation.

2.2. Usage and Implementation of the 9th edition of USALI

Given the evident usefulness of a uniform system of accounts to the lodging industry (Section 1.1.2), hotels are expected to utilize this system at different levels of analysis. However, research has revealed otherwise. Kwansa and Schmidgall (1999) conducted a survey of lodging financial executives who were members of HFTP Association to examine how widely the 9th edition of USALI was accepted and adopted. The results indicate that 76% of the 112 respondents' lodging operations used the USALI. Although it has been highly recommended by some trade associations for many years, surprisingly, 12% of the respondents did not know anything about the USALI at all. Among the USALI users, 11% responded that they were following it “completely,” while 65% indicated its use “in most but not all respects.” In slightly more than one-half (57%) of the organizations of the respondents, the decision to follow the USALI was made at the corporate level. More than a quarter (28%) said that the decision was made by a financial controller. For the remaining hotels, general managers, owners, or other authorities made the decision to use it. These results imply that most hotels have adopted the USALI as a prototype or backbone with the intention to modify it to fit the needs of the group, as well as the local situations. The same situation is expected in hotels in other regions, such as in Hong Kong and Macau.

In Southern Europe, Pavlatos and Paggaios (2007) found that only 11.8% of the 85 surveyed hotels in Greece use the USALI, reflecting low acceptability and compatibility of the USALI. In addition, among hotels of multinational chains, 53.3% use this system, while among hotels that are private companies or members of a national chain, only 2.9% do so. The findings also show that the USALI has been mainly adopted by hotels members of multinational chains and that there is a significant relation between these two variables. This may be because the USALI originated from the US and has been highly recommended in the US hotel industry for a long time (Kwansa & Schmidgall, 1999). Meanwhile, US-based large multinational hotel chains have affiliate hotel members worldwide that are encouraged to adopt the

USALI because their mother company does.

2.3. Major Changes throughout the 8th, 9th, and 10th Editions of USALI

The 10th edition of USALI has incorporated significant changes to reflect the emerging business trends and contemporary information derived from the US lodging industry from 1926 to 2006. The following discussions are focused on the major changes in the three most recent editions of the USALI (i.e., the 8th (1986), 9th (1996), and 10th (2006) editions, specifically on the changes in 10th edition, in order to reflect the current industry situation.

2.3.1. Overall Changes

In the preface of the 10th edition of USALI, it says there are a number of fundamental philosophical changes in this edition. The **first philosophical change** is the focus on only the basic financial statements and operating statements. As a result, it is divided into four parts, namely, Financial Statements, Operating Statements, Ratios and Statistics, and Expense Dictionary (Table 2.1).

Part I (Financial Statements) covers the basic financial statements that are typically designed for external reporting purposes, including the Balance Sheet, the Income Statement, the Statement of Owner’s Equity, and the Statement of Cash Flow. All these statements must be in accordance with the generally accepted accounting principles (US GAAP), established by the US Financial Accounting Standards Board.

Table 2.1 Overall Content Comparison of the Three Most Recent Editions of the USALI

		10th edition		9th edition		8th edition
Financial Statements	**Part I**	Balance Sheet, Income Statement, Statement of Owner's Equity, Statement of Cash Flow, and Notes to the Financial Statements				
Operating Statements	**Part II**	• a Summary Operating Statement (SOS) and **13** supplementary schedules		• a Summary Statement of Income and **30** supplementary schedules		• a Departmental Statement of Income and **26** supplementary schedules
				• Statement for properties operated by a management company	≈	• Statement for hotels operated by a management company
				• Statement for gaming operation		
Financial Analysis	**Part III**	• Ratios and statistics	≈	• Ratio analysis and statistics		
				• Financial statement formats	≈	• Statement formats
				• Operations budgeting and budgetary control	≈	• Budgeting and forecasting
				• Guidelines for allocating expenses to operated departments	≈	• Distribution of overhead to operated departments
				• Breakeven analysis		• Complimentary service compilations by market source
Recording Financial Information				• Sample chart of accounts	≈	• Account numbering system
				• Simplified bookkeeping for limited service properties		
Others	**Part IV**	• Expense dictionary	≈	• Expense dictionary		
				• Sample set of uniform system statements		

Source: Uniform System of Accounts for the Lodging Industry, the 8th, 9th and 10th editions

Note: Gray areas represent the common sections throughout the three editions of USALI, although there are some name changes.

Part II (Operating Statements) focuses on the operating statements, which consists of a new consolidated statement of income - Summary Operating Statement (SOS) and a few supporting departmental schedules. SOS, in essence, is similar to the Summary Statement of Income in the 9th edition and Departmental Statement of Income in the 8th edition. This summary statement is prepared with supporting schedules of revenue and expenses for each department. However, both statements for management companies and gaming operations are excluded (Table 2.1) in this part.

Departmental statements have undergone major changes in three most recent editions of USALI. As indicated in the above figure, the number of the departmental schedules increased from 26 in the 8th edition to 30 in the 9th edition; however it decreased to 13 in the latest 10th edition. The content and format of these departmental schedules have also changed significantly. These changes are discussed in detail in Section 2.3.3.

Part III (Ratios and Statistics) includes the section of ratio analysis and statistics that has been in place since the 9th edition. Deleted from this edition are sections on alternative financial statement formats, break-even analysis, budgeting and budgetary control, and guidelines for allocating expenses. Mr. Henry Weeks, one of the revision committee members for both the 9th and 10th editions of USALI, remarked that the principal motivation for the deletion of guidelines for allocating expenses is to ensure uniformity in accounting among various types of hotels. This is because hotels use different allocation bases and it is very difficult to precisely allocate expenses.

However, the undistributed expenses, combined with management fees, rent, and property taxes and insurance, comprise a considerable portion of total expenses. Many researchers (Geller & Schmidgall, 1980; Schmidgall & Malk, 1992; Coltman, 1998) have suggested that these "overhead" costs be allocated when making important business decisions, including pricing, staffing, expansion, refurbishing, and renovation. The arguments on the deletion of cost allocation guidelines are discussed in Section 2.4.

Part IV (Expense Dictionary) discusses the tradition of the expense dictionary that began in the 9th edition. This dictionary has been updated in both alphabetical and departmental formats, making it more user-friendly. However, all the other sections in the previous editions of USALI have been deleted (i.e., sample chart of accounts, simplified bookkeeping for limited service properties, and sample set of uniform system statements).

The **second fundamental philosophical change** in the 10th edition of USALI is the elimination of alternative treatment for reporting and disallowing alternative formats of the SOS, departmental schedule presentations, and alternative accounts or line items shown on the SOS and supporting departmental schedules. Individual properties may delete irrelevant line items; however, addition or substitution of other revenues or expense line items is not allowed. Rather, properties may develop a sub-account/sub-schedule to provide additional details related to a particular revenue or expense item, which will then be rolled into the relevant line item on either the departmental schedule or the SOS. These changes are expected to foster reporting in conformity with the Uniform System. Consequently, the revenue and expense accounts that have been approved as line items on the operating schedules are more detailed and specific. In the previous editions of USALI, only common examples of revenue and expense line items were provided and these items were allowed to vary from property to property.

2.3.2. Financial Statements

Referring to Table 2.1, the three editions of USALI share a common first part, namely Financial Statements. These financial statements include the Balance Sheet, Income Statement, Statement of Owner's Equity, Statement of Cash Flow, and Notes to the Financial Statements. Preparation and presentation of these statements have been converging on the US GAAP over the past 30 years. In response, while the 8th edition of USALI did not specifically require the accounting presentation and financial statements disclosure to follow GAAP, the 9th edition stated that any changes to the suggested format "should be consistent with GAAP." The 10th edition further emphasizes that all these statements "must be prepared in accordance with GAAP."

Consequently, the changes in the financial statements of USALI reflect the changes in GAAP, mainly found in the Balance Sheet, as summarized in Table 2.2. For instance, to write off or amortize pre-opening expense over a period of no more than one year was a common practice when the 9th edition was in use. Thus, the reference on this is excluded (*Note* ①). Instead, the 9th edition incorporated the indication of goodwill and surrender value of life insurance in the balance sheet (*Note* ②). In the 10th edition, reporting amounts due to or from the owner, management company, or other related entities is required, and these amounts should further be classified as current or long-term, based on their payment terms (*Note* ③).

Table 2.2 Summarized Changes in the Balance Sheet

9th edition: Changes from the 8th edition	10th edition: Changes from the 9th edition
• Delete all references to pre-opening expenses *(Note ①)* • Incorporate details of goodwill and cash surrender value of life insurance *(Note ②)* • Write off, over a relatively short period, the initial purchase of **china, glassware, silver, linen, and uniforms** *(Note ④)* and to expense all replacement purchases • Distinguish those investment held for short time or "available-for-sale" • Modify the presentation of deferred income taxes • Modify the presentation of owners' equity	• The separation of amounts due to or from the owner, management company, or other related entities is required *(Note ③)* • **Operating equipment,** including **china, glassware, silver, linen, and uniforms**, which are determined to have a period of consumption of one year or less is recorded as a *current asset*. *(Note ⑤)* • Operating equipment with a period of consumption of more than one year is recorded as *other assets*. *(Note ⑥)* • Operating equipment is expensed ratably to the appropriate department expense account over its estimated useful life.

Source: Uniform System of Accounts for the Lodging Industry, the 8th, 9th, and 10th revised editions
Note: For detailed explanation on changes *(Note ① - ⑥)*, refer to the text.

One noteworthy change over the past 30 years is the capitalizing or expensing on china, glassware, silver, linen, and uniforms. Different methods of accounting practices are also indicated in Table 2.2 for comparison.

Before the 9th edition, properties used a variety of methods to charge the cost of china, glassware, silver, linen, and uniforms to operations. Some properties considered them part of their inventory. Other properties capitalized the base stock of these items wholly and then expensed the replacement purchases. Some capitalized the base stock, but depreciated the amount to only 50% of the cost over a reasonable period, and then expensed the subsequent purchases.

Table 2.3 Comparison of the Accounting Presentation of China, Glassware, Silver, Linen, and Uniforms in the Balance Sheet

10th edition: Assets in the Balance Sheet	**8th and 9th edition: Assets in the Balance Sheet**
CURRENT ASSETS	CURRENT ASSETS
XX XX	XX XX
Due To/From Owner, Management Company, or Related Party	XX XX
Operating Equipment *(Note ⑤)*	… …
	… …
NON-CURRENT RECEIVABLES	NON-CURRENT RECEIVABLES
INVESTMENTS	INVESTMENTS
PROPERTY AND EQUIPMENT	PROPERTY AND EQUIPMENT
XX XX	XX XX
XX XX	**China, Glassware, Silver, Linen and Uniforms** *(Note ④)*
… …	
OTHER ASSETS	OTHER ASSETS
XX XX	XX XX
Operating Equipment *(Note ⑥)*	XX XX
TOTAL ASSETS	TOTAL ASSETS

Source: Uniform System of Accounts for the Lodging Industry, the 8th, 9th and 10th revised editions
Note: Notes④⑤⑥ in the above balance sheet reflect the accounting treatment to the corresponding changes ④⑤⑥ stated in the previous Table 2.2.

Nevertheless, in order to foster uniformity, the 9th edition specified the preferred accounting treatment. As stated in *Note ④* of Table 2.2, the cost of initial complement should be capitalized. "This capitalized cost is then depreciated over a period not to exceed 36 months and replacement purchases are expensed when placed in service. Reserve stocks of these items should be considered inventory until they are placed in service." This means that in both the 8th and 9th editions, the item comprising china, glassware, silver, linen, and uniforms was regarded as one of the line items under Property and Equipment in the Balance Sheet (*Note* ④ of Figure 2.3).

Significant changes have been made in the 10th edition. The item on china, glassware, silver, linen, and uniforms has been removed from the group of accounts under Property and Equipment, and a new line item, called Operating Equipment, has been added to assets. Operating Equipment specifically refers to china, glassware, silver, linen, and uniform; however, this is not merely a change of title. The major difference is that this new line item can be listed under either Current Assets or Other Assets, depending on its period of consumption. The period of consumption must be established when a property purchases operating equipment items. If the period of consumption is one year or less, it is recorded under Current Assets. If it is more than one year, it is regarded as long-term asset and recorded under Other Assets. Whether the item is listed as a Current or Other Asset, it is not allowed to depreciate; rather, it must be expensed to the appropriate departmental expense accounts.

2.3.3. Operating Statements

Financial accounting tools, such as financial statements, focus on reporting to external parties such as shareholders and creditors. Financial accounting provides summaries of historical transactions and the information are expected to be objective and verifiable. Financial accounting reports place more emphasis on precision and are primarily concerned with reporting for the company as a whole. In addition, financial accounting is mandatory as various outside parties such as Securities and exchange commission (SEC) and the tax authorities require periodic financial statements (Horngren et al., 2006; Pauline, 2006; Warren et al, 2008).

In contrast, management accounting measures and reports financial and non-financial accounting information that helps managers to make decisions in fulfilling the goals of an organization. Since planning is such an important part of the manager's job, managerial accounting has a strong future orientation. For internal use, relevancy of data is placed more emphasis even if the information is not completely objective or verifiable. Management accounting focuses much more on the parts or segments of a company than the company as a whole. However, management accounting is not mandatory. A company is completely free to do as much or as little as it wishes (Horngren et al., 2006; Pauline, 2006; Warren et al, 2008).

An operating statement is a management accounting tool and designed mainly for internal analytical purposes. The part of operating statement in the USALI is not nearly as restricted by GAAP as financial statements mentioned in Section 2.3.2.

The content and format of operating statements have changed significantly throughout the past three decades, especially as reflected in the 10th edition. Departmental schedules and the SOS now provide presentation of revenue and expense items in detail. Furthermore, categories across departments are more consistent, such as Allowances, Payroll and Related Expenses, Complimentary Services and Gifts, Royalty Fees, Equipment Rental, Travel, and so on. Payroll and Related Expenses is a new line item with extensive definitions, which has replaced the Salaries and Benefits item of the 9th edition.

Summary Operating Statement

As mentioned earlier, the consolidated statement of income is now titled Summary Operating Statement (SOS) in the 10th edition of USALI, rather than the Summary/Departmental Statement of Income of the previous editions (Table 2.4) to provide an operational review of hotel revenues and expenses. The major changes in this SOS are as follows.

First, as seen in *Note ①* in Table 2.4, account titles have been altered to reflect typical lodging terminologies. The term Gross Operating Profit (GOP) has replaced Income after Undistributed Operating Expenses. The term Net Operating Income (NOP) has replaced Income before Interest, Depreciation and Amortization, and Income Taxes (EBITDA).

Table 2.4 Comparison of the Summary Statement of Income

USALI 10th edition **Summary Operating Statement**	**USALI 9th edition** **Summary Statement of Income**	**USAH 8th edition** **Departmental Statement of Income**
Revenue ③	**Operated Departments**	**Operating Departments**
Rooms	Rooms	Rooms
Food and Beverage	Food	Food and Beverage
Other Operated Departments	Beverage	Telephone ※
Rentals and Other Income	Telecommunications ※	Garage and Parking
Total Revenue	Garage and Parking	Guest Laundry
	Golf Course	Golf Course
Departmental Expenses	Golf Pro Shop	Golf Pro Shop
Rooms	Guest Laundry	Tennis - Racquet Club
Food and Beverage	Health Center	Tennis Pro Shop
Other Operated Departments	Swimming Pool	Health Club
Total Departmental Expenses	Tennis	Swimming Pool - Cabanas - Baths
	Tennis Pro Shop	Other Operated Departments
	Other Operated Departments	Rentals and Other Income
	Rentals and Other Income	**Total Operating Departments**
Total Departmental Income	**Total Operated Departments**	
Undistributed Operating Expenses④	**Undistributed Operating Expenses**[I]	**Undistributed Operating Expenses**
Administrative and General	Administrative and General	Administrative and General
Sales and Marketing	Human Resources	Human Resources
Property Operation and Maint.	Information Systems ※	Data Processing ※
Utilities	Security ⊕	Transportation
Total Undistributed Expenses	Marketing	Marketing
	Franchise Fees ⊕	Guest Entertainment Θ
Gross Operating Profit ①	Transportation	Property Operation and Maint.
	Property Operation and Maint.	Energy costs ※
Management Fees ⑤	Utilities ※	
	Total Undistributed Operating Expenses	**Total Undistributed Operating Expenses**
Income Before Fixed Charges		
Fixed Charges ⑥	**Income After Undistributed Operating Expenses**	**Income before Management Fees and Fixed Charges**
Rent		
Property and Other Taxes	Management Fees	Management Fees
Insurance	Rent, Property Taxes, and Insurance	Rent, Taxes and Insurance
Total Fixed Charges	**Income Before Interest, Depreciation Amortization, and Income Taxes**[II]	Interest Expense
		Depreciation and Amortization
Net Operating Income ①	Interest Expense	
	Income Before Depreciation, Amortization, and Income Taxes	
Less: Replacement Reserve ②		
	Depreciation and Amortization	
Adjusted Net Operating Income	Gain or Loss on Sale of Property	
	Income Before Income Taxes	**Income Before Income Taxes**
	Income Taxes	Income Taxes
	Net Income	**Net Income**

Source: Uniform System of Accounts for the Lodging Industry, the 8th, 9th, and 10th revised editions

Note: I : A separate line for preparing expenses can be included if such costs are captured separately.
II: Also referred to as EBITDA – Earnings before Interest, Taxes, Depreciation, and Amortization.
※ represents the name change of specified line items in the 8th and 9th editions of USALI.
⊕ /Θ means the addition or deletion of specified line items in the 8th and 9th editions of USALI.
For detailed explanation of changes ①-⑥, refer to the text.

Second, the Net Operating Income of SOS is not equivalent to Net Income in the earlier editions because of the exclusion of interest expense, depreciation, amortization, income tax, and gains or losses on the sale of property, as well as the inclusion of replacement reserve in Net Income. Adjusted Net Income equals Net Operating Income less Replacement Reserve, as shown in *Note ②*. This approach is more informative for hotel owners or managers who place more focus on operating cash flows.

Third, revenue *(Note ③)* is reported in four line items: Rooms, Food and Beverage, Other Operated Departments, and Rental and Other Income. Food and beverage revenue and expenses are presented in a combined manner on the SOS, which had been the tradition in the 8th edition of USALI. The reporting of Food and Beverage was divided into two line items in the 9th edition. Another major change is the expansion of the category of Other Operated Departments to include all the operating departments except Rooms, and Food and Beverage Departments.

Finally, undistributed operating expenses *(Note ④)*, are assigned to four departments: Administrative and General, Sales and Marketing, Property Operations and Maintenance, and Utility Costs. Previous categories such as Human Resources, Information Systems, and Security are now listed under Administrative and General. Management fees *(Note ⑤)*, inclusive of base and incentive fees, are presented as a discreet expense item. Moreover, unlike the earlier two editions, the 10th edition clearly defines the breakdown of Fixed Charges *(Note ⑥)*, consisting of Rent, Property and Other Taxes, and Insurance.

Retrospection on the format of overall summary statements in the three most recent editions of USALI, only minor changes were effected in the 8th and 9th editions. The reported revenue-generating departments are more or less the same; however, sub-accounts under Undistributed Operating Expenses in the 9th edition have undergone addition and deletion. Guest Entertainment has been excluded because of lower application, while Security and Franchise Fees are listed as two new line items to ensure uniform presentation and allow for comparability. Other minor changes include title changes from Telephone to Telecommunications, Data Processing to Information Systems, and Energy Costs to Utility Costs (Table 2.4).

In contrast, the presentation format of SOS in the 10th edition is largely simplified. Certain departmental revenue/expense accounts are redefined with more extensive definitions in order to include other previously independent accounts as sub-accounts. As mentioned before, several accounts have been rolled into the Other Operated Departments and the Administrative and General (See Table 2.4). Franchise Fees has been re-assigned to Sales and Marketing, as it was in the 8th edition. Transportation Expenses is no longer listed under Administrative and General, but is directly related to a revenue-generating department where the cost of transporting guests is incurred; in most cases, it is absorbed by Rooms Department.

Rooms Department

The classification of Rooms Department revenue has not been clearly defined until the 10th edition of USALI. In the past, some properties might have classified Rooms revenue in terms of transient-regular, transient-group, permanent, and others. Currently, Rooms revenue is strictly divided into only four parts: Transient, Group, Contract, and Others. The definition of each category is as follows:

Table 2.5 Definition of Rooms Department Revenue Categories

Transient	:	renting blocks of less than 10 rooms per night
Group	:	renting blocks of 10 rooms or more per night
Contract	:	holding a contract for a consistent block of rooms over 30 days
Other	:	including no-shows, day use, late and early departure fees, and rental of rollaway beds and cribs

Source: Uniform System of Accounts for the Lodging Industry, the 10th revised edition

While the first three categories of Rooms revenue are easy to recognize, this is not the case for the last category, Other Rooms Revenue. Other Rooms Revenue is defined as miscellaneous revenue associated with an occupied room and included in the calculation of Average Daily Rate (ADR). However, one gray area is that the accounting treatment of service charges on top of the room rate is not clearly defined in the USALI. Hotels all over the world normally charge a 10-20% service charge based on the room rate, which accounts for a large part of the total revenues (Leong, 2004). According to the definition of Other Rooms Revenue, whether service charges should be included in this part of revenue and counted in the ADR has been questioned. This issue will be proposed as a research question to the interviewed industry professionals.

Table 2.6 Classification of Payroll and Related Expenses Line Items

Salaries, Wages, and Bonuses:	
Salaries and Wages:	Regular pay, overtime pay, shift differential pay, costs for contract or leased labor
Bonuses and Incentives:	Bonuses, incentive pay, other types of performance pay
Payroll-Related Expenses:	
Payroll Taxes:	All federal, state, and local government mandated payroll-related taxes or social insurance items
Supplemental Pay:	Personal days, vacation pay, sick pay, holiday pay, jury duty pay, relocation pay, paid time off, and severance pay, discretionary bonuses and incentives
Employee benefits:	Employer-paid health insurance expenses, cost of meals furnished to employees, pension contributions, union fees

Source: Uniform System of Accounts for the Lodging Industry, the 10th revised edition

Rooms expenses are separated into two categories: Payroll and Related Expenses, and Other Expenses. Both categories are comprised of additional detailed line items (Appendix 2A). The classification of Payroll and Related Expenses is consistent in every department. Table 2.6 highlights the sub-accounts associated with this category. These sub-accounts are set up based on the staff salary compensation system in the US. Whether this system is applicable in Hong Kong and Macau has remained unexplored. In addition, noteworthy new items in Other Expenses include Commissions and Rebates-Group, Corporate Office Reimbursables, and Licenses and Permits.

Other Rooms Department Considerations

In addition to the explanation of revenue and expense accounts, the 10th edition of USALI continues the tradition of the 9th edition and presents a section entitled Other Rooms Department Considerations, where some controversial issues are discussed in detail. In particular, a detailed discussion is given with regard to package revenues and frequent-stay programs, and new guidelines are provided concerning resort fees, wholesaler sales, allowances, and mixed-use properties such as timeshares, fractional use, or condominiums.

Package revenue: At times, accommodations are sold in conjunction with other services such as meals, golf, spa treatment, and other similar services. In most cases, the interdepartmental revenue allocation is made based on the theoretical "market" value for separate services, which is the same as the guidelines as in the 9th edition. The highlighted new idea in the 10th edition is when properties provide "incidental (gratis) food and beverages to a guest, such as a free breakfast, or where the guest cannot opt out of the food program," the cost is charged to Rooms, with no allocation of revenues to F&B.

Frequent-Stay Programs: The accounting treatment for implemented frequent-guest programs has been further clarified in the 10th edition. The value of frequent-stay points is charged to Loyalty Programs and Affiliation Fees as a marketing expense when the points are issued with a corresponding credit to a liability account. "When the points are redeemed, the value of the points is credited to Rooms revenue and debited to the liability account if the program is solely at the property level or to a receivable account if the program is operated at a chain level. In the later case, the cost is passed on to the chain to reimburse the property." Thus, the probable entries for these two situations should be as follows.

Table 2.7 Accounting Treatment for Frequent-Guest Program

	Solely operated Frequent guest program	**Chain-operated frequent guest program**
Issue of frequent stay points	Dr. Loyalty programs and affiliation fees Cr. Liability for Frequent Guest Program	Dr. Loyalty programs and affiliation fees Cr. Account Payable to Chain
Redemption of frequent stay points	Dr. Liability for Frequent Guest Program Cr. Transient rooms revenue	Dr. Account receivable to Chain Cr. Transient rooms revenue

Wholesaler Revenues: Wholesaler revenues are now recorded under Group Rooms Revenue. Guestrooms sales to wholesalers or Internet wholesalers are recorded at the net rate received by the property for the room, exclusive of any taxes or other charges. Wholesalers are different from travel agents in terms of marketing efficiency. Wholesalers justify the discounted price as they generally market the rooms on behalf of the hotel to retail travel agents, vis-à-vis travel agents are not afforded special rates for individual bookings. Therefore, sales made to travel agents are recorded at rack rates and commissions paid are not treated as reductions in room rates, but are charged to the appropriate commissions account in Other Expenses under the Rooms Department.

Resort Fees and Surcharges: The revenue is allocated to all departments by a flat amount or percentage, based on the relative value of the components normally supplied by the departments. If it cannot be allocated to a revenue-producing department, it is included in Other Rooms Revenue.

Allowances: Definition of allowance only includes reductions in revenue due to service problem, and not an error in posting. Errors in posting are treated as adjustments to revenue, regardless of the accounting period when the error occurred.

Mixed-Ownership Lodging Facilities: These refer to properties that are building or converting rooms into condominiums, creating “mixed-ownership” such as timeshares, fractional use, or whole ownership. If a property has assumed the economic risk associated with operating condominium units pursuant to a contractual relationship that extends beyond one year, the related revenue stream from the condominiums is classified as Rooms revenue. It is appropriate to count the condominium units when calculating Rooms operating statistics of the property. Otherwise, it would be recorded in Other Operated Departments or Rental and Other Income. In this case, the condominium hotel revenue is not included in the overall performance statistics of the hotel. These statistics are recommended to be prepared as a separate schedule.

Food and Beverage Department

As mentioned, the 10th edition requires the property to present the results of its food and beverage operations as a single department on a combined Food and Beverage schedule. Separate Food and Beverage sub-schedules are allowed, and the combined Food and Beverage (F&B) schedule must be prepared for the SOS (Appendix 2B).

Table 2.8 Changes in F&B Departmental Schedule in the 10th Edition of USALI

<u>New Classification of F&B Revenue</u>

- −Outlet
- −In-room dining
- −Banquet / Catering
- −Mini-bar
- −Other F&B revenue
  - ◦ Audiovisual
  - ◦ Public Room Rental
  - ◦ Cover charges
  - ◦ Service charges
  - ◦ Miscellaneous

<u>New F&B Expenses Items</u>

- −China, Glassware, Silver, and Linen are now four separate expense items
- − Complimentary Services and Gifts
- − Management Fees
- − Royalty Fees

Source: Uniform System of Accounts for the Lodging Industry, the 10th revised edition

In Figure 2.8, five classifications of F&B revenue sources are approved: Outlet, In-room dinning, Banquet/Catering, Mini-bar, and Other F&B Revenue. Under Other F&B Revenue, there are five sub-classified revenue items: Audiovisual, Public Room Rental, Cover Charges, Service Charges, and Miscellaneous Other Revenue. These items are not consumable items. Total Revenue equals the sum of F&B revenue and

Other revenue less their respective allowances. Only one Gross Profit is provided, which is the net of both Cost of F&B Sales and Cost of Other Revenue (Appendix 2B).

Similar to Rooms Department, F&B expenses include Payroll and Related Expenses, and Other Expenses. In Table 2.8, there are additional new items in Other Expenses. For example, the item China, Glassware, Silver, and Linen was one line item in the past USALI; however, in the current edition, they are four separate expenses. Complimentary Services and Gifts captures the cost of gratis presentations for promotional purposes to guests and vendors of the F&B Department. Management Fees captures any amount paid to a third-party individual or company to operate or manage a food outlet within the property. Another new expense line item, Royalty Fees, captures all costs associated with the right to use a brand name in connection with F&B Department activity.

Other Operated Departments, and Rentals and Other Incomes

Revenue or expense items traceable to departments other than Rooms and F&B should be recorded under Other Operated Departments. Guidelines are provided to determine when to report a revenue source on a gross basis to Other Operated Departments, or on a net basis to Rental and Other Incomes. The determination of "net revenue" or "gross revenue" is very important as it can affect the amount of management fees, franchise fees, and other costs that are a function of gross revenues.

The 10th edition further clarifies that Other Operated Departments should "generate revenue, have direct operating expenses, and be operated with a motivation to make profit or limit the loss." The kind of revenue is recoded on a "gross" basis under Other Operated Departments. Sources of revenue that meet the requirements to be reported on a gross basis, but have limited corresponding expenses (i.e., no labor cost) are reported as a Minor Operated Department under the Other Operated Departments. If the operation of the revenue-generating department is the responsibility of a third party and no direct operating expense associated with the generation of the revenue is incurred, the "net revenue" received by the hotel is reported in Rentals and Other Income. Table 2.9 illustrates three scenarios of laundry operation and their corresponding accounting treatments.

Table 2.9 Scenarios of Laundry Department's Operation

Scenario	**Nature of operation**	**"gross" or "net" revenue**	**Where to record**
In-house Operation	Property takes the responsibility of laundry service operation.	Gross revenue	Other Operated Departments
Outside Contract	Property marks up the cost charged by the contractor and provides moderate service (pick up and return of clothing).	Gross revenue	Other Operated Departments or Minor Operated Departments
Outside Concessionaire	Property only charges the cost it occurs and provides very limited service.	Net revenue	Rentals and Other Income

Source: Uniform System of Accounts for the Lodging Industry, the 10th revised edition

If the operation is principally to provide guest services and as a result, revenues are minor or non-existent, it cannot be classified as an Other Operated Department. This expense should be charged to the department that benefits most from the service. An example would be complimentary shuttle service that would be charged to the Rooms Department.

Table 2.10 lists the departmental schedules in the USALI, in which the schedules in the 8th and 9th editions are summarized according to the order of corresponding schedules in the 10th edition for easy comparison.

In the 10th edition, sub-schedules for telecommunications, golf course and pro shop, health club/spa, and parking garage are under the schedule of Other Operated Departments. Sub-schedule 3-X provides a standardized format to report the detailed revenue and expenses for each individual Other Operated Departments. All the revenue and expenses of a minor operating department must be summarized on a single schedule: Minor Operated Department sub-schedule 3-XX (Table 2.10).

In the schedule of Rentals and Other Income, attrition penalties, proceeds from business interruption insurance, and net proceeds from a third-party laundry and dry cleaning concession are added as discrete accounts. The other line items are maintained as before, including space rental, concessions, commission, cash discounts earned, foreign currency transaction gains (losses), interest income, and others.

Table 2.10 Comparison of Departmental Schedules in the Three Most Recent Editions

Sch.	**USALI 10th edition**	Sch.	**USALI 9th edition**	Sch.	**USAH 8th edition**
1	Rooms	1	Rooms	1	Rooms
2	Food and Beverage	2	Food	2	Food and Beverage
2-1	Food	3	Beverage		
2-2	Beverage				
3	Other Operated Departments	13	Other Operated Departments		Other Operated Departments
3-1	Telecommunications	4	Telecommunications	3	Telephone
3-2	Golf Course and Pro Shop	6	Golf Course	6	Golf Course
		7	Golf Pro Shop	7	Golf Pro Shop
3-3	Health Club / Spa	9	Health Center	10	Health Club
3-4	Parking Garage	5	Garage and Parking	4	Garage and Parking
3-x	Generic Other Operated Departments	8	Guest Laundry	5	Guest Laundry
3-xx	Minor Operated Departments ⊕	10	Swimming Pool	11	Swimming Pool-Cabanas-Baths
		11	Tennis	8	Tennis - Racquet Club
		12	Tennis Pro Shop	9	Tennis Pro Shop
4	Rentals and Other Income	14	Rentals and Other Income	12	Rentals and Other Income
5	Administrative and General	15	Administrative and General	13	Administrative and General
		16	Human Resources Θ	15	Human Resources
		17	Information Systems Θ	14	Data Processing
		18	Security Θ		
6	Sales and Marketing	19	Marketing	17	Marketing
		19a	Franchise Fees Θ	18	Guest Entertainment
		20	Transportation Θ	16	Transportation
7	Property Operation and Maintenance	21	Property Operation and Maintenance	20	Property Operation and Maintenance
8	Utilities	22	Utility Costs	19	Energy Costs
9	Management Fees	23	Management Fees		
10	Rent, Property and Other Taxes, and Insurance	24	Rent, Property Taxes, and Insurance		
		25	Interest Expense Θ	21	Fixed Charges
		26	Depreciation and Amortization Θ		
		27	Income Taxes Θ	22	Federal and State Income Taxes
					Distributed Expenses
11	House Laundry	28	House Laundry	25	House Laundry
12	Employee Cafeteria ⊕				
13	Payroll-Related Expenses	30	Payroll Taxes and Employee Benefits	24	Payroll Taxes and Employee Benefits
		29	Salaries and Wages Θ	23	Salaries and Wages
				26	Print Shop

Source: Uniform System of Accounts for the Lodging Industry, the 8th, 9th, and 10th revised editions

Note: ⊕ /Θ means the addition or deletion of specified departmental schedule in the 9th and 10th editions of USALI.

Undistributed Operating Expenses, Management Fees, and Fixed Charges

Undistributed Operating Expenses has become limited to Administrative and General, Sales and Marketing, Property Operations and Maintenance, and Utilities. Human Resources, Information Systems, and Security are recorded under Administrative and General. Other new categories, namely, Centralized Accounting Charges and Corporate Office Reimbursables, have also been added to the Administrative and General departmental schedule. Franchise Fees paid for the use of a hotel brand name are included in the schedule of Marketing Department. Sewer Costs, Energy Taxes, and Taxes on Utilities are reported as separate line items in the schedule of the Utilities Department.

Management Fees is a separate line item in the SOS, and is reported as a deduction from Gross Operating Profit to arrive at Income Before Fixed Charges. It represents the aggregate amount of both Base and Incentive Management Fees.

Fixed Charges consists of Rent, Property and Other Taxes, and Insurance. Insurance includes property, liability insurance, professional liability, theft, incidental coverage, and associated deductible costs for insurance. Other new expenses under Fixed Charges are costs of uninsured and under-insured losses, legal settlement costs, and audit expenses.

The schedules of Interest Expense, Depreciation and Amortization, and Income Taxes are deleted (Table 2.10). They are no longer the concern of hotel management because the performance measurement Net Operating Profit in the SOS does not require that interest, depreciation and amortization, and income taxes be deducted.

2.3.4. Ratios and Statistics

This section in the 10th edition of USALI has been expanded to include added commentary on financial benchmarking, fixed and variable costs, methods of ratio calculations, and budget comparisons, along with a number of new ratios and redefined definitions of operational indicators. The selected ratios and statistics represent those that are widespread and generally used in the lodging industry.

New Definitions

Rooms Available is defined as the difference between the number of total room inventory and rooms that are not available for rent, including seasonally closed rooms (in cases when the entire hotel is closed for 30 or more consecutive days), rooms designated for permanent house use, extended closed rooms. Extended closed rooms closed for an extended period are rooms that are expected to be closed for 6 months or longer because of an event beyond control such as a fire or hurricane.

Complimentary Rooms is defined as a free room provided to a guest for marketing or promotional purposes, such as complimentary rooms provided to owners, employees, people on familiarization tours, friends, and family. Complimentary Rooms also cover rooms used on a short-term basis by the staff, for instance, employee relocation and manager-on-duty.

The 10th edition has likewise clarified that Complimentary Rooms is not linked to an existing contractual relationship, such as rooms provided due to a "fourth room night free" marketing program and trade-out arrangement. These rooms revenue should be classified as one of the revenue categories (Transient, Group, or Contract). Most importantly, Complimentary Rooms is excluded from the computation of average rate and occupancy statistics.

Occupancy

The overall Occupancy ratio for a hotel is calculated by dividing the number of Rooms Occupied by the number of Rooms Available.

Operating Ratios

The Overall Average Room Rate (ADR) for a hotel is calculated by dividing Total Rooms Revenue by the Rooms Occupied. Total Rooms Revenue includes Transient Rooms revenue, Group Rooms revenue, Contract Rooms revenue, and Other Rooms revenue.

$$\text{Overall ADR} = \frac{\text{Total Rooms Revenue}}{\text{Rooms Occupied}}$$

In the calculation of ADR per Revenue Segment, the Gross Rooms Revenue by segment is used because most hotels do not distribute their allowances by revenue segment (e.g., Transient, Group, Contract, and Others).

$$\text{ADR per Revenue Segment} = \frac{\text{Gross Rooms Revenue for Revenue Segment}}{\text{Rooms Occupied for the Particular Revenue Segment}}$$

Ratios have also been provided to measure both Total Rooms Revenue and Total Revenue on a per-available-room basis. The equations are as follows:

$$\text{Total Rooms Revenue per-available-room (RevPAR)} = \frac{\text{Total Rooms Revenue}}{\text{Rooms Available}}$$

$$\text{Total Revenue per-available-room (Total RevPAR)} = \frac{\text{Total Revenue}}{\text{Rooms Available}}$$

Financial Ratios

Cash-on-cash Return is a new financial ratio used to estimate return on investment and defined as follows:

$$\text{Cash-on-cash Return} = \frac{\text{Adjusted Net Operating Income} - \text{Debt Service}}{\text{Average Owner's Equity}}$$

Profitability Ratios

Along with the title changes of some line items on the SOS, several ratios related to the overall performance of hotels have also been changed. Profitability ratios currently include Gross Operating Profit, Income Before Fixed Charges, and Net Operating Income. These profitability ratios are analyzed as a percent of total revenue or on a dollar per-available-room basis. For example,

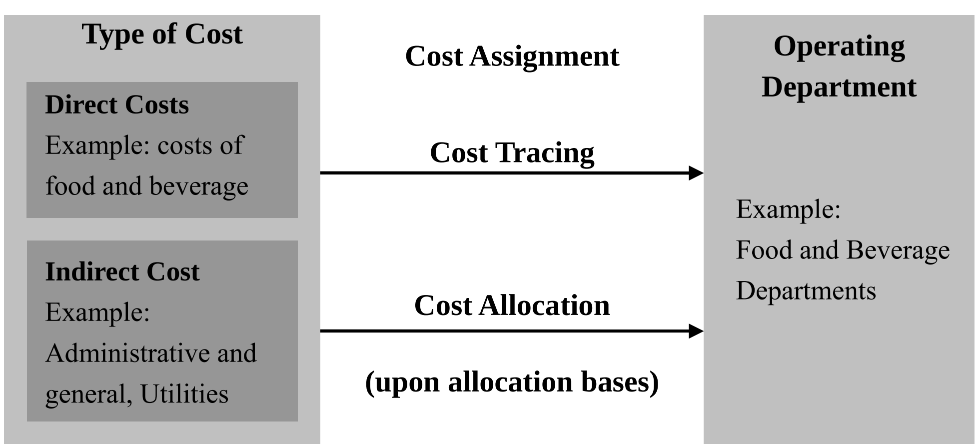
$$\text{Gross Operating Profit Margin Ratio} = \frac{\text{Gross Operating Profit}}{\text{Total Revenue}}$$

$$\text{Gross Operating Profit per Available Room (GOPAR)} = \frac{\text{Gross Operating Profit}}{\text{Rooms Available}}$$

2.4. Cost Allocation

Research in cost allocation has traditionally focused on accounting systems of large manufacturing companies. In the service industry, most prior research studies were conducted in non-profit societies, public sector organization, and consultancy firms (Olson et al., 1998, quoted in Pavlatos & Paggaios, 2007). Harris and Brown (1998) highlighted some cost allocation studies in hotels; specifically, they conducted a study about the application of cost allocation in hotels using the bases recommended under the 8th edition of USAH, focusing on the planning and control implications (Greller & Schmidgall, 1980).

Figure 2.2 Cost Assignment to an Operating Department



According to Horngren et al. (2006), cost assignment is a general term that encompasses two parts: cost tracing and cost allocation (Figure 2.2). Cost tracing is used to describe the assignment of direct costs to a particular cost object, while cost allocation means the assignment of indirect costs, using some reasonable bases.

Departmental accounting and responsibility accounting principles are embedded in the USALI, reflecting a marginal costing approach (Makrigiannakis & Soteriades, 2007). Only revenues and expenses directly related to the respective departments are reported, while unrelated cost elements that cannot be controlled by department heads are not allocated to individual departments (Potter & Schmidgall, 1999). As illustrated by the example in Figure 2.2, the main direct cost of F&B Department is the cost of goods sold. Nevertheless, the expenses of service departments, such as Administrative and General, Sales and Marketing, and Utilities, are difficult to allocate within operating departments. In addition, there are varying allocation methods and allocation bases available from which the management can choose. Thus, in order to ensure uniformity, cost allocation is not required in the departmental schedules of the USALI. This approach to departmental income measurement omits a number of significant costs that may be incurred by a revenue department and distorts the true picture of the real gain or loss of an individual department (Schmidgall & Malk, 1992; Turkel, 1993).

2.4.1. Advantages and Disadvantages of Cost Allocation

Each coin has two sides; with the ability to offer a complete measure of departmental income, cost allocation brings advantages along with disadvantages.

Advantages

The major advantage of cost allocation is the provision of information for better decision making (Schmidgall, 2002; Horngren et al., 2006). Income statements with fully allocated costs are useful for developing pricing strategies and marketing strategies for services and goods as the full cost of each profit center is known. Allocating costs also helps in assessing the departmental profitability and in making decisions to add, expand, or eliminate profit centers. As a result, judicious staffing decisions can be reached (Schmidgall & Malk, 1992; HANYC, 1996; Schmidgall, 2002).

Another major advantage is greater accountability. Cost allocation encourages department heads to become more responsible for the consumption of resources they control. If department heads are better informed regarding true costs of their departments, as well as that of others, they would achieve a better understanding of the general needs and goals of the firm (Geller & Schmidgall, 1980; Schmidgall & Malk, 1992; HANYC, 1996; Barfield et al., 2003; Horngren et al., 2006).

Disadvantages

One major problem of cost allocation is related to misunderstanding with regard to the use of cost allocation. Department heads, especially those whose formerly profitable departments show a loss after full allocation, may not understand the process and resist it. Similarly, cost allocation may create departmental rivalries. In addition, department heads may defer discretionary costs such as repairs, or otherwise strive to achieve short-term profitability at the expense of the long-term health of the company (Geller & Schmidgall, 1980; Schmidgall, 2002).

The most serious disadvantage is that fully allocated departmental statements are not appropriate for performance evaluation because certain allocated costs (e.g., rent, insurance, and marketing expense) cannot be placed under the control of profit center department heads (Schmidgall & Malk, 1992).

Schmidgall and Malk (1992) suggested several steps that the hotel management can take to minimize the drawbacks, such as to "thoroughly explain the process of cost allocation and how fully allocated statements are used; emphasize managing for the long-run rather than the current period; evaluate department heads without the fully-allocated statements, and stress a team approach emphasizing how each profit and cost center contributes to the entire operation."

2.4.2. Methods of Cost Allocation

The USALI as a worldwide standard cost system uses descriptors that are comprehensible to all types of stakeholders (Pavlatos & Paggios, 2009c). In view of the value of cost allocation to management for decision making and in order to move towards responsibility accounting, both the 8th and 9th editions of USALI suggest cost assignment as a supplementary part to the presentation of departmental results. A separate section, Guidance for Allocating Expenses to Operated Departments, is provided and suggested methods are described in this section.

The approach is to group undistributed expenses into two categories: those directly traceable to profit centers and those that need to be allocated to departments. Then, a reasonable allocation base is used to allocate the costs of multiple service departments to revenue departments. There are three common methods in practice: direct method, step (step-down) method, and formula (reciprocal) method (HANYC, 1996; Horngren et al., 2006). The level of precision offered by these three methods increases from the direct to the formula method, as does the degree of complexity in the selection of allocation bases. Multiple allocation base approach (MABA) is more accurate; however, it is also more complicated than the single allocation base approach (SABA). The 8th edition of USALI presents a pool of suggested allocation bases for consideration of the management (Table 2.11). Ideally, costs should be allocated based on actual usage by the departments and the nature of expense involved. For example, the salary of the general manager may be allocated based on the number of employees supervised or the payroll expense of the department.

Table 2.11 Suggested Allocation Bases in the 8th Edition of USALI

Allocated Costs	**Allocation Bases**
Representative bases for allocating fixed costs are as follows:	
Rent	1. Percentage applicable to revenue sources 2. Square feet of area occupied (fixed rent)
Real Estate Taxes	Square feet of area occupied
Insurance – Building and Contents	1. Square feet of area occupied 2. Square feet plus investment in furniture and fixture
Interest	Same as above
Depreciation – Building	Square feet of area occupied
Depreciation – Furnishings and Equipment	1. Department asset records 2. Square feet of area occupied
Depreciation – Capital Leases	1. Department use of leased equipment 2. Square feet of area occupied
Representative bases for allocating undistributed expenses are as follows:	
Telephone	Number of extensions
Payroll Taxes and Employee Benefits	1. Number of employees 2. Detailed payroll records
Administrative and General	1. Accumulated costs 2. Number of employees
Data Processing	1. Accumulated costs 2. Number of employees
Marketing	Ratio to sales
Guest Entertainment	Ratio to sales
Energy Costs	1. Sub-meters 2. Cubic feet of area occupied
Property Operation and Maintenance	1. Job orders 2. Number of employees 3. Square footage
Human Resources	Number of employees
Transportation	Number of employees

Source: Uniform System of Accounts for Hotels, the 8th edition. p.137

2.4.3. Activity Based Costing in Hotels

Since the mid-1980s, activity based costing (ABC) has been adopted for product and customer costing (Briedley et al., 2001). Rather than allocating a service department expense to a revenue department, the ABC system assigns resource expenses to the activities being performed (Barfield et al. 2003; Horngren et al., 2006). Kaplan and Cooper (1998) suggested that ABC systems are even more appropriate for service companies than manufacturing companies.

Raab et al. (2007) proved that ABC is a more accurate way to estimate the costs for a restaurant menu. It has been successfully applied in a Hong Kong buffet restaurant. Noone and Griffin (1997, 1999) proposed that ABC is the most effective costing method for customer profitability analysis (CPA) in a hotel environment and documented the implementation of CPA using ABC. At present, there is growth in the number of accounting commentaries that propose adopting customer segments as units of accounting analysis (Guilding & McManus, 2002). Noone and Griffin (1997, 1999) further suggested that the USALI should provide guidance for applying ABC to analyze the costs or profit margins of different market segments for better marketing decisions, and to focus only on departmental profitability and overall hotel operation. According to Tai (2000), the use of ABC in hotel industry has been minimal and no hotel in Europe has adopted this approach; however, recent study indicates an increasing pace of ABC adoption in Greece these years. A survey conducted by Pavlatos and Paggaios (2009a, 2009b), involving 85 leading Greek hotel enterprises, finds that 23.5% (20 firms) have adopted ABC system. Their survery results showed that the majority of the ABC systems in hospitality industry are not excessively detailed, as they include a small number of cost drivers and calculate the cost of a rather small number of activities, such as housekeeping, check in/out, reservation, marketing, general administration, and food and beverage production/service.

2.5. Summary of Literature Review

After reviewing the published documents in the areas of hotel uniform accounting, cost distribution, and service charges treatment, the identified implications for ongoing investigation, based on the objectives of this study, are summarized and shown in Table 2.12.

Table 2.12 Summarized Implications for This Study

Literature	**Implications from Literature Review**	**Corresponding Methodology Design**
	Implementation level of the USALI in Hotels in Hong Kong and Macau (S2.2)	⇨ Incorporate the summarized new features and major changes in the 10th edition into the semi-structured questionaire (Appendix 3A) ⇨ Test the extent of implementation level in local hotels
Kwansa & Schmidgall, 1999 Pavlatos & Paggaios, 2007	- Previous studies focus on US and Greek situations only. No study exist in Asian countries. Also rare research has been undertaken on hotel industry's reaction to the 10th USALI.	
Potter & Schmidgall, 1999	- Economic and social factors that motivate hotels to adopt or reject the USALI are suggested for future study.	
	Ambiguous items or rules	
HANYC, 2006	- China, glassware, silver, linen & uniforms (S2.3.2)	
Harris & Watkins, 1998	- Frequent guest program (S2.3.3)	
Leong, 2004	- Service charges (S2.3.3)	
	Problem areas	⇨ Seek respondent's view on the documented problem areas and ambiguous items
Chan & Wong, 2007 Chan & Chan, 2008	- Individual schedule for new business drivers (S1.1.3; S1.2)	
Weygandt et al., 2005	- Statement for gaming operations (S2.3.1)	
Schmidgall & Malk, 1992 Harris & Brown, 1998 Raab et al., 2007	- Guidelines on cost allocation (S2.4)	

Note: S stands for previous sections.

Implementation Status of the USALI in Hotels in Hong Kong and Macau

While the USALI has become the hotel industry accounting standards, particularly for the large international hotel chains in Europe and the US, the extent it is used in Asian modern cities such as Hong Kong and Macau is still unknown. Previous studies (Kwansa & Schmidgall, 1999; Pavlatos & Paggaios, 2007) have focused on the US and Greek situations only (Section 2.2). There is paucity of study on Asian hotels in this field, necessitating thorough and detailed investigation.

In addition, Potter and Schmidgall (1999) stated that prior studies have not addressed economic and social factors that motivate hotels to adopt or reject the USALI. Given this background, the study seeks views from practitioners by posing questions such as "Do hotels that do not use this system have other more useful reporting system or, would they prefer to follow the uniform system while bearing resource constraints that prohibit implementation?"

Since the publication of the 10th edition of revised USALI in late 2006, few studies have been undertaken to determine the reaction of the hotel industry toward its new features and its major changes. However, the review of previous editions raises questions regarding the feasibility and implementation of the changes in the operating schedules. First, the new consolidated statement of departmental income (i.e., SOS) has been largely simplified. Only four revenue-generating departments and four undistributed operating expenses accounts are reported in the SOS, and NOP is not connected to Net Income. However, can this concise and simplified SOS provide clear information for efficient hotel management purpose in reality?

China, Glassware, Silver, Linen, and Uniforms

Referring to Table 2.2, the 10th edition of USALI requires full expensing of the purchases of china, glassware, silver, linen, and uniforms. In contrast, the 9th edition allows expensing only on the replacement purchase, while capitalizing the initial purchase. The choice between capitalization and expensing leads to different results in relation to departmental expenses and GOP, and subsequent effect on the amount of management fees that are calculated based on the profitability measurements. In this regard, hotel management companies might be reluctant to follow the new guidelines to expense the purchase of china, glassware, silver, linen, and uniforms immediately because it would affect the financial reporting performance of the hotel, make earnings less stable over a certain period, and decrease management fees. However, owners would be happy to adopt this treatment and pay less management fees. Thus, there is a need to determine the implementation status of this new guideline.

According to the 10th edition, the determination of consumption period and the appropriate department where operating equipment is ratably expensed over its useful life is a matter of management decision; each hotel may handle this issue based on different rationales and justifications. It is thus necessary to understand the current accounting practices of hotels and suggestions from professionals regarding this aspect.

Frequent-Guest Programs

While frequent-guest programs may encourage repeat patronage that leads to higher revenues, the amount spent every year on giving away free membership benefits to encourage returning guests is worth millions of dollars (McCleary & Weaver, 1991, 1992; Toh et al., 1991). A preliminary review reveals that scarce attention has been paid on the performance-monitoring mechanism and administrative logistics of frequent-guest programs at the property level. Presently, hotel management is still uninterested in evaluating the performance of loyalty programs, not only because it is very hard to measure (McCleary & Weaver, 1991), but also because there is no appropriate management tools available to generate adequate financial information and monitor program performance. The 10th edition of USALI only provides very brief accounting guidelines in handling these programs. In effect, ambiguities exist. The USALI requires that each point be assigned with a value, and that the costs of issuing points should be charged to Marketing expenses, rather than Rooms expenses. In addition to this treatment, are there alternative ways of handling the recording of frequent guest program? What are the current practices in hotels in Hong Kong and Macau? The 10th edition of USALI states, "Special attention must be paid so that the value assigned to points issued covers the liability associated with the estimated redemption of points" (HANYC, 2006). To what kind of special attention is the USALI referring? This guideline is ambiguous and needs further clarification. Thus, this study collects professional viewpoints to clarify these ambiguities.

Service Charges

The USALI has been very brief and implicit in its coverage of accounting treatment on service charge income. The explanation of service charge is limited to F&B Department only, excluding Rooms and Other Operated Departments. However, in many other Asian cities, a 10% service charge on top of room rate and other hotel facilities is a universal practice. How the hotels distribute and record the service charges remains unknown. Therefore, a review of the evolution of the service charge accounting practices in Hong Kong and Macau is imperative to provide insights on this subject matter.

In addition, different distribution and recording methods of service charges can affect employee income, hotel revenues, and subsequent management fees (Ni et al., 2009). As such, the accounting treatment issue of service charges constitutes one of the potential areas for industry professionals to seek for enhance options in the development of a more comprehensive uniform accounting guidebook.

Individual Schedule for New Business Drivers

As discussed in Section 1.2, spas, cultural festival products, and convention service are three new business drivers for Asian hotels. Under the current competitive market situations, hotel practitioners have thus placed more attention on these sectors. Concerns on their revenue and expense items appear to be acute. Thus, separate schedules for these independent revenue-generating departments are worthy of future justification. Additionally, in many casino-related hotels in Macau where security plays an important role, the expenses of the Security Department are quite large. Whether it is more suitable to integrate Security into Administrative and General expense account rather than set up an individual schedule is another area for discussion.

Statement for Gaming Operations

One noteworthy content change in the 10th edition of USALI is the deletion of the section on gaming operations (Table 2.1). The casino department schedule was first introduced in the 7th edition of USALI in 1977; however, it was excluded in the 8th edition "based upon the recognition that most establishments with a casino, gaming is the primary business, not hotel operations." The 9th edition of USALI reinstated the recommended statement for gaming operation, specifically "for those properties that have a casino, but it is not the primary business" (HANYC, 1996). It has again been deleted in 10th edition without any justifications. The first edition of uniform accounting system for the gaming industry in the US is said to be under development (Weygandt et al., 2009). Keeping in mind the recent prosperity and rapid development of casino hotels and resorts in Macau, this study investigates the current accounting practices in these large-scale, casino-oriented hotels with gaming operations, and determines the applicability level of the USALI in this area.

Guidelines on Cost Allocation

The whole section, Guidance for Allocating Expenses to Operated Departments has been deleted in the 10th edition of USALI without any stated reasons (Table 2.1). Section 2.4 makes a thorough review of cost allocation, particularly in the hotel industry. Is adopting limited cost allocation still a common practice, or has it been abandoned because the costs of designing and implementing complex cost allocation bases are highly visible, while the benefits (e.g., enabling managers to make better-informed sourcing decisions, pricing decisions, and cost-control decisions, among others) are difficult to measure? To explore these questions, the usefulness of cost allocation guidance is raised in the discussion of the data collection process.

As for the ABC system mentioned in Section 2.4.3, has there been an increase in the number of hotels using it for cost allocation? Alternatively, should the USALI report how the ABC system could be used to produce supplementary fully allocated statements? The application level of ABC system will also be structured into research questions in data collection.

Section 2.3 makes a thorough comparison of the overall summary statements and departmental statements of the most recent three editions. The identified major changes and new features could serve as a prototype to develop part of the data collection instrument (Part I of Appendix 3A), which will be discussed in Section 3, Methodology.

3. Methodology

Section 3 presents the methodology adopted in this study. Methodology begins with the justification of the application of a qualitative research approach supplemented by a quantitative method. This is followed by the selection criteria of sample interviewees and the specific ways to access the target sample. A two-stage data collection process is then elaborated in detail. Finally, data analysis strategy and the trustworthiness of data are discussed.

3.1. Research Design

This study aims to investigate the extent of implementation and the potential enhancement areas of the latest USALI in hotels in Hong Kong and Macau. To achieve the objectives, this study employs a primary qualitative method supported by a subsidiary quantitative method.

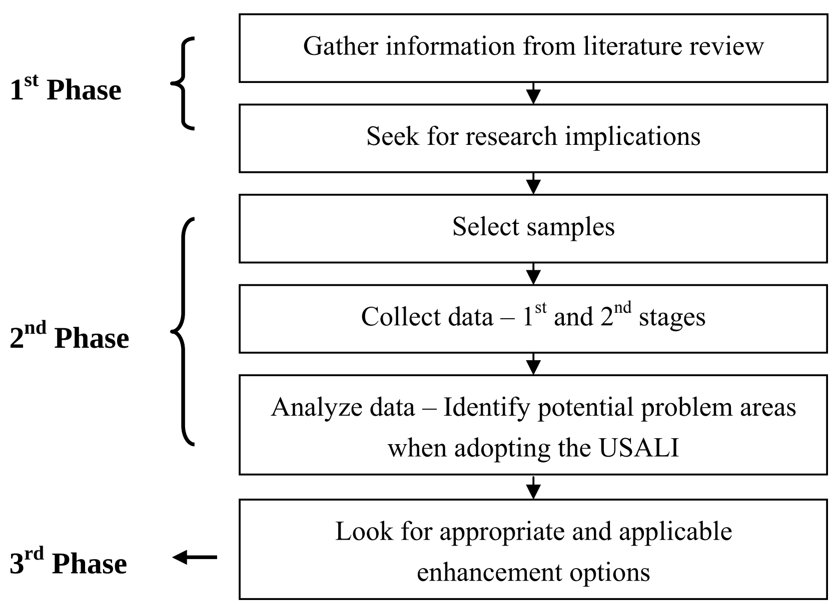
According to Jennings (2001), qualitative research is most appropriately used "when there is little information on a topic or phenomenon." Given the paucity of published information on this research topic, this study employs a qualitative method as the main research approach to obtain deeper insights into its main concern, the responses of industry professionals to the updated version of USALI, and to "search for understanding" of the universal applicability of the USALI (Janesick, 1994). Walsh (2003) believed that qualitative research aims to understand how and why the members of an organization view a particular issue, and the ways they behave in response. Therefore, qualitative approach would serve the exploratory purpose of this study well. For the subordinated quantitative part, a questionnaire was used as a research instrument to collect and analyze categorical data regarding the implementation status of the USALI by hotels (Part I of Appendix 3A).

In research, there are two broad methods of reasoning as the deductive and inductive approaches. Deductive reasoning works from the more general to the more specific. Sometimes this is informally called a "top-down" approach. Conclusion follows logically from premises. Inductive reasoning works the other way, moving from specific observations to broader generalizations and theories. Informally, this is called a "bottom up" approach. Conclusion is likely based on premises and involves a degree of uncertainty (available facts) (Maxwell, 2009; Aqil Burney, 2008; Jennings, 2001; Merriam, 1996). Arguments based on laws, rules and accepted principles are generally used for deductive reasoning, while observations tend to be used for inductive arguments (Aqil Burney, 2008; Merriam, 1996). This study is conducted based on the accounting treatments and rules in the 10^{th} edition of USALI and much of the interview questioning undertaken are deductively based.

The research process of this qualitative research (Figure 3.1) is divided into three phases. The first phase involves a detailed comparison of major changes throughout the past three editions of USALI over three decades, which was presented in Section

2, Literature Review. This helped the researcher carefully review the potential problem areas at the time hotels were in the process of adopting the USALI and generate the implications for improving future accounting processes. The second phase aims to collect data from desired samples to investigate the extent of implementation and problem areas borne out of the application of USALI in hotels in Hong Kong and Macau. Data collection was carried out in two stages (Section 3.3). The first stage collected views from operational management perspective, and the second stage sought insights from accounting and finance professionals. Finally, the third phase deals with the proposal of appropriate and applicable enhancement options (Section 6).

Figure 3.1 Research Process



3.2. Sample Selection

Whether the research is qualitative or quantitative in form, decisions need to be made on the design and selection of samples (Ritchie & Lewis, 2003). Jennings (2001) stated that the qualitative methodology does not place its emphasis on the collection of statistical data. Instead, attention should be focused on obtaining in-depth insights from a relatively small number of respondents or observations. He further asserted that the collection of data does not require a large number of respondents or cases. Collecting data does not seek to generalize the findings to a large population; rather, it seeks to understand the phenomenon of interest from the perspectives of respondents. In this regard, purposive sampling was employed to understand the responses of operating schedule users to the latest version of the USALI. The participants were selected not because of their representativeness of the target population, but for the insights they could provide regarding the area of study (Lincoln & Guba, 1986).

The target samples of this study were chosen from hospitality professionals in high-tariff A and tariff B hotels in Hong Kong, as well as professionals in three-to-five-star hotels in Macau, because the USALI is believed to be mainly adopted within middle-to-high-class hotel members of multinational chains (Pavlatos & Paggaios, 2007; Harris & Brown, 1998). In the two-stage data collection process, twenty-two Hong Kong hotels were involved, representing 33.85% of sixty-five high-tariff A and

B hotels in Hong Kong. In addition, nine Macau hotels were involved, representing 20.45% of forty-four 3-to-5 star hotels in Macau.

Both operational managers and financial controllers/accounting managers were sought for this study. Departmental managers make regular use of the management accounting system for decision making (Mia & Patiar, 2001). Departmental schedules in the USALI serve for management accounting purpose, and are widely used by the managerial staff in each department. Thus, it is important to investigate the satisfaction of the managers with the details (line items) in the USALI. Financial controllers/accounting managers are experts in accounting treatments and procedures. They are expected to provide accounting-oriented professional views and comments.

In the first stage, data was collected from the perspective of operational management. A total of 23 industry professionals in Hong Kong and Macau hotels were involved, including the management from the departments of Rooms, F&B, Sales & Marketing (S&M), and Engineering, as well as one hotel resident manager. Table 3.1 lists the characteristics of the participants and interviewees.

Table 3.1 Characteristics of the Participants and Interviewees in the First Stage

Hong Kong – Focus group	**No.**	**Hong Kong – In-depth interview**	**No.**
Group 1 - Rooms		*Rooms*	
Rooms Division Manager	1	Front Office Manager	2
Front Office Manager	1	Rooms Division Manager	2
Executive Housekeeper	1	*F&B*	
Group 2 – F&B		Banquet Manager	1
Restaurant Manager	2	Restaurant Manager	1
Head Chef	1	Sous Chef	2
Total	6	Total	8
		Macau – In-depth interview	**No.**
		Resident Manager	1
		Front Office Manager	1
		Executive Housekeeper	1
		Director of F&B	1
		Assistant Director of F&B	2
		Director of S&M	1
		Chief Engineer	2
		Total	9

In the second stage of data collection, one focus group interview was conducted with the local hotel controllers association, the HCAA of Hong Kong. Ten experienced financial controllers from this association participated in the discussion. In Macau however, no such association exists due to the short history of its hotel industry. Thus, corresponding discussion was not conducted in Macau. Afterwards, a total of 19 financial controllers and accounting managers from hotels in Hong Kong and Macau hotels were interviewed. The criteria for selection of focus group participants and interviewees included the following: (i) position in extensive accounting or finance-related work experience in the hotel industry in Hong Kong or Macau (e.g., area controllers, financial controllers, senior accounting personnel, and similar positions); (ii) comprehensive knowledge in the area and experience in report consolidation; and (iii) work experience in different types of hotel sectors, including locally based hotel groups, large multinational groups, small international groups, and independent hotels. The characteristics of the participants and interviewees are summarized in Table 3.2. In order to minimize repetition, only two participants from the previous focus group discussion of HCAA were involved in the second stage. These industry professionals with solid backgrounds and experiences can provide a deep understanding of implementation of the USALI in Hong Kong and Macau hotels. Through these respondents, the appropriateness of sample selection is achieved.

Table 3.2 Characteristics of the Participants and Interviewees in the Second Stage

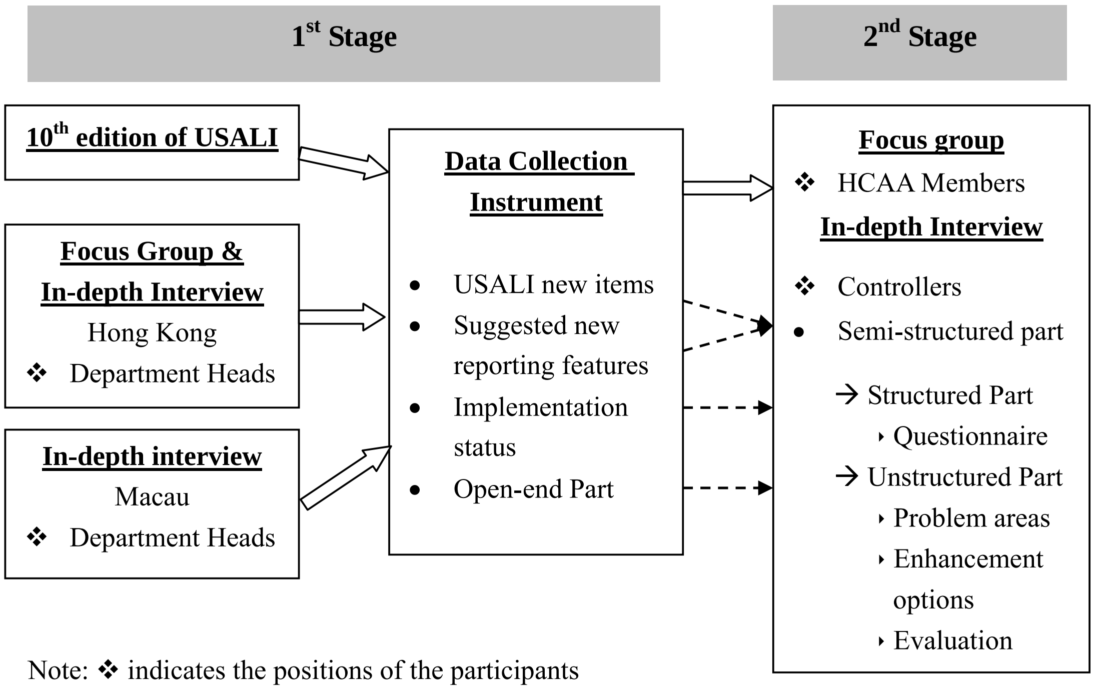
HCAA members – focus group	**No.**	**Years of experience**
Area Controller	2	25 years above
Director of Finance	6	15-25 years
Director of Finance	2	10-15 years
Total	10	
Hong Kong – in-depth interview	**No.**	**Years of experience**
Area Controller	2	25 years above
Director of Finance	8	15-25 years
Assistant Financial Controller	4	10-15 years
Total	14	
Macau – in-depth interview	**No.**	**Years of experience**
Director of Finance	4	10-15 years
Accounting Manager	1	7 years
Total	5	

Taking into account the sample access restriction, which might limit the study progress, the researcher of this study tried to achieve or sustain agreements prior to data collection. Buchanan et al. (1988) recommended using friends and contacts wherever possible. Easterby-Smith et al. (1991) agreed that access is much easier if the researcher has a ready contact. Their suggestions indicate that the selection and access of samples for qualitative research should be flexible and opportunistic. Thus, in order to access this high-profile sample, the researcher sought the support of friends who have contacts within the hospitality profession. Additionally, at the end of each interview, the researcher asked each interviewee to refer one or two potential industry professionals who might be interested in this research topic. Although the selection of sample is convenient in nature, it fits into the requirement of a purposive sampling that is theoretically desirable and practically possible (Bryman, 1993; Lincoln & Guba, 1986).

3.3. Data Collection

Data collection process was carried out in two stages, according to the research flowchart in Figure 3.2. The first stage aimed to develop a data collection instrument (i.e., a semi-structured questionnaire) with emphasis on the implementation status of the existing USALI and the new reporting features suggested by the operating management. The second stage assessed the proposed questionnaire constructed in the first stage, investigated the potential problem areas, and examined the enhancement options in the study.

Figure 3.2 Research Flowchart



Note: ❖ indicates the positions of the participants

3.3.1. First Stage

Hughes and DuMont (1993) defined focus group as "an in-depth group interview employing relatively homogenous groups to provide information about topics specified by the researchers." This provides an opportunity to solicit true views from participants freely and in a flexible way. This method also allows for the exploration of beliefs and attitudes towards something new (Proctor, 2000). According to Zikmund (2003), focus group interviews are "relatively fast, easy to execute, and inexpensive." He commented that focus groups provide certain advantages that may yield complete and rich information. Group interviews provide synergy that combines the output of participants to create new ideas, concepts, and themes that are greater than the summation individual effort. In addition, Wilkinson (2004) believed focus group discussions have the merit of allowing participants to react on the responses of other participants, encouraging a series of subsequent discussion, causing a snowball effect.

The literature on the applicability of the USALI in hotels in Hong Kong is not sufficiently rich to provide adequate materials for groundwork. Due to the exploratory nature of this research and aforementioned advantages, focus group method was initially adopted.

In the first stage, data collection began with the industry professionals in hotels in Hong Kong. Two focus group discussions were conducted with three Rooms managers and three F&B managers, respectively, to obtain their thoughts on the addition or deletion of existing items in Room and F&B departmental schedules of the USALI. Since the interviewees were grouped according to their operational functions and responsibilities in the hotel, they were more likely to share common knowledge and experience on the application of USALI to the daily operation of the hotels. All focus group discussions were held in a meeting room setting, with each session lasting 50–70 minutes.

The focus group discussions held in Hong Kong revealed several limitations. Participants showed strong commitment to their own hotels and were thus reluctant to share their views freely with others, especially when it came to sensitive accounting topics. Furthermore, scheduling was difficult because operational managers have different and tight working schedules. The two focus groups only had three participants each, despite the generally accepted ideal size for focus group discussion of six to eight participants (Flores & Alonso, 1995; Krueger & Casey, 2000).

In view of the above difficulties, in-depth interview was adopted to collect further data in Hong Kong and Macau. In-depth interviews can provoke discussion of complex topics and provide “rich” and “complete” data (Easterby-Smith et al., 2002). Interviews allow the researcher to ask a combination of probing, exploring, and follow-up questions in order to obtain a deeper and fuller understanding of the meanings of the answers of the respondents (Ritchie & Lewis, 2003). Through this, the breadth and depth of the desired perspectives on the USALI could be achieved.

Additional in-depth interviews with four Rooms and four F&B managers were held in Hong Kong to supplement and validate the findings gained from the previous focus group discussions. These interviews were followed by nine additional in-depth interviews with operational managers from hotels in Macau, including one Resident Manager, two Rooms Managers, three F&B Managers, two S&M Managers, and two Chief Engineers. The researcher, who likewise served as the interviewer, explained the major changes in Rooms, F&B, S&M, and Property Operations and Maintenance departmental schedules when reviewing each line item with the interviewees. At the same time, questions regarding the applicability of these line items in Macau hotels, and the addition or deletion of certain items, were explored. Each interview lasted approximately 45–60 minutes.

Based on the proposed modifications on the existing schedules of USALI and suggested new reporting features by industry professionals in Hong Kong and Macau, a semi-structured questionnaire (Part I of Appendix 3A) together with a interview topic guide (Part II of Appendix 3A) were developed for the second stage. The structure of the questionnaire (Figure 3.3) consists of three columns: Column 1 lists the new line-items printed in the 10^{th} edition of USALI and the new features recommended in the first stage of data collection; Column 2 specifies the four scales: “4=already applied” / “3=mostly applicable” / “2=moderately applicable” / “1=not applicable” and Column 3 is the “open answer” portion of the questionnaire. The “open answer” area is used to record the comments and enhancement options raised by interviewees. The questionnaire was pilot-tested by three accounting managers from different hotels and amended according to their responses.

Figure 3.3 Structure of Semi-structured Questionnaire for In-depth Interview

	Already applied	Mostly applicable	Moderately applicable	Not applicable	Open Answer
10^{th} edition's new items : : Suggested new features : :					

3.3.2. Second Stage

Upon completion of the questionnaire and interview topic guide, discussions with the hotel controllers or accounting professionals were carried out in the second stage. These discussions aimed at assessing the implementation status of the proposed modifications/suggested new features in the first stage, identifying specific problem areas and ambiguous items, and proposing enhancement options in the application of the USALI.

A focus group discussion was facilitated with ten members of the HCAA in Hong Kong who are experienced hotel controllers. In view of the fact that the participants were the users of the USALI, but that they might not be quite sure about the contents in the latest version, the moderator (researcher), opened the discussion with a 20-minute presentation on the major changes in the 10th edition of USALI. The presentation also incorporated the key comments and suggestions from the previous discussions with operational management leaders. The moderator encouraged the participants to comment on how the new reporting features can be applied to the hotel business context in Hong Kong, give comments on the suggested features proposed by operational management leaders, and raise any suggestions regarding new reporting features not covered by the most recent edition of USALI. The focus group discussion conducted with ten participants produced numerous valuable findings and opinions.

After the focus group discussion, accounting professionals meeting the aforementioned criteria were short-listed and invited to a one-hour interview with the researcher. Fourteen financial controllers from Hong Kong and five from Macau accepted the invitation. In contrast to the participants in the first stage, the interviewees seemed to be well versed in the accounting regulations, data presentation, controlling requirements, and needs of different hotel groups. Thus, the generated discussion results were more oriented toward professional accounting.

Prior to the in-depth interview, the researcher collected background information regarding the hotels the interviewees worked for in order to formulate stimulating questions in the interview, such as “Does your sister hotel in Hong Kong or Macau have similar accounting procedures as yours?” “Does the hotel that you used to work in also apply this accounting treatment?” and “Are you acquainted with other financial controllers in your hotel chains in Hong Kong or Macau?”

During the interview, he interviewees were given the data collection instrument which is divided into two parts. The questions in Part I (Appendix 3A) led to discussions on the factors that motivate hotels to adopt or reject the USALI, and on the applicability and appropriateness of the criteria and rules in the 10th edition of USALI. Additionally, the questions were intended to determine what criteria and rules do not work in the context of local hotel industry. Probing or direct questions on these topics were asked first. Follow-up questions were asked for specific examples, clarifications, and justifications. Responses to the new features suggested by operational management leaders in the first stage were also ascertained.

In Part II (Appendix 3A), questions regarding the ambiguous rules/items and problem areas were probed in detail. The discussion topics covered the applicability of accounting treatment for operating equipment, frequent-guest program, and service charge receipts, and the appropriateness of the deletion of the Statement for Gaming Operation and the Guidelines for Allocating Expenses. Furthermore, the need for setting up individual schedules for new revenue and cost drivers, including spa center, convention, and cultural festival products, (Chan & Wong, 2007; Chan & Chan 2008) were raised as an open discussion question. Calls for environmental indication in financial reports (Deng & Burnet, 2002a, 2002b; Chan, 2005) were also discussed.

Finally, the interviewees were asked to work out some enhancement options for the identified problems and issues. The interviewer guided the interviewees to evaluate the discussed enhancement options in terms of appropriateness and applicability. Each interview lasted approximately 50–80 minutes.

The semi-structured, in-depth interviews were designed with numerous open-ended questions asking the participants to comment on the new rules and items in the 10th edition of USALI and to suggest new reporting features and enhancement options. This unstructured part of the discussions was designed to avoid misleading and distorting the ideas of the participants. Interviewees were encouraged to share their thoughts freely in a non-directed manner. Here, the role of the interviewer was to maintain the focus of the discussion (Wilkinson, 2004). In this respect, the interviewer kept the discussion on track and encouraged the interviewees to contribute to the discussion.

3.4. Data Analysis

For interviews, data analysis begins after the first few interviews and shapes subsequent data gathering. Early interviews will influence the questions and content of subsequent interviews (Bogdan & Biklin, 1998); therefore, constant comparative analysis (Lincoln & Guba, 1986) was applied. This strategy involved "taking one piece of data (e.g., one interview, one statement, or one theme) and comparing it with all others that may be similar or different in order to develop conceptualizations of the possible relationship between various pieces of data" (Thorne, 2000). Thus, formulating questions, conducting interviews, and analyzing interview data are part of a reciprocating process in this study.

The focus group discussions and in-depth interviews were audio-recorded if permitted, transcribed verbatim, and then analyzed in a systematic and iterative manner which is widely recommended in qualitative research literature (Turner, 1981; Miles & Huberman, 1994; Fern, 2001; Jenning, 2001; Neuendorf, 2002). After each interview and focus group discussion, memos were also made to record the date, time duration, interviewee/ participant's background in hotel industry and key answers to the discussed topics. This was followed by an initial analysis of the collected data and refining the interview questions for next discussion. The researcher dated each memo and recorded the setting or context in which the idea was produced. Memos served as reminders for the researcher on observations, comments, and reflections made to pursue a new direction of questioning with the data, or to record a new finding or insight (Jennings, 2001).

The analysis of qualitative data involves three steps (Miles & Huberman, 1994): **data reduction, data display,** and **drawing conclusions**. Based on these, the analysis for this study is described as follows.

With **data reduction**, the researcher attempted to identify categories, themes, and concepts that emerged from the transcripts, memos and initial analysis. The content analysis method (Neuendorf, 2002) was used to process the collected qualitative data. According to Patton (1987), content analysis involves dividing data into "coherent categories, patterns and themes" by labeling them. Therefore, the collected data were reviewed repeatedly, coded, and summarized into categories based on the three objectives of this study. The extent of implementation, problem areas, and enhancement options in the application of the 10th edition of USALI were identified by synthesizing the discussion results. Under each objective, data was further reduced based on specific sub-topics, such as whether this is a problem of Rooms or F&B departmental schedule, whether this is an ambiguous item in the 10th USALI or a suggested new item, whether this a common problem area or unique issue to a few hotels. In addition to the qualitative data, the quantitative data collected from the 4-scale questionnaire during the second stage were analyzed by calculating the average score of each line item and the frequency of each scale. **Data displaying** refers to the organization of the categories and themes into some form of ideograph such as a typology, map, matrix, and model. In the case of this study, the previously identified sub-topics were categorized into three levels. For example, for the first objective of investigating the implementation and applicability of the 10th USALI, the situations in Hong Kong and Macau were separately discussed under two sub-topics (i.e. Section 4.1 and Section 4.2) due to the significant difference in the findings of these two cities. Furthermore, three detailed sub-topics were elaborated under Section 4.1 and Section 4.2 respectively. Finally, the researcher managed to present the comprehensive findings under an organized and coherent flow. **Conclusions** are drawn by constantly comparing data against other data. This may involve examining the nature or patterns, or the relationships, if any, among the data (Miles & Huberman, 1994). Accordingly, the researcher tried to draw conclusions based on deductive reasoning (Lincoln & Guba, 1986) and comparative methods (Martin & Turner, 1986). Enhancement options were finally proposed to the identified common problems areas in both Hong Kong and Macau.

3.5. Trustworthiness of Data

Some questions were designed to be open-ended and non-directive; thus, interviewees had the opportunity to express their opinions freely according to their "points of interest." To ensure the truth and relevance of the analysis, the four principles of credibility, transferability, dependability, and conformability were followed (Miles & Huberman, 1984; Lincoln & Guba, 1986). Questions were designed to elicit insights relating to the above-mentioned principles from the participants, both at the outset and completion of the study.

Credible research findings mean that the interpretation of these finding is congruent with the minds of the participants. Suggested technique (Lincoln & Guba, 1986), such as cross-checking with participants, was incorporated in this study to ensure credibility. Different data sources from high-tariff A and tariff B hotels in Hong Kong, as well as three-to-five-star hotels in Macau, were used. Probing questions were asked during the discussion to assess whether the meanings of the participants were being interpreted precisely. For example, questions such as "How will you judge the accuracy or truth of your mentioned points?" were asked during the focus group discussions and in-depth interviews. At the end of each interview, the interviewer briefly summarized the key points mentioned during the discussion, and asked for validation from the interviewees. This is to ensure that their discussion interests are credibly and correctly interpreted, and that any opinions missed by the interviewer could be incorporated.

Transferability refers to the extent to which the research can be generalized beyond the immediate situations. To establish transferability, the researcher asked questions such as "Does anyone in the industry shares the same viewpoints as yours?" and "How applicable might these findings be to other groups or settings such as in the various modes of hotel management?" Constant comparative strategy was applied to enhance the transferability and credibility of data. Constant comparative analysis required the researcher to take one piece of data and compare it to all the other data. During this process, the researcher considered what makes one piece of data different and/or similar to other data. For example, Viewpoint 1 (v_1), Viewpoint 2 (v_2), and Viewpoint 3 (v_3) derived from the first interview would be explained to the second interviewee as basis for his/her comments. The newly generated Viewpoint 4 (v_4) in the second interview, together with the commonly agreed v_1 and v_2, would then be asked to the following interviewees, and so forth. When writing down the findings, the frequency of these summarized viewpoints would be mentioned. According to Thorne (2000), many qualitative analytic strategies rely on this general approach, called "constant comparative analysis" (Glasser, 1965).

With regard to dependability, an audit trial is the key strategy (Lincoln & Guba, 1986). Consequently, all the information collected regarding the conduct of this study, such as who, where, when, and how, was recorded and well maintained to confirm dependability of the findings. The three focus group interviews were audiotaped. Among the 36 in-depth interviews, 23 were audio-recorded. Eight interviews were conducted by telephone; thus, no recording was made. Five interviewees turned down the request for recording due to the sensitive topic of the study. During the data analysis, an extensive search of literature, including research periodicals, statistics and books, was used to either to validate or to justify the viewpoints.

As for conformability, corroboration and consistency were combined to ensure that the data collected were factual and confirmable. Discovery in the data of the frequency of common ideas, which were collected in a consistent manner from each subject by content analysis of key words/phrases (Judd el al., 1991), satisfied the need for objectivity, or in another word, conformability. Two different strategies, focus group and in-depth interviews, were conducted with Room and F&B managers in Hong Kong to ensure the conformability of the findings. Moreover, questions such as “Would we obtain the same outcome if we were to replicate this study in other hotels of the same group?” were developed. Questions such as “How do we know the findings are not representative of the researchers’ view point or prejudices?” were designed to develop objectivity and make sure that the collected data are confirmable and factual. These techniques can help to enhance the validity of the adopted data during the interpretation process (Altheide & Johnson, 1994).

4. Implementation and Applicability of the 10th Edition of USALI

Section 4 discusses the implementation and applicability of the 10th edition of USALI in hotels in Hong Kong and Macau. In the case of Hong Kong hotels, the discussion is followed by comments collected from industry professionals on the applicability of Rooms and F&B departmental schedules. In the case of Macau, the discussion focuses on describing the hotel accounting systems adopted by two major types of hotels: non-casino hotels and casino hotels. Applicability of the USALI for non-casino hotels and special considerations for casino hotels are likewise discussed.

4.1. USALI in Hong Kong Hotels

4.1.1. Implementation of the New Line Items in the USALI

Burgess (2007) believed that the accounting system of an independent hotel which is fully self-accounting is quite different from that of a strongly branded hotel which has a greater level of standardization. Thus, it is important to understand the operating system of the hotels involved in this study (Table 4.1). A total of 22 hotels in Hong Kong participated in this study. Five of these hotels are independent owner-operated hotels, and seventeen are management-company-operated hotels, either by local chains or international chains. The participating hotels represented five out of the twelve local chains and seven out of the fourteen international chains that have properties in Hong Kong.

Table 4.1 Characteristics of Hotels in Hong Kong Involved in the Study

Hotel operating system	**No. of Hotels**	**No. of Chains**
Management-company-operated hotel – Local chain	5 (40)	5 (12)
Management-company-operated hotel – International chain	12 (32)	7 (14)
Owner-operated hotel	5 (32)	N.A.
Total	22 (104)	12 (26)

Note: The number in the bracket represents the total number of hotels/chains in Hong Kong.

The internal reporting formats of the 17 management-company-operated hotels are bounded by relevant articles in their management contracts. Three hotels under international chains have to completely follow the USALI (10^{th} edition), while the others are required to follow the corporate reporting format of the chain based on the USALI. According to one area director of finance,

> "Chain hotels have member properties all over the world. They usually tailor-make a corporate accounting format for the purpose of easy consolidation and consistent comparison within the chain. This corporate format usually is very similar to that of the USALI. They try not to diversify too much within the chain and figure out one method that can generally apply to all the situations."

For the five owner-operated hotels, the decision of operating the schedule format is made by the financial controller or the owner, and the USALI is only partially followed. One of the owner-operated hotels has plans to implement the USALI completely in the near future. Since chain hotels have to follow the USALI-based corporate accounting system because of the restraint of the management contract, why do independent hotels also follow the rules in the USALI? One financial controller typified his view as follows:

> "With the long history and wide popularity of the USALI, this system has improved and became more and more comprehensive in explaining the revenue and expense items. It is a very systematic guide for us to follow."

This study shows that some of the operational managers involved in the first-stage of data collection did not know much about the USALI although they were using the departmental schedules on a daily basis. All the fourteen interviewed financial controllers in the second-stage were aware of the importance of this system. When questioned regarding actual use, the financial controllers indicated that they might consult the book as needed. During the in-depth interviews, the financial controllers were asked to complete a 4-scale questionnaire regarding the implementation and applicability of the major new items in the 10^{th} edition of USALI. A total of 14 questionnaires were collected. The frequency and average score of each item are summarized in Table 4.2. Based on the questionnaire structure, the results can be categorized and discussed in five aspects, or more specifically, schedules: Rooms Department, F&B Department, Other Operated Departments, Rental and Other Incomes, and Undistributed Operating Expenses.

Table 4.2 Implementation and Applicability of the Major New Items in the 10th USALI (n=14)

Rating	Already applied	Mostly applicable	Moderately applicable	Not applicable	Average
	n.	n.	n.	n.	n.
New Classification of Rooms Revenue					**2.98**
−Transient	13	0	0	1	3.79
−Group	12	0	1	1	3.64
−Contract	0	0	2	12	1.14
−Other	11	0	0	3	3.36
New Classification of F&B Revenue					**2.24**
−Outlet	3	2	3	6	2.14
−In-room dining	3	2	3	6	2.14
−Banquet / Catering	3	2	3	6	2.14
−Mini-bar	5	2	3	4	2.57
−Other F&B revenue	5	2	3	4	2.57
◦ Audiovisual	2	0	0	12	1.43
◦ Public Room Rental	3	0	0	11	1.64
◦ Cover charges	0	0	0	14	1
◦ Service charges	12	1	0	1	3.71
◦ Miscellaneous	7	3	0	4	2.93
New Definition of Other Operated Departments					**2.63**
−Generic Other Operated Departments	10	0	0	4	3
−Minor Operated Departments	4	1	1	8	2.25
New Items in Rental and Other Income					**1.04**
−Attrition penalties	0	0	1	13	1.07
−Proceeds from business interruption insurance	0	0	0	14	1
New Classification of Undistributed Operating Expenses					**3.24**
−Administrative and General	14	0	0	0	4
◦ Security	12	0	0	2	3.57
◦ Human Resources	10	0	0	4	3.14
◦ Information Systems	12	0	0	2	3.57
◦ Centralized Accounting Charges	0	0	0	14	1
−Sales and Marketing	9	0	5	0	3.29
−Property Operations & Maintenance	10	4	0	0	3.71
−Utilities	9	5	0	0	3.64
Management Fee as a Separate Line Item	13	0	0	1	**3.79**
GOP as key financial appraisal ratio	8	6	0	0	**3.57**

Note: Based on a scale of 4 = already applied, 3 = mostly applicable, 2 = moderately applicable, 1 = not applicable

New Classification of Rooms Revenue

The average score for the new revenue classification in Rooms Department (i.e., Transient, Group, Contract, and Other Rooms Revenue) is 2.98. This shows that such a classification is possibly applicable in the operations. Nearly all of the interviewed hotel personnel use the line item of Transient Rooms Revenue and Group Rooms Revenue. Eleven hotels use the line item of Other Rooms Revenue, which includes no-shows, day use, late/early departure, and rental of cribs. However, most of the interviewees (11) revealed that Contract Rooms Revenue is not commonly applicable.

There are two different views towards the classification of Rooms revenue. First, most financial controllers (7) commented that they list more detailed sub-categories of Rooms revenue according to the major market segments. The four classifications in the USALI are too brief to be applied in reality. Second, two financial controllers claimed that it is enough to show only two line items in the Rooms departmental schedule, namely, the amount of Total Rooms Revenue and Other Rooms Revenue. All the sub-accounts of Rooms revenue can be retrieved in a separate report when needed.

New Classification of Food and Beverage Revenue

There are five categories of F&B revenue items under the 10th edition of USALI: Outlet, In-room Dining, Banquet/Catering, Mini-bar, and Other F&B revenue. The average rating for the application of F&B revenue categorization is only 2.24, which is the lowest among the five investigated areas. The applicability of the new F& B departmental schedule is considered very low.

Only three hotels that completely comply with the USALI rated the five classification of F&B revenue as “already applied.” Five interviewees believed the presentation of F&B revenue is either “moderately applicable” or “mostly applicable.” The rest of the interviewees regarded the five categories of F&B revenue as “not applicable” and preferred a more direct summary of F&B revenue that would only include the total amount of Food revenue, Beverage revenue, and Other F&B revenues. The detailed information for each outlet is presented in the sub-schedules. The comments given by the interviewees on F&B departmental schedule and supporting sub-schedules are further discussed in Section 4.1.3.

With regard to the components of Other F&B revenues, the usage of line items of Service Charges and Miscellaneous Other Revenue was found to be high, while the applicability of Audiovisual, Public Room Rental, and Cover Charges was considered to be low. Nearly all the interviewees agreed with the separate recording of service charges. Only one financial controller records F&B service charges together with the outlet revenues instead of using separate recording. Most hotels prefer to record revenues from audiovisual and public room rental under Banquet/Catering revenue because these revenues are generated from banquet/catering events. Cover Charges was regarded as "not applicable" by all the interviewees. Generally, the revenue from cover charges is not significant and most hotels in Hong Kong do not impose cover charges.

New Definition of Other Operated Departments

The 10th edition of USALI uses a few paragraphs and examples to differentiate Other Operated Departments from Minor Operated Departments (Section 2.3.3). However, none of the interviewed personnel use these two categories simultaneously. The interviewed financial controllers prefer to group all the revenue-generating departments excluding Rooms and F&B into one single category. Ten out of the fourteen hotels call it Other Operated Departments. The others name it Minor Operated Departments.

New Items in Rental and Other Incomes

Generally, revenue from Rental and Other Incomes is not significant. Thus, five hotel record Rental and Other Income as a sub-account under Other Operated Departments. In the 10th edition of USALI, there are two new items in the Rental and Other Incomes category: Attrition Penalties and Proceeds from Business Interruption. The applicability for both was low (1.04). Attrition Penalties is income received from groups that do not fulfill their guaranteed number of reservations for guest rooms, food and beverage, and other services. The USALI suggests that Group Cancellation Penalties and Attrition Penalties be considered as two separate line items. However, the interview results show that all the hotels combine Attrition Penalties and Group Cancellation Penalties instead of separating them. The amount of income from Attrition Penalties is immaterial. In many cases, salespersons try to waive the Attrition Penalties so as to build rapport and business relationships.

Proceeds from Business Interruption, which refers to the amounts received from an insurance company for a business interruption claim, was rated as “not applicable” by all the interviewees for the same reason. The interviewees commented that business interruption happens very occasionally, and there is no need to set up a line item to indicate this insignificant amount.

New Classification of Undistributed Operating Expenses

The average score for the application of the new classification of Undistributed Operating Expenses is 3.24. This is the highest rating in the five investigated areas, indicating that most hotels comply with the presentation of Undistributed Operating Expenses in the USALI.

More than 80% of the hotels record Security, Human Resources, and Information Systems under Administrative and General, although Centralized Accounting Charges are not applicable. One hotel personnel lists Human Recourses and Information System as two independent items parallel to Administrative and General. As the financial controller explained,

> "We have more than four items under Undistributed Operating Expenses. Human Resources and Information System are two items directly under Undistributed Operating Expenses, but not recorded under Administrative and General, as the expenses of IT are becoming larger these years."

Nine of the interviewees confirmed that their hotels use an independent line item for Sales and Marketing. The rest considered it as a "moderately applicable" and made some minor changes. For example, four hotels add one more line item of Advertising and Promotion in addition to Sales and Marketing. The amounts spent on Advertising and Promotion, including global advertising for rooms and local advertising for F&B outlets, are significant to the hotel.

Nine out of the fourteen hotels use the two items of Property Operations and Maintenance and Utilities simultaneously. Three hotels currently record Utilities as a sub-account under Property Operations and Maintenance. While considering the large amount of cost on utilities, the financial controllers of these three hotels confessed that it might be necessary to separate them in the near future. Thus, they rated the line item of Utilities as “mostly applicable.”

Management Fees as Separate Line Item

Only one hotel records Management Fees as an expense item under Administrative and General. The rest records it as a separate line item after GOP. In addition, the interviewees suggested that the schedule of management fees be expanded to include the use of Franchise Fee, so as to make the accounting schedules of USALI suitable for franchised hotels as well.

GOP as Key Financial Appraisal Ratio

In the latest USALI, the account title, Gross Operating Profit, has replaced Income after Undistributed Operating Expenses; Net Operating Profit, has replaced EBITDA to reflect typical lodging terminology. GOP and NOP are important profitability ratios to hotel owners and operators. Eight hotels in this study have followed this change. The rest of the six hotels have kept their original names for these accounts. Most interviewees believed this is just a minor name change and that the nature of account has not changed. “Anyway, it is a nice gesture for the USALI to address lodging terminology,” one financial controller said.

Another financial controller pinpointed the lack of financial appraisal ratio in the current USALI.

“In the previous USALI, there are items of Income after Undistributed Expenses,

> EBITDA, Net Income before Taxes, and Net Income. Now, in the summary operating statement, it seems that GOP/EBITDA is the only indicator in the measurement of profitability. Actually, in addition to GOP, we are still concerned about Net Income before Taxes and Net Income. Besides, I think ratios reflecting return on investment (ROI) are also important for hoteliers."

In addition to profit margin, return on investment is an equally important ratio to measure the efficiency of hotel performance (Phillips, 1999b; Phillips, 1996). Guilding and Lamminmaki (2007) found that hotels exhibit a lower level of development with respect to reviewing required rates of return. Hotel management contracts tend to remunerate hotel operators based on absolute revenue and profit levels achieved. Some studies have suggested that hotel owners use a remuneration basis that recognizes the profit as function of investment to lessen the potential opportunistic diversion of resources by hotel operators (Guilding, 2003; Guilding & Lamminmaki, 2007). This view is consistent with the idea of the financial controller cited above regarding the addition of ROI-related ratios into the USALI.

4.1.2. Applicability of Rooms Departmental Schedule

The first stage of data collection (i.e., focus group discussions and in-depth interviews with Rooms managers) resulted in some new reporting features that could enhance applicability of USALI in local hotels. In the second stage, a total of 14 financial controllers from hotels in Hong Kong were asked to comment on the applicability of the new line items in the 10th edition of USALI, together with the suggested features by operational management (P art I of Appendix 3A). The analysis of the discussions in the first and second stages revealed quite a few areas of concern in the current Rooms departmental schedule. Corresponding opinions on options to substantiate the reporting content of Rooms departmental schedule are presented in the following paragraphs.

Rooms Revenue

In the 10th edition of USALI, Rooms revenue is classified into four main categories (Table 4.3). The interviewed financial controllers were asked to evaluate the appropriateness of the new categories and give feedback on changes to enhance the applicability of the USALI in Hong Kong. Their comments are summarized in Table 4.3.

Table 4.3 Comments on the Taxonomy of Rooms Revenue

4 categories of Rooms Revenue in USALI	Comments
Transient (<10 rms/nt)	- The item of Long Staying Guests (7-14 days) is suggested to be added under Transient Rooms Revenue.
Group (>10 rms/nt)	- Applicable
Contract (>30 days)	- Not applicable
Other (no-shows, day use, late/early departure fees, rental of rollaway beds)	- The definition of Other Rooms Revenue is not consistent among hotels, especially the recording of service charge.

Discussion with hotel financial controllers in Hong Kong revealed that the definition of Contract Rooms Revenue, which refers to “a consistent block of rooms over 30 days” is not commonly applicable. As one financial controller commented,

> “It is very rare to have a guest staying for more than 30 days. The hotel room rate in Hong Kong is not low. If a guest stays for more than one month, service apartment might be preferred than hotel in this case. Thus, the item of Contract Rooms Revenue (>30 days) may be more suitable for the schedule of service apartment. However, guests staying in our hotel for only one to two weeks are quite common. And we have a specific segment under Transient Rooms Revenue, so-called ‘Long Staying Guests’, for those who book a room for 7-14 days.”

Another financial controller had concerns that the name Contract Rooms Revenue might cause misunderstanding:

> “It sounds to me that Contract Rooms Revenue should include the corporate or wholesaler accounts that have a contract with the hotel. I think the item of ‘Long Staying Guests’ can better express the meaning indicated in the USALI.”

In view of this situation, Contract Rooms Revenue may not be commonly applicable for most local hotels, while Long Staying Guests (7-14 days) are recommended to be added as a segment under Transient Rooms Revenue.

In addition, the inclusion of Other Rooms Revenue is not consistent among the hotels. Some hotels record the miscellaneous revenue related to Rooms Department (e.g., concierge revenue, service charge) under this category, which lead to an overstated ADR. Moreover, the accounting treatment of Rooms service charges is diversified because there is no indication of how to record Rooms service charges in the current version of the USALI. The majority of financial controllers (11 out of 14) record service charges under Other Rooms Revenue. Two have established a separate line item captioned Service Charges, and one accounts service charges under the category of Rental and Other Income. Given that the topic of service charges is a significant issue that intrigues both employees and hotel practitioners, further discussion is presented in Section 5.1.3.

Rooms Expenses

Overall comments on Rooms expense items in hotels in Hong Kong and Macau are summarized into two columns, namely the suggested new line items and items that are not applicable (Table 4.4).

Table 4.4 Comments on Rooms expense

Suggested new line items	**Not commonly applicable**
- Entertainment	- Commissions and Rebates - Group
- Music & Entertainment	- Travel – Meals and Entertainment
- Glassware and Chinaware	- Royalty fees
- Courier & Postage	- Corporate office reimbursables

Entertainment. In Hong Kong, department heads are entitled to reimburse the expenditure on official business entertainment of guests. All of the interviewed Rooms Managers indicated that they have to make a monthly budget on entertainment. Thus, there is a need to add an expense item of Entertainment.

Music & Entertainment. Music & Entertainment refers to the costs of providing live or recorded entertainment. Discussion with the interviewees also found that Music and Entertainment, currently an expense item in F&B Department, is applied to Rooms Department as well. This was mentioned by 10 out of the 14 financial controllers. One noteworthy fact about Hong Kong is that every hotel has to pay royalty fees to Composers and Authors Society of Hong Kong (CASH) for music copyrights. In addition, the cost of background music, occasional live performance in the lobby, and even the expenses for TV/radio channels may also be absorbed by Rooms Department through this account. One financial controller said,

> "We also put the cost of free guest room TV/radio channels in Music & Entertainment and we do not have a separate account of Cable/Satellite TV."

Another financial controller said,

> "In our hotel, CASH fees are recorded under the line item of Licenses & Permits. Hotel license is also recorded here. However, we do feel that it is not very appropriate to record CASH fees as license expenses. The nature of these fees is

> royalty fee for music, not license or permit."

Glassware and Chinaware. In the current USALI, the cost of items not included in the description of specific supply accounts (i.e., Guest Supplies, Cleaning Supplies, and Printing and Stationery) are recorded under Operating Supplies. These items may include ice buckets and drinking glasses, as well as other items such as clock radios and irons. Although the USALI suggests recording glassware and chinaware in guest room under Operating Supplies, the interviewees prefer adding separate items of Glassware and Chinaware to keep the consistency of accounts. As one financial controller pointed out,

> "One noteworthy change in the 10th USALI is that operating equipment such as Glassware, Chinaware, Silver, Linen, and Uniform are required to be recorded as five independent items in balance sheet and F&B departmental schedule. Thus, we believe Glassware and Chinaware used in guest rooms should also be recorded separately to maintain the consistency of reporting."

Courier & Postage. The addition of Courier & Postage, which refer to the occurred cost of mailing and posting, as an expense item for each department was suggested. Rooms and S&M Departments might spend more on this item due to their special responsibility. Concierge often needs to do mailing for hotel guests and S&M may launch direct marketing from time to time.

Furthermore, discussions with the financial controllers disclosed several items that are not appropriate or are seldom used in local hotels, including Commissions and Rebates (group), Travel (meals and entertainment), Corporate Office Reimbursables, and Royalty Fees. In most cases, Commissions and Rebates (group) for third-party meeting planners and Commissions for travel agents are not separate line items but combined into one item only. Travel (meals and entertainment) and Travel (others) are also combined as one item. The interviewees felt that it is not necessary to set up independent accounts because the amounts of these items are immaterial. The 10th edition of USALI defines Royalty Fees and Corporate Office Reimbursables as consistent accounts across each department. Take the Rooms departmental schedule as an example. The USALI requires royalty fee associated with the right to use a brand name in connection with Rooms Department activity to be charged to Royalty Fees; requires travel and meal expenses incurred by corporate or management company's Rooms Department personnel to be charged to Corporate Office Reimbursables. However, royalty fee incurred by Rooms Department activity is uncommon. In addition, it is not feasible to allocate the travel and meal expenses incurred by a group of personnel from corporate or management company to each department, as it is hard to determine which personnel works for the benefit of which department. One financial controller commented,

> "When a group of corporate office personnel come to visit our property, we charge all the related costs to Administrative and General according to the

nature of the expenses. I do not think it is necessary to allocate the expense to each operating department, as the amount will not be very significant. Also, if a regional president or director comes to our hotel, how can we determine his work is for the benefit of which department?"

Other Rooms Considerations

In the 10th edition of USALI, there is a section, entitled Other Rooms Considerations, where some special concerns of Rooms Department are discussed. Discussions with the hotel professionals in this study revealed some divergent opinions on the topics of package revenues and wholesaler revenues.

Package Revenues. Lodging accommodations are sometimes sold with F&B services as a means of promotion. Consider a package of overnight stay with free breakfast. How should the package revenues be allocated to Rooms and F&B Departments? The 10th USALI states, "If the guest cannot opt out of the breakfast or the meals provided as part of a franchise company brand standard, the food cost is charged to Rooms Department. If interdepartmental allocations are necessary, the allocation of revenues should be based on the theoretical 'market' value. The 'market' value refers to the average daily rate and average selling price of breakfast."

In the hotel industry in Hong Kong and Macau, it was found that majority of the hotels do not follow the "market" value rule listed in the USALI. Three common practices are followed instead, whether or not the guests opt for the breakfast. First, the heads of F&B and Rooms Departments negotiate an internal transfer rate for the breakfast that would be charged to Rooms Department. The transfer rate is higher than the food cost but lower than the normal selling price to customers. Second, only the food cost of F&B service would be charged to Rooms Department. Third, the normal price of F&B service would be charged to Rooms Department. No matter which of the three practices is adopted, a fixed transfer rate of breakfast is charged to Rooms department. There are always some disputes on the allocation of package revenues between Rooms and F&B Departments. According to one financial controller discussed,

> "During breakfast, the restaurant is very busy because a large number of customers are in-house guests who buy the Bed & Breakfast package. If only food costs are transferred to the restaurant, it is not fair. On the other hand, it is also not reasonable to charge the full price of breakfast to Rooms Department. I think a better way is to add some profit on the top of food cost and charge this amount to Rooms Department. Anyway, there are always arguments on the internal rate of breakfast between Rooms and F&B departments."

A reasonable allocation is important to minimize the dispute across the departments. Comparing the three methods adopted by local hotels and the "market" value method suggested in the USALI, the "market" value solution is relatively fair and clear. However, in reality, local hotels are still reluctant to follow the USALI. One financial controller gave the reason as follows,

> "If we follow the rule of 'theoretical market value', the internal breakfast transfer rate may be different every time we launch a different package. The property management system that we are using, Opera, currently can not automatically calculate the 'market value'. If we have to manually adjust the breakfast price when we launch a new package price, it would be quite inconvenient and inefficient. Thus, we prefer to transfer a fixed internal rate for breakfast."

Wholesaler Revenues. Another problem area raised by the hotel professionals pertains to the recording of wholesaler revenues. According to the current version of the USALI, Wholesaler Rooms Revenue, including traditional wholesalers and dot.com wholesalers, should be recorded under Group Rooms revenue. However, the interviewees had different opinions toward the recording of wholesaler revenues. There were four schools of thought. First, as one interviewee stated, wholesaler revenues are so unique that he would like to develop a new segment to address this group. Second, three out of the fourteen financial controllers were comfortable with the practice in the USALI to record wholesaler revenues under Groups Rooms Revenue. Third, four financial controllers stated that revenue from dot.com wholesalers, such as Expedia, Travelocity, and Ctrip, should be merged into Internet/E-commerce segment under Transient Rooms Revenue. The traditional wholesalers should be recorded under Group Rooms Revenue. Finally, six financial controllers supported the assertion that a more accurate reflection of current situation would be provided if the whole classification of wholesaler revenues (both dot.com wholesalers and traditional wholesalers) is moved to Transient Rooms Revenue. Although no definite consensus was arrived on this topic, most financial controllers stated that they prefer to classify the entire wholesaler (6) or at least the dot.com wholesaler (4) under Transient Rooms Revenue.

An online survey conducted by Venegas (2009) presented similar results. Eighty-five HFTP members with executive-level accounting and finance positions responded to this survey. Seven respondents stated that wholesaler revenues are so unique that they would like to develop a new segment to address this group. Only 25 percent (17 respondents) indicated that wholesaler revenues are correctly recorded under Group Rooms Revenue in contrast to the majority of respondents (44 respondents, 65 percent) who indicated that they would rather record wholesaler revenues under Transient Rooms Revenue. Seemingly, these industry professionals were not quite satisfied with the accounting treatment for wholesaler rooms revenue in the 10th USALI. Several different practices are adopted by different hotels for the time being. It should be noted that one relatively favored option is to treat wholesaler revenue as Transient Rooms Revenue.

4.1.3. Applicability of Food and Beverage Departmental Schedule

F&B Revenue

Interview results show that the applicability of F&B revenue categories (Table 4.4) is very low. Only three hotels use the same classifications suggested in the USALI. One argument against the five classification of F&B revenue was the ease of presenting statistical data. One financial controller typified her view,

> "The percentages of cost of food sales and cost of beverage sales are important indicators of F&B operational performance. As shown in the F&B departmental schedule (Appendix 2B), it is very strange that the USALI requires five separate kinds of food revenues and then a total number of cost of food sales. If we want to calculate the percentage of cost of food sales, we have to add up the five kinds of food revenues first and then calculate the ratio, which is very inconvenient. It would be much easier if we just list the amount of total food revenue and the total cost of food sales, which directly leads to cost of food sales ratio."

Another argument given by majority of financial controllers was that the five classification of F&B revenue is not suitable for hotels with significant revenues from F&B operations. As summarized by one interviewee,

> "In the US hotels, F&B departments do not play a very important role in generating revenues. Thus, the classifications of Outlet, In-room Dining,

> Banquet/Catering, Mini-bar, and Other F&B Revenue may provide US hotels a clear enough picture of operation. However, in Asian cities such as Hong Kong, a hotel with more than five or even ten F&B outlets is universal. F&B is a major revenue source and sometimes the revenue contribution from F&B outlets is similar to that of Rooms Department. The sub-schedules of each outlet are indispensable for management to gain the information on operating performance. Our hotel always uses a summary schedule plus a set of supplementary sub-schedules for each outlet."

The practice of using a summary F&B schedule together with outlet sub-schedules was mentioned by 10 financial controllers, who believed a more comprehensive reflection can be gained through this kind of presentation. Therefore, it is concluded that a summary schedule of all the F&B operations supported by the outlet sub-schedules is preferred in Hong Kong hotels

F&B Summary Schedule. When questioned regarding the revenue categories included in the summary schedule, Total Food Revenue, Beverage Revenue, and Other F&B Revenue (e.g. Service Charges, Miscellaneous Other Revenue) were found to be most widely used. If the hotel has significant revenues from tobacco, one more line item of Cigarette Revenue can be added. Otherwise, cigarette revenue can be recorded under Other F&B Revenue.

F&B Sub-schedules. Through further discussion with the interviewees, additional detailed suggestions on the content of F&B sub-schedules were gathered. Each restaurant outlet, in-room dining, banquet/catering, mini bar and cake shop is regarded as an independent sub-department under F&B Division. Each has a Profit & Loss statement. Additionally, there is a sub-schedule for F&B overhead departments, which includes the expenses of F&B executive administration, commissary/pastry department/chef's office, and stewarding. The expenses of F&B overhead departments are distributed to the revenue-generating F&B outlets based on appropriate allocation bases because overhead departments are serving these revenue-generating outlets.

Since Hong Kong is an advanced MICE destination in Asia, many hotels provide comprehensive meeting facilities for business guests and receive an exceptionally high proportion of their revenue from convention service. The interviewees were asked whether there is a need to have a separate schedule for convention revenue. The interviewees felt that this is not necessary. Convention service is always sold as package together with F&B service. The package revenue will be allocated to the accounts of Banquet/Catering F&B Revenue and Public Room Rental. For details, see the following paragraph on "catering package revenues" under the subtitle of Other F&B Department Considerations.

F&B expenses

Kitchen Fuel. The item of Kitchen Fuel includes the cost of fuels used in warming or specialized cooking of food. Sterno, propane and charcoal are the usual fuel items. However, with the advanced technology, kitchen fuels are being replaced by electric devices in warming and cooking of food. Thus, many interviewees found that the costs of kitchen fuel are becoming smaller. Four financial controllers believed the electricity costs of warming devices, as well as other utility costs related to cooking, should be reflected in the schedule of the F&B outlet. This led to the discussion on the allocation of utility costs to F&B outlets.

Utilities. There is a tradition in hotel industry that utility costs are not distributed to each operating departments but recorded as one of the undistributed expenses. Only two of the fourteen interviewed financial controllers supported the idea of a fully allocated schedule where utility costs such as water, gas, and electricity are allocated to each restaurant outlet, thus providing a true profitability picture of each outlet. The rest of the financial controllers held the opposite view. They believed that regarding utilities as undistributed costs has been a traditional practice in hotel industry for many years and it is not necessary to change this rule absolutely. They were also concerned that after assigning all the utility costs to outlets, previously profitable outlets may incur a loss. Since cost allocation aroused intense arguments from the interviewees and since this topic is not limited to F&B department, further discussions are presented in Section 5.2.2.

Other F&B Department Considerations

Discussions with F&B managers facilitated the identification of special considerations for the topic of revenue and expense allocation. Two scenarios were discussed.

Catering Package Revenues. Catering packages usually include the sales of food and beverage, and the rental of banquet room or conference room. How do hotels allocate the revenues from catering package? Some hotels distribute the revenues to the accounts of Banquet/Catering F&B Revenue and Public Room Rental based on a certain percentage. Some hotels transfer a fixed amount to Public Room Rental and allocate the rest to Banquet/Catering F&B Revenue. Other hotels have no specific rule and allocate the package revenue on an ad hoc basis. Different methods to allocate the revenues could directly affect the total amount of F&B revenue and subsequently distort the analysis of F&B cost. Although it is difficult to have a standard and uniform rule on the allocation of package revenue within the industry, the interviewees felt that there should be a consistent standard of catering package revenue allocation, at least within one hotel, so as to strengthen the comparability of the past and present data.

Labor Expenses Allocation. The popular trend in Hong Kong hotel buffets is to provide both Chinese and Western dishes. Thus, Chinese restaurant may send one Chinese chef to the buffet restaurant to prepare Chinese dishes for a few hours per day. This labor collaboration among outlets happens quite often in hotels. For example, the kitchen of the restaurant outlet may support the banquet department in holding a large ad hoc catering event because some hotels have a banquet kitchen with limited manpower and some do not have a banquet kitchen. In these cases, only the food and beverage costs are transferred, while labor cost are not. F&B mangers hoped that labor costs be allocated to the related outlets from an operational management perspective. However, financial controllers held the opposite point of view. In the focus group discussion with HCAA members and in-depth interviews with financial controllers, this kind of labor cost was found to be inconsequential from the accounting perspective; thus, allocating such expense was unnecessary.

The rules on Payroll and Related Expenses in the 10th edition of USALI states, “If an employee works in a department other than his or her regular home department, his or her earnings must be charged as Salaries and Wages in that other department, regardless of duties being performed.” Clearly, there is a disparity between the USALI guide and the real industry practice.

In order the minimize the potential disputes between F&B managers and financial controllers, the USALI could give more specific guidelines on the topics of F&B

revenue and cost allocation by adding a short section, entitled Other F&B Department Considerations, after explaining the line items of F&B departmental schedule, similar to Other Rooms Department Considerations in the current USALI (p.41).

4.2. USALI in Macau Hotels

4.2.1. Hotel Accounting System in Macau

Hotels (2-5 star hotels) in Macau have close ties with the gaming industry. Most hotels are located near gambling houses or built as a part of a resort integrating entertainment, gaming, accommodation, dining, and shopping. These hotels can be classified into two groups: casino hotels and non-casino hotels. As shown in Table 4.5, twenty-three casino hotels dominate the hotel industry in Macau and contribute 63% (12,143) of the total room availability. With an average number of 528 rooms per hotel, casino hotels in Macau are mostly large-scale luxury properties. Twenty out of the twenty-three properties are 4- to 5-star hotels. Non-casino hotels can be categorized as chain hotels or independent hotels, and account for 23% and 14% of total room supply, respectively. There are 12 medium-sized chain hotels in Macau, with an average number of 362 rooms per hotel. These brand-name hotels mainly focus on the luxury market. Ten of out these twelve hotels are 4- to-5-star hotels. Independent hotels without casinos are mostly small-scale 3-star properties with an average number of 110 rooms per hotel.

Table 4.5 Hotel Accounting System in Macau

Hotel Type	No. of Hotels	No. of Rooms	% of Room Supply	Average No. of Rooms
Casino hotel	23	12,143	63%	528
Non-casino hotel (Chain hotel)	12	4,367	23%	364
Non-casino hotel (Independent hotel)	25	2,746	14%	110

Nine 4- to 5-star hotels in Macau were involved in this study. Table 4.5 presents the operating system of these hotels. Five are owner-operated casino hotels. The hotel only functions as a supporting department of the large casino complex, not as the main business. The other four are affiliated chain hotels, bearing the names of international chains. Among them, three are management-company-operated hotels located in casino complexes, and one is a franchised hotel located far from the gambling houses.

Table 4.6 Characteristics of Hotels in Macau Involved in the Study

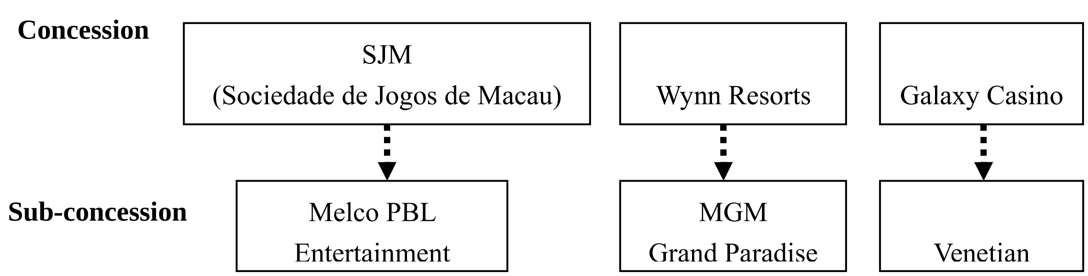
Hotel Type	Hotel Operating System	No	Accounting System
Casino Hotel	Owner-operated casino hotel	5	Casino accounting practice
Non-casino Hotel	Management-company operated non-casino hotel	3	USALI-based
	Franchised non-casino hotel	1	USALI-based
	Total	**9**	

In the discussion with the industry professionals in Macau, casino hotels and non-casino chain hotels were found to be using different accounting systems (Table 4.6). On one hand, chain hotels adopt the USALI-based corporate accounting system, as do all the other member hotels worldwide. Discussion results on the applicability of the USALI in this kind of chain hotels in Macau are similar to their counterparts in Hong Kong. Further explanations are presented in Section 4.2.2 based on the findings collected from four non-casino hotels.

On the other hand, the awareness on the USALI among casino hotels was found to be very low. The interviewees from casino hotels claimed that they know nothing about the USALI, and that they are following casino accounting practices derived from either the local casino industry or the US casino industry.

After the liberalization of gaming licenses, the management of casino hotels in Macau has been transferred to six major gambling companies that hold either the concession or the sub-concession licenses. The relationship among the six companies is shown in Figure 4.1. Among these companies, SJM, Melco PBL, and Galaxy Casino are local companies, while Wynn Resorts, MGM, and Venetian are giant expatriate gaming companies from Las Vegas, US.

Figure 4.1 Relationship of Gaming Companies in Macau



When asked as to what extent the SOS and departmental schedules in the USLAI could be applied to the casino hotels, one financial controller illustrated his view:

"Generally speaking, the applicability of the USALI in casino hotels is quite

> low, as casino hotels are quite different from general hotels. With some radical changes, the statements in the USALI could still work in the gaming operations. However, there is no sense making efforts to do this, because casino hotels are adopting the casino accounting and financial management."

Another financial controller replied:

> "I don't think the USALI is applicable in casino hotels. Actually, we do not even care about the USALI as we have our own accounting system for gaming operations to follow. For example, our company is following the Las Vegas gaming practice. I think local gaming companies should have their own accounting system, which could be similar to ours in essence."

The other financial controllers from casinos in Macau held the similar view that the USALI is not applicable to their hotels. Due to the significant difference of the accounting systems used by casino hotels and general hotels without casinos, an independent section, Section 4.2.3, has been allocated for the continuation of the discussion on the special considerations for gaming operations. This section is based on the viewpoints collected from five casino hotels only.

4.2.2. Applicability of the USALI in Non-casino Hotels

Non-casino hotels in Macau are either independent hotels operated by local owners or part of the chain hotels of international hotel groups. As independent hotels in Macau are mostly small hotels with less than 100 rooms, it is believed that their formats of accounting schedules are simple and not representative of hotels in general. Thus, interviews were not extended to these hotels. Discussions with industry professionals from four chain hotels (three management-company-operated and one franchised) revealed that the implementation and applicability of the 10th USALI in Macau are quite similar to that in Hong Kong. As a member hotel of a chain, the participating hotels also have to conform to the corporate reporting format of the chain based on the USALI. Although the hotel might be situated in a casino complex and might appear to be a part of the casino operation, the management and financial reporting of the hotel are wholly separate from casino. A brand name hotel in an integrated casino resort is similar to any other chain hotels elsewhere, except that the owner in this case is a gaming organization.

In-depth interviews with operating managers and financial controllers in Macau generally produced the same comments on the Rooms and F&B departmental schedules, as well as the SOS, in comparison with the results from the interviews in Hong Kong. Although research findings were getting repetitive, two areas caught the attention of the management. The first area involved the comments on “payroll and related expenses,” which are universal in both Hong Kong and Macau hotels. The second are involved the comments on the “salty water problem,” which is specific to Macau.

Payroll and Related Expenses

In the 10th edition of USALI, the section of Payroll and Related Expenses (p. 43) has been expanded with additional detailed line items. Such presentation is consistent in all the departmental schedules where labor costs are incurred. Discussion with the interviewees revealed that the sub-accounts under Payroll and Related Expenses are not quite applicable to the hotels in Hong Kong and Macau, as labor law systems in these two cities are quite different from those in the US

The interviewees suggested adding one new line item of Salaries and Wages for Casual Labor in contrast to those for permanent staff. It is a common practice for a hotel to hire casual labor occasionally to address staff shortage, especially in F&B Departments. The employee benefits of casual labor and permanent labor are different. Casual laborers are not entitled to benefits such as the Mandatory Provident Fund (MPF) and medical insurance. Operational managers need to budget and control the expenses on casual labor. The interviewees felt there is a need to separate the recording of labor expenses on casual labor and permanent staff.

Most sub-accounts under Payroll-Related Expenses (Schedule 13 in the 10th USALI) are tailored-made for US hotels and unsuitable for hotels in Hong Kong and Macau. Examples are Payroll Taxes, Supplemental Pay, and Employee Benefits. Payroll Taxes is not required in the two investigated cities. This item is applicable only if the compensation package for expatriate staff includes payroll taxes (which is not the common case). In addition, it is not necessary to have a separate account of Supplemental Pay for personal days, vacation pay, sick pay, holiday pay, jury pay, and others. The inclusions of Employee Benefits in local cities are also slightly different from those in the US. Usually, bonus provisions, MPF, medical insurance, meals, and worker's compensation are included into the account of Employee Benefits in hotels in Hong Kong and Macau. In the US, Employee Benefits include employer-paid health insurance expenses, cost of meals furnished to employees, pension contributions, and union fees.

The Salty Water Problem

The saltwater tide is a perennial problem for the Guangdong Province and Macau during the dry months from November to February. This seasonal salty water threatens the water supply in Macau and sometimes causes a severe shortage of fresh water. Consequently, tourism and hotels are severely affected (Chiang, 2009). Hotels and restaurants have to buy large quantities of bottled water to solve the drinking water shortage. Feasible water conservation measures to tackle the salt tide problem is a unique challenge for hotels and resorts in Macau. Two interviewed chief engineers felt that the utilities departmental schedule should contain more detailed information and statistical indicators on energy and water usage. Special attention should be paid to the months of saltwater threats when the usage of fresh water may be less than usual and the consumption of bottled water may suddenly rise.

4.2.3. Considerations for Casino Hotels

According to Greenlees (2008), an emerging area of concern in casino accounting is the maintenance of various accounting systems to provide information for use by management. The issues of managerial accounting in the casino industry are considerably less understood than in many other industries or businesses. Weygandt et al. (2009) claimed that the first edition of the *Uniform System of Accounts for the Gaming Industry* is currently under development. Currently, published knowledge on the internal accounting system for gaming operations is scarce. There is only one simple casino departmental schedule (Appendix 4A) in the 9th edition of USALI, and this is for hotels that "have a casino, but it is not the primary business." However, the 10th edition has eliminated this schedule.

Thus, questions were brought forward to the industry professionals in casino hotels in Macau to discuss whether the deletion of casino schedule in the USALI was appropriate. In the discussion, the three interviewed financial controllers expressed similar opinions. As summarized by one of the financial controllers,

> "It is proper to delete the casino schedule in the USALI if the main business of the property is gaming instead of accommodation. The accounting reports used by the large-scale casino properties are quite different from those used by general hotels. It is much more complicated than just adding one more schedule for casino department. Radical changes have to be made to make the USALI

applicable for gaming operations."

One financial controller added comments on the casino department schedule in the 9th USALI:

"This schedule was too simple and it was only applicable for hotels with a small casino department, which still generated significant revenue from rooms department. However, not many properties do business in this way in real life. If you have a gaming license, you will of course generate primary revenue from the gaming. In many cases, for large gaming complex, about 90% of the revenues come from gaming operations. Hotel/Rooms and F&B Departments exist to support the revenue generation of the Casino Department. Some restaurants may even lose money due to the high level of complimentary services rendered to gaming customers."

As the interviewees agreed with the deletion of the casino department schedule in the USALI and looked forward to seeing an independent uniform accounting system for gaming industry, questions were further asked to propose the Profit and Loss (P&L) report framework for a typical gaming operation in Macau.

Discussion results (Table 4.7) show operating revenues and expenses come from four departments, namely, Casino, Hotel/Rooms, F&B and Entertainment, Retail and others, while undistributed operating expenses come from three departments, namely, General and Administrative, Marketing and Communication and Facility Management. One noteworthy item is promotional allowances, which is subtracted after gross revenue to obtain net revenue. This refers to the various costs of complimentary services rendered to guests by the departments other than the casino (e.g., Rooms and F&B departments). The allocation of these complimentary costs is a major concern in a casino environment, where there is a special custom to offer a lot valuable “freebies” in the pursuit of good gaming customers.

Table 4.7 Proposed P&L Reporting Framework for Gaming Operations

Operating Revenues
Casino
Hotel/Rooms
Food & Beverage
Entertainment, Retail and Other
Gross Revenues
Less: Promotional Allowances
Net Revenues
Operating Expenses
Casino
Hotel/Rooms
Food & Beverage
Entertainment, Retail & Others
Total Operating Expenses
Undistributed Operating Expenses
General & Administrative
Marketing & Communication
Facility Management
Total Undistributed Expenses
Income after Undistributed Operating Expenses

According to Greenlees (2008), there are two accounting methods to record such costs. First, the revenues are reflected in the service departments. The expenses are allocated to the Casino Department, with the rooms being charged at a standard rate in addition to food and beverages at menu prices. Second, the allocated revenue benefits are granted to the service department as in the first method, while the expenses are charged to the overall administration.

The financial controllers in this study seemed to prefer the second method in formal reporting. They all proposed to set up a separate line item for complimentary services after gross revenues, called promotional allowances. They felt that it is more reasonable and accurate to recognize these complimentary costs as a form of advertising and promotion cost. However, the first method is also used in daily operation occasionally. According to one financial controller,

> "For casino management's information, sometimes we will add the line of Promotional Allowances at the end of casino department's expenses so as to show a true picture of the profitability of casino department. But in formal reporting, instead of putting promotional expenses under casino department, we have an independent item on this. We deduct the Promotional Allowances from the whole picture of operating revenues."

Casino – Revenue Sources and Support Departments

The revenue items of Casino Department can be categorized into two groups: slot machines and table games. Sub-accounts can be further established according to the detailed types of machines and games if necessary. In view of the unique business feature of casino operations, several important schedules were suggested to be set up as casino support departments, such as Cage, Count Team, and Surveillance. All casinos have a cage area that acts as the financial hub for the casino. It is in this area that most large financial transactions occur. The cage functions as general cashier, and handles chip exchanges for customers (Greenlees, 2008). The count team is responsible for counting the chips or currency contained in the slot machines (Greenlees, 2008). Surveillance is a special type of security whose duty is to maintain close observation of people in the casino through television cameras. The use of these supporting departmental schedules helps better control of the operating and labor costs because many employees are involved in these three departments.

Hotel – Revenue Sources and Support Departments

The interviewed financial controllers in Macau suggested that Hotel/Rooms revenues can be divided according to market segments, for instance, tours and travel, conventions and incentives, mass gaming, VIP gaming, and junkets. Unlike this traditional identification to segment markets, the MGM Grand Hotel in Las Vegas placed emphasis on managing customer profitability, and differentiated fourteen segments based on customers spending in the casino (Campbell et al., 2006).

Figure 4.1 shows two main groups of segments: those above the "comp line" and those below it. The gamblers above the "comp line" are high rollers and deserve various complimentary services such as free rooms, food and beverage services, and leisure services.

Figure 4.2 Customer Segmentation at MGM Grand, Las Vegas

Segments	Comps
Platinum +	Room, food and beverage unrestricted
Platinum	
Gold +	Room, food and beverage for four
Gold	
Purple +	
Purple	
Black +	
Black	Room, food and beverage for two
Green +	Room, food and leisure
Green	
Red +	
Red	Room only
White	Casino rate
Comp Line	
Not Ranked	Nothing

Sources: MGM Grand Hotel; casewriter analysis, Harvard Business Review

Casino hotels often provide free rooms to gaming guests as a promotional tool. Thus, some guests may use a room free while other guests have to pay for their rooms. Correspondingly, separate accounts must be established to indicate whether this revenue is from cash room sales or complimentary room sales. Take revenues from mass gaming as an example. Usually this is recorded as mass gaming (cash room sales), and mass gaming (complimentary room sales).

Schedules proposed for hotel support departments include Housekeeping, Hotel Sales, Bell and Concierge, and Reservations. Having an average of more than 500 rooms, casino hotels in Macau are large-scale operations with thousands of employees. Each of these aforementioned support departments has a sizeable staff. Thus, independent schedules of these departments are indispensable, especially for cost control purposes.

Food and Beverage – Revenue Sources and Support Departments

In the summary statement of F&B department, food and beverage revenues may include Food Revenue, Beverage Revenue, Public Room Rental, Tobacco Revenue, and Other F&B Revenue. These are further divided into cash revenue and complimentary revenue. Each outlet has an independent operation schedule. There are several F&B supporting departments that need separate schedules, including the Pastry department, Kitchen support, Steward and Commissary, F&B Administration, and Staff Dining. Interview results show that only the cost of staff dining are allocated to expenses of each outlet based on head count. The rest of the supporting departments perform as overhead departments and, usually, their costs are not distributed. This is quite different from non-casino hotels where the overhead expenses are allocated to different restaurant outlets.

Entertainment, Retail, and Other Operated Departments

Usually, gaming operations in Macau are situated in big resort complexes offering a full range of services, including shopping malls, spas, swimming pools, theaters, concert halls, telephones and Internet, in-room movies, and so on. Thus, separate schedules should be created for these revenue departments. In addition to these revenue sources, revenues from transportation and commissions are quite significant, and thus require independent schedules. Transportation revenues come from valet parking and shuttle bus services. Cost of shuttle buses would be charged to casino department. Another point of interest is the ATM machines located in the casino complexes. Casino hotels can share the commission with the bank.

Undistributed Operating Expenses

Undistributed operating expenses consist of three departments: General and Administrative, Marketing and Communication, and Facility Management. The General and Administrative accounts should be supported by sub-schedules because there are a number of backroom supporting teams in casino operations, comprising finance, human resources, executive offices, legal (contract reviews, employee background search, and all the legal issues), workforce management (working on company-wide scheduling), internal audit, IT, purchasing, warehouse, security (general security), security investigation (security and guarding of gaming area), wardrobe and linen, and housekeeping in the public area. The sub-accounts of general and administrative expenses have to be very detailed so that the objective of cost containment could be reached in such a large-size casino operation.

Challenges for Casino Accounting

In addition to the topic of casino reporting framework, financial controllers from casino hotels identified two challenges for casino accounting during the discussions. First, gamblers earn points through consumption in the gambling houses after enrolling in the players reward/club program. This program is more complicated than the hotel's frequent-guest program that only allows guests to earn points from accommodation and F&B consumption. In the casino resort, consumption on gaming, retailing, accommodation, F&B, and entertainment can help them earn the points. Points are equal to cash. Thus, the guests can use the points anywhere in the casino. Accounting personnel working in the mega casino complex must be very careful when dealing with these points. Specific reports on points have to be prepared every day. Second, the accounting personnel in casino resorts have to perform a number of inter-company transactions. Gaming guests could settle everything onto their hotel bill. The internal transactions between different departments (e.g. casino, retail shops, rooms, F&B, and entertainment) can also be very complicated. In addition, gaming guests may receive rooms or meals free of charge, which means there are corresponding treatments for complimentary revenues to be charged to related departments. As one financial controller concluded, "Casino hotel accounting is very different and much more complicated than general hotel accounting. The USALI nearly cannot be applied in casino hotels."

4.3. Comparison

Discussions with industry professionals illustrated that all the non-casino hotels in Hong Kong and Macau use the USALI as an important reference. Their accounting systems are built based on the USALI with minor changes to suit specific needs of individual hotels. The managers of three chain hotels claimed that they completely follow the USALI as required by their management contracts. The results are consistent with the survey conducted by Kwansa and Schmidgall (1999), which revealed that only a small part of the hotels were complying with the USALI and majority of the hotels that adopted the system modified some aspects to respond to the needs of the group and local situations.

In order to foster the applicability of the USALI in Hong Kong, local industry professionals involved in this study evaluated the applicability of the major new changes in the 10th edition of USALI and provided comments to substantiate the reporting content in two major revenue-generating departments: Rooms and F&B Departments. In Rooms departmental schedule, Contract Rooms Revenue (>30days) is recommended to be replaced with Long Staying Guests (7-14days). Four new expense items of Entertainment, Music & Entertainment, Glassware, Chinaware, Courier & Postage are suggested. The current allocation methods of Bed & Breakfast package revenues used in Hong Kong hotels are discussed, which are different from the suggested method in the USALI. Although hotels adopt different ways to record wholesaler revenues, the most favored option is to regard wholesaler revenues as Transient Rooms Revenue. In F&B departmental schedule, it was found the new classification of revenues are not applicable in Hong Kong hotels. Instead, a summary schedule of F&B operations supported by the outlet sub-schedules is suggested (Section 6.1.1, p. 176). In addition, expenses of kitchen fuel and F&B related utilities are discussed. A section entitled Other F&B Department Considerations on catering package revenues and labor expenses allocation is recommended to be added.

In the business environment of hotel industry in Macau, it was found that giant casino hotels dominate the rooms supply, followed by the chain hotels. The implementation and applicability of the USALI in chain hotels are similar to the situation in Hong Kong. These hotels are bounded by management contracts, and they either completely adopt the USALI system or the USALI-based corporate accounting system. Although the comments on Rooms and F&B departmental schedules raised by industry professionals in Macau were more or less the same as those raised from Hong Kong interviewees, the views on Utilities Schedule and Payroll and Related Expenses were new points worthy of attention.

In contrast, the accounting practice adopted by casino hotels of Macau is quite different from the aforementioned non-casino hotels. The interviewed hotel management personnel from casino hotels are not aware of USALI and are only concerned with casino accounting practices. The hotels in this kind of mega- gaming organization only serve as support departments that provide complimentary rooms to gaming guests. In the absence of a dedicated profit motive, the objective of the hotel is no longer profit generation, but cost containment or breaking even (Greenlees, 2009). Gaming, instead of accommodation, is the main business and the major revenue-generating department for the company. One financial controller claimed that the gambling revenue is as high as 85-90% of the total revenue. In view of this fact, the study proposed one P&L report framework for a typical gaming operation in Macau that reflects the supportive and complementary nature of management accounting in casino hotels.

Although luring customers to the gambling halls has always been the aim of non-gaming departments, mega-resorts in Las Vegas have successfully transformed the non-gaming elements of high-end entertainment into major draws and profit centers, attracting vacationers to spend more in enjoying these attractions (Hendler & Hendler, 2004). For instance, in 2004, Las Vegas visitors nearly spent as twice as they spent in 1996 for food, drinks, lodging, and entertainment. The contribution of non-casino business at MGM Grand Hotel represented more than 60% of the revenues and profits in 2005, a sharp contrast with the 25% contribution in the first years of the resort (Campbell et al., 2006). Although, currently, gaming revenue is still the dominant revenue source for casino hotels in Macau, it is suggested that greater emphasis should be placed on the non-gaming elements to enhance the "resort city" image of Macau and to attract visitors with different interests.

5. Common Areas of Concerns on the USALI

Section 5 presents the identified common areas of concerns during application of the USALI in non-casino hotels in both Hong Kong and Macau. The current industry practices regarding operating equipment, frequent-guest program, and service charges, as well as potential impact of several ambiguous rules on hotel performance reporting, are investigated. In addition, the need for change in accounting treatment in response to new business drivers and industry opinions on modern cost allocation methods is addressed.

5.1. Ambiguous Items and Rules

5.1.1. Operating Equipment

As mentioned in Section 2.3.2, the accounting procedures for China, Glassware, Silver, Linen, and Uniforms have been changed significantly in the 10th edition of USALI. Fully expensing of these items under their consumption period is now required, no matter if they are treated as current or long-term assets. However, the 9th edition allows capitalizing initial purchases within 36 months and expensing replacement purchases when placed in service. Are the hotels in Hong Kong and Macau following this new accounting treatment? It was found that the interviewed hotels still follow the rules in the 9th edition. One of the financial controllers typified his answer to this question as follows:

"The initial purchases of china, glassware, silver, linen, and uniforms for

> pre-opening are normally capitalized over a period of one-or-two years. The replacement purchases are all expensed."

Another financial controller added:

> "If one restaurant is under renovation and the hotel has to make a bulk purchase of new chinaware, glassware, and linen to replace most existing items, we may also treat them as capital asset and capitalize them upon their useful life."

Two common methods for expensing replacement purchases were identified through discussion with the interviewees. One is to expense all the replacement of the operating equipment at one time and reflect the expense in the current-month departmental schedule. This results in a sharp increase in the total expenses for that month. The other is to set up a provision account for operating equipment and assign the expenses of the replacement purchases over several months to minimize the fluctuation of monthly expenses. As far as the two methods for expensing the replacement purchases are concerned, the decision of the hotel financial controller is decisive. This complies with the rule in the 10th edition of USALI that stipulates the determination of consumption period as a matter of the decision of the management. Although there seems to be no fixed rule on the determination of useful period, adoption of the second method for expensing replacement purchase, especially when a large amount of operating equipment is bought, was suggested. This method could lessen the variance of monthly expenses and allow for better budget and control of the use of operating equipment items. The next question posed was how financial controllers make definitions on the useful period of different categories of operating equipment. Many interviewees said the consumption year of these items are determined based on their experience. According to one financial controller,

> "Usually, we believe silverware can be used for a longer time. Thus, I may assign 2 years for silverware, and only 1 year for chinaware and glassware. However, different hotels may use different criterion and this depends on the hotel controller and owner. The 10th USALI says, 'Operating equipment that is determined to have a period of consumption of one year or less is recorded as current assets. Those with a period of consumption of more than one year are recorded as other assets or long-term assets.' However, there is no guidance on what kind of operating equipment can have a useful period over one year or within one year. We only subjectively make our decisions on these."

As the USALI has not provided any detailed suggestion on the consumption period of commonly used operating equipment in hotels, several financial controllers look forward to seeing such guidance in future editions of USALI. According to another financial controller who works for a new hotel that would soon open,

> "I think, as an industry guide, the USALI could give some guidance on the consumption year of different kinds of operating equipment. This will be very useful epically for newly opened hotels. For example, our hotel owner is a property company and has several hotel properties operated by different

management companies. The owner has its own rule on depreciation rates of operating equipment while different management companies have their rules, too. If there is an industry guidance discussing this part, we could avoid a lot of disputes with the owner. We can say, 'just refer to the USALI.'"

The above findings show that, generally, hotels in Hong Kong and Macau still use the accounting treatment specified in the 9th edition of USALI. Only the replacement purchase of chinaware, glassware, silver, linen, and uniforms are expensed, while the large amounts of initial purchases are actually capitalized. There is an obvious mismatch between the current industry practice and the accounting guidelines in the 10th edition. Why are hotels reluctant to change and follow the guidelines in the 10th USALI (i.e., fully expense the operating equipment)? One reason may be that the change of expensing all the purchases of operating equipment would significantly increase the total amount of operating expenses, lower the hotel's bottom line (i.e. GOP), which subsequently decreases the management fees. If the initial purchases of operating equipment were capitalized and depreciated, the hotel would achieve a higher GOP and higher management fees. The change on expensing or capitalizing the operating equipment can create another conflict between hotel management company and hotel owner. Thus, hotels have no intention of following the 10th USALI and changing their present accounting treatment.

5.1.2. Frequent-Guest Program

Recently frequent-guest programs have been wide-spreading among most of the major hotel groups. While frequent-guest programs may retain a large number of repeat guests, the costs of running this program are very expensive. Major costs include "communications, administration, marketing and recruiting new members". Starwood automatically deducted 6% (previously 5%) of Starwood Preferred Guest member's total bill from any of its properties to cover the costs of running the program (Hamdi & Shellun, 2001). Dowling and Uncles (1997) summarized the major cost elements of loyalty programs at the corporate level, but not specifically for property level.

Chan and Wong (2007) suggested that a separate schedule is essential for chains that provide frequent-guest programs among vast number of worldwide hotel members in presenting the financial performance of these programs and inter-account treatment procedures. It is believed that an independent schedule of frequent-guest program at property level can help hotel management better monitor and control the program performance. In addition, the administrative logistics of frequent-guest program's point system is vague in the current USALI (Section 2.5, p.64). Thus, there is a need to explore the costs incurred at the property-level as well as the administrative logistics handled by accounting personnel when offering frequent-guest programs. Among the 22 hotels in Hong Kong and 9 hotels in Macau involved in this study, industry professionals from 16 international chain hotels that offer such programs were asked questions regarding the costs and administrative logistics of the program at the property-level.

Dichotomous Analysis of Frequent-guest Program Cost

While the membership benefits of frequent-guest programs are free to guests, they have a corresponding cost for hotels. Interviews with hotel financial controllers revealed that there are a number of costs of frequent-guest program incurred at hotel operating level due to the benefits provided. Table 5.1 presents a summary of potential tangible costs. These items could be considered adding into a supplementary report to monitor the costs of frequent-guest program at property level.

Table 5.1 Costs of Frequent-guest Program

Major cost	*Associated cost*
- loyalty programs and affiliation fee	- reservations cost - hard membership benefits: ▪ room upgrade (e.g. F&B at executive lounge) ▪ guest amenities ▪ long-distance telephone call ▪ Internet ▪ fax - part of "franchise and affiliation advertising fee" - program materials

Similarly, from the perspective of individual hotels, all of the interviewees stated that the cost of issuing points and miles is the most obvious expenses. Only qualifying spending at the hotel are allowed for the calculation of points or miles accumulation. Lower-tariff hotels tend to define room revenues as the only qualifying spending, while higher-tariff hotels count guest member consumption at the restaurant, banquet, spa, and other services provided by the respective operations departments. On average, the cost of points is approximately 3–5% of the total qualifying charges. Additionally, hotel guests can opt for airline miles in lieu of points. Airline transaction costs vary depending on the airline carrier. The charge normally consists of the actual mileage fee, applicable taxes (if any), and administrative fee. Depending on the airlines, one informant said that generally their airline partners charge the hotel $8.5 to $15 per guest stay. According to the 10th edition of USALI (HANYC, 2006), the cost of points and miles are usually absorbed by Sales and Marketing Department of hotels; hence, they should be recorded under the line item of Loyalty Programs and Affiliation Fee.

In addition to this direct cost of the loyalty program, numerous associated costs are also acquired at the property level due to the so-called "exclusive benefits" enjoyed by guest-members. One core benefit of loyalty programs is the members-only reservation line and online membership management. When reservations are made through these channels, a certain fee, usually a percentage of the reservation revenue, is charged as Reservations Cost to the expense of the Rooms Department.

Furthermore, there are many "hard" membership benefits (Butscher, 2002) embedded in frequent-guest programs. These benefits involve actual costs. Examples of such are room upgrades, free long-distance telephone calls, Internet, fax, and various guest amenities including welcome coffee/tea, fruit plate, and snacks, among others. To our knowledge, no publication has yet discussed the accounting handling method of these membership benefits. Majority of the interviewed hotels charge such costs to their Rooms Department, while some hotels prefer to record the expense to their Sales and Marketing Department. As one hotel financial controller discussed,

> "Normally, we try to limit the cost of membership benefits within the Rooms Department. It could be regarded as a kind of Guest Supplies. If we provide privileges offered by other departments, it is quite difficult to allocate the costs. For example, if the costs are incurred in a contract-out spa, I might allocate the cost to Sales and Marketing instead of Rooms or Spa Departments."

In other cases, the cost of hard membership benefits is charged to the frequent-guest program central office. As another financial controller said,

> "We do have a selection of hard benefits offered to our high-tier members, such as free spa, massage, wine, and meals. Similar to the redeemed room rate, which the frequent-guest program central office will pay to our hotel, the aforementioned benefits are also paid by the central office at a fixed rate."

Furthermore, the interviewees discussed the Franchise and Affiliation Advertising Fee (HANYC, 2006) and the cost of frequent-guest program's promotional materials. Franchise and Affiliation Advertising Fee, commonly known as international marketing fee, is the cost paid to the corporate office of the hotel group for nationwide or region-wide advertisements. Majority of the interviewees believed that the promotion should be included the content of frequent-guest program. Thus, a certain percentage of the fee should be attributed to the program. Four financial controllers stated that individual hotels also need to budget the shipping cost of frequent-guest program's promotional materials, and that the cost of producing new materials should be shared among chain hotels.

Administrative Logistics of Frequent-guest Program's Point System

With the maze of multiple hotel brands coupled with airline alliances, car rentals, credit cards, and other merchandising partners, points-for-miles and miles-for-points, as well as qualifying rates and non-qualifying rates, the system of frequent-guest program seems to have become too complicated, especially when the membership base of these programs may comprise millions of guest-members all over the world. Financial controllers stated that a central office is necessary to provide group-wide administration, marketing, and communication service to the member hotels at the national or regional level. At property level, usually accounting personnel are responsible for the administrative logistics of frequent-guest program's point system.

The USALI gives brief guidelines on the accounting practices for frequent-guest program's point system. When points or miles are issued to guest members, each property is charged with a Loyalty Program and Affiliation Fee under the expenses of Sales and Marketing Department. Vast majority of the interviewed hotels follow the

USALI and record this monthly fee for points and miles under Sales and Marketing Department. Only one hotel records it under the Guest Supplies of Rooms Department. This hotel operates a frequent-guest recognition program which only provides miles but not points. The financial controller explains,

> "The costs of frequent-flyer program's miles are absorbed by Rooms Department under the account of Guest Supplies. Some hotels may regard the costs of points or miles as promotional costs under S&M. We think this is one kind of guest supplies. It depends how the hotel interpret the nature of this expense."

The actual costs of frequent-guest program's points and miles are calculated based on the qualifying revenue and the room nights sold. The detailed calculation method varies from program to program, and may render the expenses too complicated. Not all guest expenses in the hotel are qualified for points or miles accumulation. Each program has specific categories used for qualifying in-house consumption. Furthermore, in order to encourage individual hotels to recruit additional new frequent-guest program members, the cost of points for the first stay of newly enrolled guests are reduced, if not totally exempted, depending on the policy of the hotel group. Fortunately, individual hotels are not required to go through this complicated calculation process manually to work out the amount of Loyalty Program and Affiliation Fee. The sophisticated property management system of the hotel connected to frequent-guest program central office automatically calculates the payment at the end of each day.

When guests come to redeem points for free rooms, the hotel charges the frequent-guest program central office with a commonly agreed upon redemption rate. This item is accounted as Rooms Revenue. Different chains utilize different methods to determine this rate. In most cases, redemption rate is calculated on a sliding scale, according to hotel occupancy level. When the hotel achieves a high level of occupancy, the redemption rate could be as much as the hotel's ADR for a given day. When the occupancy is below this level, the redemption rate is set much lower than ADR. Based on the discussion with interviewees, this sliding compensation structure for free room redemption is designed to cover merely the average room cost during lower occupancy periods; however, it does not attempt to undercut the hotel's revenue in terms of accepting free room redemption at ADR during busier periods.

Only one studied frequent-guest program uses another method. This hotel group adopts a formula based on the previous year data to predict a fixed redemption room rate for the given year. The rate is then reviewed on an annual basis. Thus, for newly opened hotels with no historical data, the redemption rate might be lower. Similarly, this rate also aims to cover hotel cost that is much lower than the ADR.

From a statistics perspective, all interviewees agreed that the low redemption rate of free rooms might bring down the ADR. However, most interviewees believed that this lowering impact on ADR is immaterial and could be minimized by appropriate capacity control methods. One interviewee contributed two such methods:

> "One of the commonly used control methods we currently use is 'allotment', referring to setting a quota of inventory for free room redemption. Another control method is 'blackout date policy.' The hotel can restrict members from booking free rooms with points during periods of very high expected occupancy."

There has been a trend that some of the large hotel chains have started to abandon the blackout date policy. In early 2009, six mainstream frequent-guest program, namely, Hilton HHonors, Hyatt Gold Passport, InterContinental Priority Club, Marriott Rewards, Starwood Preferred Guest, and Whynham Rewards (MKG Consulting Database, 2008) began to replace the blackout dates policy with free night awards. One Rooms Division Manager gave his explanation as follows:

> "Hotels do not want to frustrate our guests because of the minimal accessibility of the frequent-guest program. The blackout date method can make the program less attractive to guests. Our hotel used this policy before, but now, it is no longer enforced."

It was found that many international hotels involved in this study have abandoned the blackout date policy according to the instruction of frequent-guest program's central office. With the decreased capacity control on free room award, a better control method should be devised to avoid offering too many rooms at low redemption rates, and subsequently dragging down the hotel ADR. However, none of the investigated frequent-guest programs has implemented new capacity control method for the time being.

5.1.3. Service Charges

In Hong Kong and Macau, a typical 10% service charge is added to hotel bills; this is enormous significant amount of money. For instance, in 2007 alone, the Hong Kong hotel industry generated a total revenue of HK$ 23,713 million from the Rooms and F&B Departments (HKTB, 2008), and the service charges collected were estimated at HK$ 2,371 million based on the 10% rate. How does the hotel account for such a large sum of money? Is it distributed to the employees, or is it held as revenue for the hotel? What would the impact of different distribution methods be? These are questions that should concern both the employees and hotel operators.

However, little attention has been paid to service charge receipts in the hotel industry. Existing studies have focused on tipping, and may have occasionally mentioned service charge as an alternative for comparison (Lynn & Withiam, 2008). In addition, there are no standard and comprehensive accounting guidelines on handling hotel service charges. Although the USALI is an important reference for hotel accounting practices worldwide (Kotas & Conlan, 1997; Harris & Brown, 1998), it is brief and implicit in its coverage of accounting treatment with regard to service charge income.

The treatment of service charges has changed significantly in the past three editions of USALI (HANYC, 1986, 1996, and 2006); however, ambiguities continue to exist. Moreover, the explanation of service charges is limited to F&B, and service charges treatment in Rooms and Other Operated Departments is not discussed.

Accounting Treatment of Service Charges in the USALI

A review of the 8^{th}, 9^{th} and 10^{th} editions of USALI (Table 5.2) indicates that the accounting treatment of service charges collected by Food and Beverage Department has experienced significant changes. Several different methods have been used in the past 30 years.

In the period of implementation of the 8^{th} edition, part of the service charges was kept as hotel revenue. In the Summary Statement of Income, they were accounted under the line item of "Rentals and Other Income or under the Other Incomes of the F&B Department (HANYC, 1986). For the rest of the service charges that would be distributed to the employees, the 8^{th} edition provided no detailed guidelines. A common approach at that time was "to record gratuity as a payable and then reduce that payable as the gratuity were paid to employees" (Kwansa & Schmidgall, 1999).

Table 5.2 Comparison of the Accounting Treatments for Service Charges in the Three Most Recent Editions

8th Edition	9th Edition	10th Edition
Under the "Service Charges" line item of the **F&B Department's Other Income** (p.37), it states: "Charges for services which are added to a customer's bill at either a fixed amount or a percentage of the sale and are not required to be paid to personnel should be recorded here." Under the "Service Charges" line item of **Rentals and Other Income** (p.71), it states: "Charges for services which are added to a customer's bill at either a fixed amount or a percentage of the sale and are not required to be paid to service personnel and have not been accounted for in food and beverage or other departments should be recoded here."	Under the "Service Charges" line item of the **Food Department's Other Income** (p.44), it states: "Service charges includes charges for services that are added to a customer's bill or banquet contract at either a fixed amount a percentage of the sale." Under the "salaries and wages" line item of the **Food Department** (p.44), the USALI states: "Salaries and wages include… *banquet service charges*, and bonuses for employees of the food department.	Under the "Service Charges" section of the **Food Department's Other Revenue** (p.57), it states: "Service Charges includes automatic charges added to any food sale to help cover the cost of staff service to the customer. Service Charges *must be recoded as revenue and may not be credited to any expense account*. Discretionary amounts added t o a food sale as gratuity to an employee by the customer are treated as tip income to the employee."

Source: the Uniform System of Accounts for the Lodging Industry, the 8th, 9th and 10th editions

The implicit guidelines in the 9th edition of USALI added more confusion. Under Other Incomes of the Food Department, service charges were included without indicating if they referred to all the service charges or only the part not distributed to the employees. However, in the definition of Salaries and Wages, banquet service charges were included. Thus, some hotels used service charges to offset the payroll. In contrast, 10th edition clearly states that "service charges must be recorded as revenue and may not be credited to any expense account."

Accounting Practices of Service Charges

The financial controllers involved in this study were asked how the service charges were handled, specifically the service charge receipts of Rooms Department. The accounting practices and corresponding impacts are summarized in Table 5.3.

Table 5.3 Comparison of the Impacts of Service Charges Accounting Practices

Accounting Practices	**Distributed to employees**	**Credited to labor cost**	**Retained as revenues**
Employees' income	Unstable	Relatively fixed	Relatively fixed
Hotel reporting and cost analysis	Misleading information	Misleading information	A clear picture
ADR	Low	Low	High
Fees paid in management contract	Low	Low	High

Ten of the interviewees who have more than fifteen years of finance-related work experience in hotels recalled that around early 1990s or earlier, majority of service charges were distributed to the employees in the revenue-generating departments through the Tronc system. The Tronc system pooled all service charges and tips, and these were then allocated to employees based on a point system (Ni et al., 2009). At that time, hotels followed the accounting approach in the 8^{th} USALI. The service charges which would be distributed to the employees were first recorded as Payables. That Payables were then reduced when service charges were truly distributed. (Kwansa & Schmidgall, 1999). However, this practice resulted in an understatement of both revenues and expenses. No income was shown in revenue account when service charges were received by hotels. No labor expenses were presented in the account of Salaries and Wages when service charges were passed on to employees.

In the last fifteen years, the hotel business has not done as well as in the past. Moreover, many employees have complained about the uncertainty of their salary. Hence, many hotels gradually eliminated the practice of service charges distribution. One hotel financial controller explained,

> "It took a couple of years to eliminate this practice, not all at one time. Employees' basic salary was actually increased to compensate for the loss of sharing the distribution of service charges. The beauty of such is to make the total compensation, excluding your tipping, more predictable and easier for comparison across the departments. It is also helpful in retaining the employees."

Since then, most hotels had started to use the service charges to offset payroll. The detailed accounting procedure was to service charge receipts in a Salary Credit Account under departmental Salaries and Wages. This accounting treatment is similar to that in American hotels. Ramirez (2009) stated that as the 9th edition of USALI included service charges as a component of Salaries and Wages of the Food Department without clearer and stricter definition, many operators who used a portion of service charges distributed to employees to offset payroll did not record such as revenue. Nevertheless, the problem of understating payroll cost continues to exist, which misleads the departmental reporting and cost analysis. According to another director of finance,

> "When service charge was used to offset employees' salary, the expense of employees' salary was a very small amount. It really leads to misleading information if you do not know the details behind it."

Another financial controller commented,

> "When we analyze the labor cost, we have to take out salary credit factor. Otherwise, it has a great impact, especially for Rooms Department, which has a very large amount of service charge receipts."

Recently, recording service charges as revenue has become widespread. The 10th edition of USALI requires the service charges of F&B Department to be recorded as revenue; and credit entry to any expense account is not allowed (HANYC, 2006) in order to ensure accurate reporting and cost analysis. However, there are no guideline for the service charge receipts in Rooms and Other Operated Departments. At present, all the hotels who participated in this study record service charges as revenue, while variations on detailed recording practices still exist. Some hotels place service charge receipts under each department's Other Revenue category, while some put them under Rental and Other Income. Generally, a separate line item, Service Charges, is set up to offer a clearer breakdown of the revenue. For example, service charges on hotel room rates could be recorded as Service Charges under the sub-account of Other Rooms

Revenue, or under the sub-account of Rental and Other Income. However, this minor difference of the reporting format can significantly affect the amount of total rooms revenues. The calculation of ADR and various fees to be paid in management contracts are subsequently affected. For instance, those fees that are calculated based on Rooms revenue (i.e., Franchise and Affiliation Advertising, Loyalty Programs and Affiliation Fees, and Loyalty Fee in the case of a franchised hotel) could be increased, if the service charges on the room rates are recorded under Other Rooms Revenue.

The findings on the current treatment of service charges in Hong Kong hotels in this study are similar to those on Hong Kong restaurants in the studies of Chung and Heung (2007) and Evans (2000). While many customers might believe that service charges are distributed among the service staff (Chung & Heung, 2007), it is actually added to the company's bottom line in both of these industries in Hong Kong. As stated by one of the hotel financial controllers, "In reality, 10% service charge is just a term in Hong Kong. In substance, it is a part of the revenue."

A recent survey conducted among hotel accounting and finance professionals in the US (Venegas, 2009) showed that only 29% (18 respondents) indicated that they agree with the current version of the USALI, while 61% of the respondents (38 respondents) prefer to record only the portion of service charges not used for payroll as revenue. This means those 61% of the respondents still use part of service charges for payroll, which is the tradition in the 9th edition of USALI. The rest provided responses that adhered to the specificity of the place. State laws in some states require all service charges to be recognized as revenue for taxation, while others do not. Some states likewise require service charges to be distributed to the employees, while others do not.

Compared with the situation in Europe and in the US, it can be concluded that there is a significant socio-cultural difference in the use of service charges, in addition to the constraint of governmental rule. In Europe, revenues from service charges are mainly used for staff benefit (Ma & Qian, 2007). In the US, the levying of service charges is still at the initial stage. Some states require service charges to be distributed among the employees; in others, the property can keep them as revenues (Wikipedia, 2009). The different treatments of service charges may be attributed to the different compensation systems. Service personnel in Hong Kong receive a fixed monthly salary and a discretionary year-end bonus; thus, employees are adequately paid. In some countries in Europe, as well as in the US, compensation for the service staff is through a wage system. The distribution of tips and service charges aims to support the income of staff members and encourage them to provide better service.

5.2. Problem Areas

5.2.1. New Business Drivers

Spa

Recently, spas have been attached with great importance as part of the service provided by hotels worldwide. In Hong Kong, city-style spas with a small number of treatment rooms offer business guests an escape from stressful busy lives. In Macau, a large area reserve for spa is indispensable for a full-facility entertainment complex with casino, hotels, and retail stores. Considering the increasingly important role of spas as a revenue generators, Chan and Wong (2007) called for detailed accounting guidelines and the establishment of an individual schedule to record the revenue and expenses of spa operation. Interviewees in this study were asked to share their views on the suggestion of an independent schedule for spa operation in hotels in Hong Kong and Macau.

It is found that eleven hotels involved in this study have spa operation and use an independent sub-schedule to record the related revenue and expenses. As suggested by the 10^{th} edition of USALI, majority of the respondents regarded spas as belonging to Other Operated Departments. Only one financial controller claimed that his hotel lists their spa as an independent line item parallel to Rooms and F&B department in the SOS, rather than recording spa under the Other Operated Departments. He explained,

> "Our hotel group attaches great importance to spa. We want to know the performance of spa operation at first sight when reading the summary operating statement. Therefore, we set up a separate line item for spa. This format is consistent in all the member hotels of our group."

With the increasing revenues from spa operations, it may soon be necessary to set up a separate line item for spa in hotel performance reporting, especially for those resort-oriented hotel groups.

Telecommunications

The 9th edition of USALI regarded Telecommunications as one of the major revenue departments. The 10th edition of USALI includes Telecommunications in the Other Operated Departments category. However, because of the low charges of long distance calls and the popularity of mobile phones, the percentage of telephone revenues to total revenues in Hong Kong hotels dropped from a peak 4.2% in 1992 % to the lowest recorded percentage of 0.4 in 2009 (Table 5.4). Total revenue per available room for the whole year of 2009 is HK$1741. Thus, the Telecommunications revenue is very minimal. After deducting the telecommunication cost, labor, and other expenses, Telecommunications Department usually operates with a loss. In addition, not all telecommunication service are immediately generating revenues. In some cases, telecommunication actually serves other departments. For example, the enquiry calls to hotel operator, F&B reservation or spa reservation.

Table 5.4 Telephone Revenues in Hong Kong Hotels (1992 - 2009)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Telephone Revenues	17,091	18,407	20,479	19,461	18,819	17,572	13,576	11,913	11,771
% of Total Revenues	4.2	4.0	3.8	3.3	2.8	2.9	3.3	3.1	2.7
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Telephone Revenues	9,113	7,550	7,519	5,789	5,646	5,102	3,605	2,217	1,741
% of Total Revenues	2.2	2.0	2.3	1.4	1.2	1.0	0.6	0.5	0.4

Thus, some financial controllers whose Telecommunications Department incurs a loss supported the view that the telephone department would eventually evolve into a service or support center similar to a human resource department in the near future. Another financial controller from a luxury hotel whose Telecommunications Department still earn a little profit also agreed,

> "Although I realize the trend that telephone revenue is obviously decreasing these years, our hotel still can earn some profit for the time being as we charge quite high for telephone service. So far, we are still comfortable to regard it as an Other Operated Department. In the future, I also agree that telephone department may gradually change from a profit center to cost center."

When asked regarding how to record the revenue and expenses of Telecommunications in the case of a service department, two solutions were suggested. One is to allocate the cost among Rooms and F&B departments and other related departments that use telephone service. The other is to roll the costs into

Administrative and General as an expense line item. One financial controller elaborated,

> "One better way is to record the telephone revenue under Rooms Department and distribute the telephone department's costs to all the other departments which benefit from telephone service at an estimated percentage. Usually Rooms and F&B Departments should bear higher percentage of costs. However, it is still difficult to measure the exact usage of telephone service by each department. Thus, we may manually trace the record for 6 months and apply the average percentage as the estimated consumption basis in the future. I think this method can help proper bookkeeping. Another way is to simply record the telephone department's cost under Administrative and General and do not involve cost allocation."

In addition, it is notable that some telecommunication activity, such as Internet revenue might be on the increase in recent years. It is also noteworthy that there is a trend of free Internet in luxury hotels, according to one interviewee. Probably, this could be one of the directions in future research as well as working item of USALI in next next updating exercise.

Cultural Festival Products

Chinese festivals, including the Chinese New Year, the Mid-Autumn Festival, the

Lantern Festival, and Dragon Boat Festival, create more demand for traditional Chinese cultural festival products. Many restaurants and hotels in Hong Kong and Macau sell different kinds of traditional foods to increase their revenue, such as year cakes, moon cakes, festival rice dumplings, dried seafood, and potted food as "takeaways." The extra source of revenue from these products is quite considerable. Recent studies have indicated that on the average, the one-day revenue during Mid-autumn festival was able to bring in a revenue equivalent to four regular days. Altogether, these festivals may generate about 34 normal days of revenues for a Chinese restaurant, which is nearly 10% of total annual revenues (Chan & Chan, 2008). In view of this significant revenue source, interviewees were asked whether their hotels offer cultural festival products and takeaway, and where such revenue is recorded.

It was found that all of the hotels sell products through either the cake shop or Chinese restaurant (if the hotel has no cake shop). Correspondingly, the revenues from the products are recorded under either cake shop or restaurant outlet. One sous chef emphasized that supporting statistics on the sales of festival products should be provided in the report,

> "If the revenues from festival products are recorded under a Chinese restaurant, the restaurant's food sales may fluctuate periodically. In addition, the cost of sales for festival products could be quite different from the cost of normal food

sales. Thus, it is better to address the period, sales volume, and cost ratio of festival products somewhere in the report, so as to clearly remind the restaurant manager of the impact on monthly F&B business brought by certain festivals."

5.2.2. Guidelines on Cost Allocation

The topic of cost allocation has generated an extraordinary amount of concern in the cost and managerial accounting literature (Greenlees, 2008). There are rational arguments both for and against the use of cost allocation (Section 2.4.1). The USALI requires the use of a costing method based on direct and indirect cost classification. Accordingly, revenue and costs directly related to the respective revenue-generating departments are reported. Indirect costs (e.g., marketing, administration, and others) are not distributed to revenue-generating departments (Potter & Schmidgall, 1999). The 8th and 9th editions of USALI incorporated one section for Guidance for Allocating Expenses to Operated Departments, which suggests allocation bases and methods (Section 2.4.2). This allows flexibility in the allocation of many expenses by proposing several allocation bases rather than a single standard (Popowich et al., 1997). This results in a great variety in professional practices (Collier & Gregory, 1995). In order to keep consistency and comparability, the section on cost allocation guidance has been deleted in the 10th edition (HFTP, 2008). The discussions with financial controllers in Hong Kong and Macau intended to explore whether the abandonment of cost allocation guidelines is appropriate.

Interviewees were asked regarding the extent of cost allocation applied in their hotels. It was found that the adoption of cost allocation is still a common practice in local hotels, and that no hotel uses fully allocated statement. Some hotels apply cost allocation in very limited areas, while some other hotels use it in wider range of areas. Majority of the interviewed financial controllers in Hong Kong and Macau claimed that the costs of employee benefits (e.g., staff meals, MPF, and workmen compensation) and uniform laundry are generally allocated to each department based on the number of employees. The interviewees also mentioned that they distribute the costs of F&B service departments to F&B revenue-generating outlets, including stewarding, pastry, commissary, chef's office, and F&B executive administration. The allocation bases are determined by the nature of the expenses. In many cases, the percentage of outlet revenue is used. Only one financial controller claimed that the expenses of the whole human resources department are distributed to every other department based on headcount. In contrast, most hotels have human resources as an independent Undistributed Operating Expenses or include it under the Administrative and General department.

Referring to the suggested allocation bases in the 8th edition of USALI (Figure 2.11, p. 59), most of the allocation bases were not being used by local hotels. Thus, the interviewees were further asked about the applicability of these suggested allocation bases. The discussions centered on the allocation of energy costs. One financial controller discussed,

> "The allocation of energy costs might be a good idea, as it could alert department head to save on utilities which always accounts for a large percentage of expenses. However, I have concerns on the technical areas. Usually these sub-meters need to be installed during the construction of the hotel. I am not sure if they can be easily installed after the hotel is built up. Also, I'm afraid, after allocating the energy costs to individual department, some previously profitable outlet will incur a loss."

Another financial controller also showed his concern on allocating indirect costs:

> "This list of allocation bases seems to suggest allocating all the indirect expenses to operating departments. If we do so, probably every department will suffer a loss and there will be no undistributed expenses. I don't think this is workable."

Majority of the interviewed financial controllers did not support a fully allocated departmental schedule. Only two showed interest in the departmental net profit after deducting utility costs. One financial controller, a Certified Public Accountant (CPA) from Hong Kong, typified his view:

> "I think the utilities used during cooking should be recorded under F&B outlets. According to the matching principle, expenses should be matched with revenues in both the period and unit in which efforts are made to generate revenues. I felt

> very strange that in the hotel industry Utilities as well as Property & Maintenance are not recorded in the relevant department where the costs happen. I think that if the costs are recorded in the F&B department, it could provide management a true picture of operational profitability."

In addition to the need for more accurate cost allocation (Geller & Schmidgall, 1980; Schmidgall & Malk, 1992), the critics of USALI also focused on its failure to reflect the market orientation of the hotel industry (Harris & Brown, 1998; Makrigiannakis & Soteriades, 2007). Guilding and McManus (2002) found that market orientation was significantly and positively related to the use and merit of certain customer accounting practices, such as the lifetime customer profitability analysis. Despite the growing focus on the value of customer profitability, the USALI emphasizes the provision of information on departmental profitability and overall hotel operation; however, it does not provide any financial data on the profit margins of serving different market segments (Karadag & Kim, 2006). The interviewed marketing manager called for segment reporting wherein financial data are organized in relation to market segments, while financial controllers totally disagreed with this idea. The mismatch between the information needs of marketing manager and the information supplied by financial manager is consistent with the findings of Downie (1997). The lack of market segment reporting may lead to inadequate use of accounting information in the strategic decisions of sales and marketing. Given this situation, more sophisticated management accounting techniques are suggested. Researchers have proven the validity of the application of customer profitability analysis, including the use of ABC (Karadag & Kim, 2006; Noone & Griffin, 1997, 1999).

ABC technique has widely been suggested in hotel and catering industry (Kaplan & Cooper, 1998; Pavlatos & Paggios, 2007; Raab et al. 2007). Pavlatos and Paggios (2007) conducted a survey in Greece and found that 20 out of the 98 Greek hotels had adopted ABC system in the operations of housekeeping, front office, restaurants, marketing, and general administration. This result is relatively surprising because Tai (2000) claimed that the use of ABC in hotels in Europe was minimal at that time. Similar findings were obtained in the Hong Kong and Macau hotels that participated in this study; thus far, no hotel has adopted this approach.

5.3. Implications

Ambiguous Items and Rules

Operating Equipment

Although the 10th edition of USALI requires full expensing of operating equipment, discussion with financial controllers revealed that hotels in Hong Kong and Macau still follow the accounting practices for operating equipment in the 9th edition of USALI, which is to capitalize the initial purchase of China Glassware, Silver, Linen and Uniforms, and expense the replacement purchase. Some hotels expense the replacement purchase in the current-month departmental schedule. Other hotels expense the replacement purchase during the consumption period of these items. However, the determination of the useful period of operating equipment depends wholly on experience and estimation of the management. This study suggests that relevant guidelines should be provided on suggested consumption period of different operating equipment. Examples of operating equipment with a useful life of one year (current asset), and operating equipment with a useful life of over one year (long term asset) should be listed for reference. Detailed enhancement options on consumption period of operating are further discussed in Section 6.2.2 (p. 188).

The main reason that hotels are reluctant to follow the guidelines in the 10th edition of USALI and fully expense the operating equipment is that this change would bring about a significant lowering of GOP, and subsequently lead to a lower management fees. The calculation of management fees is a sensitive topic to hotel management companies and hotel owners. Persuading hotels to follow the rules on operating equipment in the 10th edition of USALI might prove difficult.

Frequent-guest Programs

Discussions with experienced professionals from the hotel industry revealed the dichotomy of costs related to frequent-guest programs at the property level. A number of the major tangible costs associated with the program were identified. It was found that the current performance monitoring methods of frequent-guest programs are revenue-oriented and do not consider the cost factors. Future reports were suggested to account for both the revenue and expenses of such programs so that the cost-effectiveness could be clearly disclosed (Section 6.1.1, p.177).

This study represents the first attempt to reveal the current logistical handling methods of frequent-guest programs' point system. This information could be a useful reference for hotels that plan to implement such programs. Moreover, attention of both hotel management and owners should also be drawn on the lowering impact of "free night" redemption on ADR. Hoteliers might need to consider a better capacity control method to reduce the drag-down impact of redemption room rate on ADR.

Service Charges

The findings on service charges highlighted a mismatch between the theoretical accounting standard (i.e., USALI) and the practical use of service charges. The updating of the guidelines on service charges has fallen behind the evolving business environment. The explanation on service charges in the latest USALI is limited to food and beverage areas; however, in reality, the levy of service charges is widely spread across all the departments in a hotel (Ramirez, 2009). Such ambiguity allows disparity in the practical treatment of service charges, and has weakened the intended advantage of standardization and aim of uniformity of USALI. The study of Ni et al. (2009) suggests that future editions of USALI expand accounting guidelines for service charges to Rooms and Other Operated departments, and not just to F&B

In this study, it was found that all the participating hotels record service charges entirely as revenues; service charge revenue are neither distributed to employees nor used for payroll. This is because Hong Kong and Macau have a relatively laid-back business environment. There is no governmental rule that requires the distribution of service charges to the employees. Compared with the other accounting treatments, recording service charges as revenues has turned out to be a better handling method. This method ensures a stable income for employees, presents a clearer picture of hotel performance reporting, and indicates higher ADR. Thus, the method of recording service charges as Other Revenue in Rooms, F&B and Other Operated Departments is suggested (Section 6.2.2, p. 191). However, several accounting and finance experts who have intensive work experience outside Hong Kong warned that hotel managers should always be very careful and sensible when it comes to service charges, as it very much relies on the specific local conditions.

Problem Areas

New Business Drivers

Basically, interviewees reached a consensus that spas and festival products have become new revenue sources, while telecommunications has been relegated to a service department. With the increasing popularity of hotel spas, the revenue from these sources have become more important. Therefore, the addition of an individual sub-schedule, as well as independent line items in the summary statement of income, has been suggested. In addition, festival-driven products are another important source of income for hotels. A special notes section should be added to the income statement to record the sales of cultural festival products and separate from normal operation performance of the restaurant outlet (Section 6.1.2, p.180). If revenue from cultural festival products is significant, an independent sub-schedule can be considered. As the Telecommunications Department is shifting from being a profit center to being a cost center, accounting treatment has to be changed accordingly. As indicated by the discussion results, it should be shared by Rooms, F&B, and other related departments that use telephone services, or rolled into Administrative and General as an expense line item.

Additionally, there are new revenue drivers that are still not fully reported in the financial statements under the USALI format, including revenue from apartments, shopping malls, and retail business from laundry. If the revenue and expenses are considerable, an individual schedule for recording the relevant revenue and expense incurred in each new revenue driver would be essential. This practice may provide managers and executives a clearer picture of the potential profits and costs of these new drivers.

Cost Allocation

Discussion with financial controllers in Hong Kong and Macau showed that a certain level of cost allocation is still widely used, particularly in the F&B Department. The cost of stewarding, pastry, and administration are usually allocated to different outlets. The interviewees felt that the deletion of cost allocation guidelines in the USALI did not help enhance consistency and comparability, as hotels may still adopt cost allocation. Instead, the interviewees suggested that the section of guidance on cost allocation methods be maintained, as this is an important and indispensable area in hotel accounting. By suggesting different allocation methods and reasonable allocation bases, the USALI would increase its value as a reference book for hotel industry.

Furthermore, it was discovered that a fully allocated income statement and the allocation of undistributed expenses are not favored. Only one hotel claimed that the costs of human resources are allocated to respective departments; the rest do not allocate undistributed operating expenses. Majority of the respondents expressed that they are significantly concerned regarding the psychological impact that full cost allocations would have on employee motivation and overall business success. Management resists being in charge of costs they are not responsible for in their department, as this may lead a previously a profitable department to incur a loss. However, three financial controllers supported the idea of a fully allocated schedule to reveal the real profitability of operation. They emphasized that correct management decision only could be made based on adequate and accurate financial information. In view of the importance of cost allocation, the net profit calculated under a fully allocated method is suggested to be included in the notes section of departmental schedule (Section 6.1.2, p. 183).

Additionally, it was found that although marketing mangers prefer segment reporting where all company costs are allocated among market segments, most financial controllers adhere to the opposite view. The interviewed director of Sales and Marketing stated that he would appreciate financial data that more directly support activities and analysis, but that financial controllers would rather apportion department-related revenue and expenses and reflect financial performance of overall hotel operation. Thus, customer profitability analysis, including the use of ABC, was recommended (Karadag & Kim, 2006) to meet the need of marketers. Researchers have suggested the application of ABC technique in hospitality industry (Pavlatos & Paggios, 2007; Raab et al. 2007; Karadag & Kim, 2006; Noone & Griffin, 1997, 1999). However, the adoption of such method is very low in the SARs of China and no hotel currently uses this approach. This study suggests that local hotels use more advanced management accounting approaches and generate supporting information on customer segment reporting to facilitate decision making (Section 6.1.1, p. 178).

6. Common Enhancement Options for the Identified Problems

In Sections 4 and 5, some significant issues that are vague or not sufficiently covered in the 10^{th} edition of USALI were highlighted. With the requirement of greater transparency on the financial reports and better comparative analysis of the intense competition, a sound system of accounts that allows for both of these objectives to be met has become essential. This section presents views of hotel accounting practitioners on options to substantiate the financial report content and update the accounting guidance in the context of Hong Kong and Macau. The significance and limitations of this study and recommendations for future study are also proposed in end of this section.

6.1. Enhancing the Content of Schedules

6.1.1. Sub-accounts and Sub-schedules

The 10^{th} edition of USALI disallows alternative formats of departmental schedules. Hotels are allowed to develop sub-accounts or sub-schedules to provide more details related to a particular revenue or expense line item; however, the USALI does not provide detailed information on these sub-accounts or sub-schedules. Therefore, this study suggests that it is necessary to add further explanations on sub-accounts and sub-schedules. This would enable both external and internal users to understand the inclusions of certain line item better when comparing operational performance of a particular property to similar types of properties. Moreover, the addition of sub-accounts and sub-schedules could make USALI better serve as a turnkey accounting system for newly opened hotels, thereby enhancing the practicability of the USALI.

Sub-accounts

In the review of the line items in different departmental schedules, the idea of sub-accounts was commonly mentioned by many industry professionals. The following discussions focused on some frequently suggested sub-accounts for three expense line items in Rooms departmental schedule (i.e., Commissions, Reservations, Guest Supplies) and one expense item in the Sales and Marketing departmental schedule(i.e., E-Commerce) (Table 6.1).

Table 6.1 Items that Need Sub-accounts

First-level account	**Sub-account**
Commissions	-Flat commissions -Commissions provision
Reservations	-Internal CRS -External CRS
Guest supplies/ Complimentary services and gifts	-Frequent guest program/ member club -Other guests
E-commerce	-GDS -Word search -Email blast

1. Commissions

Discussions with Rooms management revealed that the way hotels pay travel agent commissions is changing. The performance-related floating commission rate is replacing the fixed commission rate. One Rooms division manager noted,

> "When hotel business was good in the past, the commissions for blocks of rooms provided to travel agents were at a fixed percentage (10–20%) of the room rate. However, recently due to the financial tsunami, hotel business has not been doing well. Hotels in Hong Kong have started to link the contract with travel agents' annual performance and offer a floating commission rate accordingly. That is to say, when the room production/maturity is above certain percentage in a year, the travel agents can get a higher level of commission. Thus, the monthly expense on commission might be unpredictable. Usually, flexible commission strategy applies to large travel agents that contribute a lot of room production. Fixed commission strategy applies to small travel agents which produces limited room maturity annually."

In view of the above situation, two sub-accounts under the line item of Commissions might be needed (Table 6.1). One is the predictable flat commissions that are set at a designated fixed percentage of room rates in the contracts with authorized travel agents. The other is commission provision, a pre-assigned amount of commission cost for travel agents whose contracts are linked with room production. At the end of the year, depending on actual performance of travel agents, the item of commission provision will then be adjusted.

2. Reservations

Reservation costs can be divided into two types: internal and external Central Reservation System (CRS) costs. Internal CRS refers to the corporate reservation system of the hotel, such as Marriott's MARSHA and InterContinental's Holidex. Examples of external CRS are LeadingHotels network, Utell, or the Hotel Reservation Service (HRS) counter at the Hong Kong Airport. A detailed explanation, along with some examples of these types of CRS, can be added to Rooms departmental schedule to elaborate the sub-accounts of reservations costs further.

3. Guest Supplies/Complimentary Services and Gifts

Presently, hotel loyalty programs such as frequent-guest program and member club have become increasingly widespread. While these programs may encourage repeat patronage and lead to higher revenue, the amount spent each year on free membership benefits to keep guests coming back equal millions of dollars (McCleary & Weaver, 1991, 1992; Toh et al., 1991). The interviewed accounting professionals tried to identify the relevant costs of hard membership benefits offered to member guests (Section 5.1.2). The interviewees were also asked to describe how they record these costs. Majority of the informants prefer to record such costs in Guest Supplies, an expense account in Rooms Department. In particular, sub-accounts were suggested to differentiate the costs of unique amenities and supplies provided to member guests, in contrast to those provided to ordinary guests (Table 6.1). The creation of two sub-accounts under the line item of Guest Supplies (i.e, guest supplies for frequent-guest program members and guest supplies for other guests) was suggested.

4. E-commerce

E-commerce is one item of Marketing expenses. Due to the popularity of promoting hotels through electronic systems, the costs of E-commerce have grown larger. Some hotels that attach great importance to e-marketing may hire an E-commerce manager who is only responsible for Internet marketing and implement e-marketing practices. The common e-marketing practices include search engine marketing, search results optimization, banners advertisements on specific websites, e-mail blast, and constructing and maintaining hotel's own website. One interviewed Director of Sales & Marketing explained with examples:

> "We keep updating our hotel's own website. We try to increase our ranking of search results on search engines (e.g., google.com, yahoo.com) or third party's website (e.g. hotels.com; ctrip.com). We may also place advertisement on GDS or search engine websites, and frequently review comments about our hotel on social websites (e.g., Facebook) or travel website. These are all newly emerged costs. When Internet is not very popular in the past, we don't that much cost on these and we don't have to pay for an E-commerce manager."

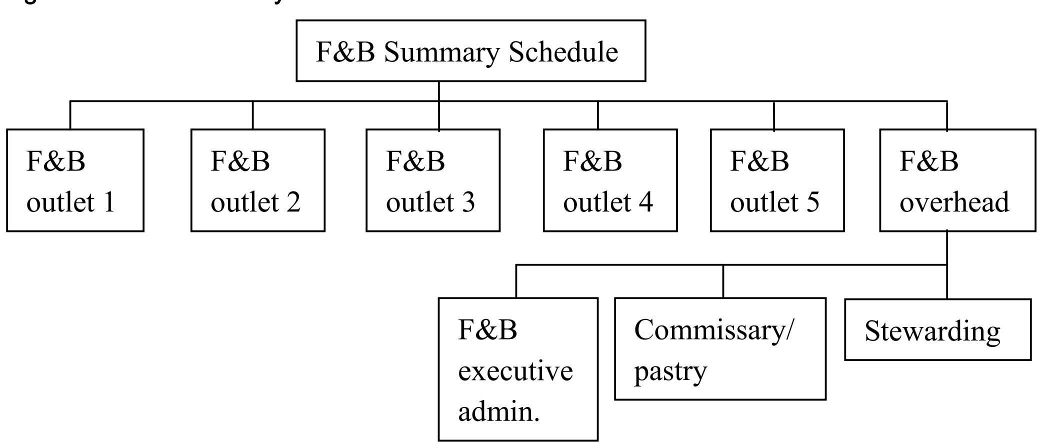
In view of the increasing E-commerce expenses, the interviewees felt that sub-accounts should be expanded to include key word search, search result ranking, email blast expenses, and GDS in order to give management a clearer and full picture of this aspect.

Sub-schedules and Supporting Schedules

1. F&B Sub-schedules

In Section 4.1.3, it was found that vast majority of the non-casino hotels in Hong Kong and Macau prefer to use a summary schedule of overall F&B operations supported by sub-schedules of each F&B outlet (e.g., Chinese restaurant, Western restaurant, bar and lounge, cake shop, and others). The layers of this relationship is presented in the following figure. The last sub-schedule, F&B overhead, is a distribution schedule that may comprise further sub-schedules of F&B executive administration, commissary/pastry, and stewarding. The expenses in the F&B overhead schedule are distributed to each outlet according to some reasonable allocation bases, for instance, outlet revenue.

Figure 6.1 F&B Summary Schedule and Sub-schedules



2. Due to/From owner, Management Company, or Related Party

The 10th edition of USALI adds a new line item in the balance sheet to report amounts due to or from the owner, the management company, and other related entities that could further be classified as current or long-term, based on their payment terms. Examples are the payment of management fees, franchise and affiliated advertising fees, and loyalty programs and affiliation fees. As a hotel may have a large quantity of monthly transactions with its management company and owner company, the interviewed financial controllers believed that establishing a separate schedule for the transactions related to the amounts due to or from the owner company, the management company, and other related parties could provide a clear picture of the accounts payable and accounts receivable. Sub-accounts can also be established under these different parties.

3. Supporting Schedule for Frequent-guest Program

Once a dichotomous analysis of the cost of frequent-guest program (Section 5.1.2) has been conducted, relevant expenses incurred by an individual hotel can be easily identified. The major costs is the loyalty programs and affiliation fee, while associated costs include reservations costs, hard membership benefits, international marketing fee and the program materials. As long as the chart of account is well established, it would not be difficult to draw all these expense accounts or sub-accounts related to frequent-guest programs and form a schedule to reflect the costs of the concerned programs. The resulting supporting schedule can be a very useful control tool for hotel management to constantly monitor the program costs, and quantitatively conduct a cost and benefit analysis for loyalty programs.

4. Supplementary Customer Segment Reporting

In view of the failure of USALI to reflect the market orientation of the hotel industry (Harris & Brown, 1998; Makrigiannakis & Soteriades, 2007), the application of customer profitability analysis with the use of ABC has been widely suggested (Karadag & Kim, 2006; Noone & Griffin, 1997, 1999) (Section 5.2.2). Market segment reporting, which classifies revenues by market segment, can be realized under such techniques. In order to fulfill the increasing need of adequate marketing information, segment reporting with the adoption of ABC technique can be very helpful in segment profitability analysis and strategic marketing planning. Thus, customer segment reporting has been recommended to function as a supplementary sub-schedule for marketers.

6.1.2. Notes Section

The aim of performance reporting is to provide hotel management with key financial and statistical information to make day-to-day and short-term operation decisions. In hotels, the users of the financial schedules are not only accounting and financial personnel, but include departmental management. In order to fulfill the need of management-oriented reports, full use of the note section by incorporating some key statistical data into the departmental reports has been suggested. The following discussions elaborated four applications of notes section in Rooms, F&B, Telecommunications, and Utilities Departments.

1. Rooms Department

Majority of the interviewed personnel agreed to add commonly used operating statistics and ratios as notes section, either on top of Rooms departmental schedule, or at the end of the schedule. Examples are rooms available, rooms sold, house use, complimentary rooms, RevPAR, and room revenue per guest.

In addition, the study found an interesting proposal of adding upselling performance statistics of front desk receptionists into the notes section of the reports for the information of management. As one Rooms management personnel in Hong Kong clarified,

> "It is noticeable that in the competitive environment in Hong Kong, front desk receptionists are well-trained for upselling. Revenues from Rooms upselling might need to be categorized into one line item as supporting information for management to monitor and compare staff's upselling performance."

2. F&B Department

Numerous F&B statistical indices widely used in the industry are not covered in the USALI. Participants in the focus group discussions of F&B management personnel pointed out that notes section indicating those frequently used statistics can be added at the end of the financial schedules for operational purpose. Important supporting data should not be omitted, including the number of total covers, number of guests, revenue of meal periods covers (breakfast, lunch, and dinner), average meal check, average check per outlet, cost of sales per cover, and revenue per seat turnover. Tse (1991) identified three measures for the economic performance of restaurant: average percentage of return on sales, return on assets, and the average growth in unit sales. These indicators could also be added into the notes section of F&B Departments.

This study found that many hotels record the revenues of festival products in the outlet schedule of Chinese restaurant. Statistics on the sales of festival products are suggested to be included into the notes section of the outlet schedule. The sales of festival products has strong seasonality. With clear indication of the relevant statistics on festival products, the real operation performance of the restaurant would not be distorted.

In addition, one head chef added another interesting point of view. He suggested adding some statistical data about the expensive food items consumed by F&B outlets in the report's notes section for better cost control. As he explained:

> "With the improvement of people's living standard, nowadays the demand for high quality and expensive food items are much larger than before. Some of

these items could be very expensive. For example, Tuber Magnatum Pico may cost more than HK$ 700 per gram. In addition, the high cost items used by Chinese restaurants can be abalone, bird's nest, and shark's fin. In the case of Western restaurants, lobster, oyster, and goose liver can be considered as expensive items."

Furthermore, another experienced executive manager provided another unique opinion. He had concerns on the restaurant's real net profit after rental:

"In many cases, property companies are the owners of hotel. As rents in Hong Kong are very expensive, property companies care a lot about the net profit after rental. Professionals in real estate development or property management firms are accustomed to use profitability per square meter in their analysis. To meet their needs, the statistics on average monthly rental per square meter of similar buildings in the market could be also included in the notes section of the report. This practice may give outlet manager a feel of the magnitude of impact on outlet profit produced by restaurant outlet's rental."

3. *Telecommunications*

One financial controller suggested an interesting method of saving on the expensive long distance and roaming telephone costs. By monitoring the minute usage level of long distance calls and roaming calls of the hotel for half a year, he obtained an estimated average for monthly minute usage. He bargained with the telecommunication company and signed a package contract for the long distance call and roaming call consumption of the hotel. This helped the hotel save a considerable amount of money. The expenses on telephone costs, especially roaming costs, were thus reduced.

If any hotel wants to adopt this practice, the first thing they should do is to obtain a proper estimate of the minute usage level of long distance and roaming calls. Adding the minute consumption information into the notes section of telecommunications departmental schedule can be a simple solution to the problem.

4. Utilities

Energy conservation is a globally important topic. Hotels are wasteful businesses and need to take proactive measures to manage their energy usage efficiently. In the US, hotel energy usages are tracked and classified by the US Department of Energy. Relevant statistics are regularly published in the Energy Information Administration annual reports (Wikipedia, 2009). Ramirez (2009) proposed that future editions of USALI also need to consider the statistical reporting on carbon credits and other environmental statistics that may become governmental requirements.

Chan (2005) pointed out the increasingly popular trend of incorporating environmental costs into the accounting notes section of financial statements. Two interviewed chief engineers in this study also felt that it is necessary to provide hotel energy usage statistics for benchmarking member hotels of chains or different properties of hotel owners. In addition to the costs incurred, consumption amount and unit price of gas, water, electricity, and fuel should be provided in order that energy usage performance of hotels within the same climatic region can be compared. In Macau, the consumption of bottled water may be unusually high during the months of saltwater threats, which should be clearly indicated in the notes section of Utilities schedule.

In response to the suggestion of Deng and Burnett (2002a, 2002b) of installing suitable sub-meters to monitor the usage of water, electricity, and gas, chief engineers were asked the applicability of such practices in local hotels. It was found that most newly opened hotels have started to conduct this practice; thus, it is quite easy to collect the energy consumption of each outlet. This information could be added into notes section of the Utilities schedule to provide management a sound basis to compare and evaluate energy usage performance of different outlets. In cases where installation of sub-meters is not possible, the method of formula could be used. Usage of different utilities can be estimated based on the appropriate allocation bases. For example, the usage of air conditioning can be assigned to specific departments based on unit area measurement.

5. Fully Allocated Undistributed Costs to Departmental Schedule

The interviews revealed that, for the most part, the fully allocated P&L schedule is not accepted by hotel management. There are significant concerns regarding the principle of responsibility accounting and psychological impact of these changes, as mentioned in Section 5.2.2. Thus, this study suggests adding a brief summary of fully allocated statistics into the note sections of departmental schedule, in order that operating managers would have a basic idea of how specific departments contribute to the GOP. The notes should also make clear that these statistics are for management information only and should not be relied on for performance evaluation.

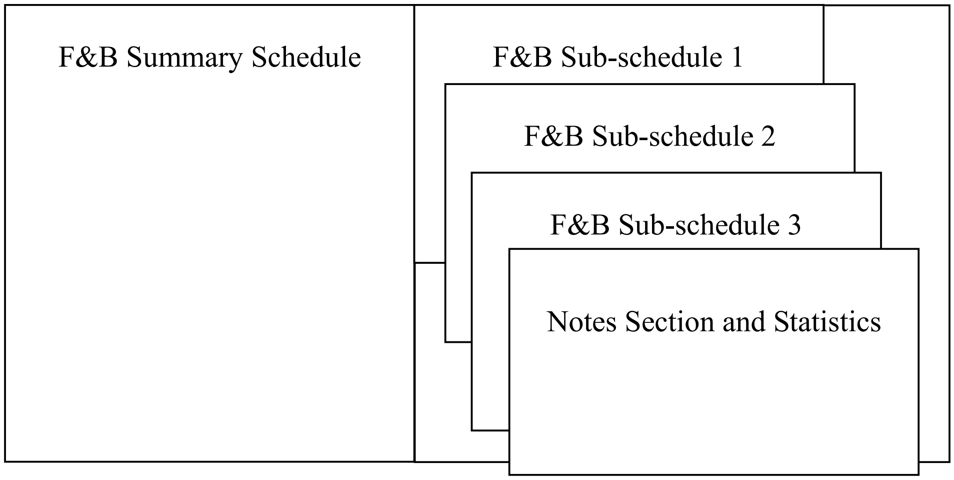
6.1.3. Electronic Accounting

Everything in the world today is affected by technology. Particularly, accounting has been affected to the highest degree. Most businesses use accounting software. Accounting software has made accounting much easier to deal with by saving all the information into the system and distributing the data amongst the proper locations; thus, here is less paperwork and less guesswork. The establishment of this accounting information system can provide quality information decision with accuracy, completeness, relevance, timliness, and validity (Gelinas & Dull, 2009; Hall, 2008). Phillips and Louvieris (2005) found that digitialization aids the collection, ananlysis, and dissemination of financial information, and this is one of the financial critical success factors.

Choe (1998) found that user participation has positive effects on the design of management accounting system, particularly in less structured organic organization. After proposing the enhancement options regarding sub-accounts, sub-schedules, and notes section based on the opinions from hotel operational and accounting management, the idea of building these features into the current accounting software was put forward.

The trend of using large computer monitors has become increasingly popular in offices. With the availability of wide monitors (30–40 inch), accounting schedules can be better arranged to present more information and improve the ease of reading. Microsoft Office 2007 has a new feature that allows windows to be shown side by side or stacked on top of one another; accounting software can be configured to present the schedules in a similar way. With the first-level schedule fixed on the left side, the sub-schedules and notes section can be rolled up and down on the right side. Thus, a clearer breakdown of first-level schedule can be provided. Figure 6.2 illustrates an example of F&B departmental schedules. In addition to daily operation, this sort of report presentation is particularly suitable for presentations in business meetings.

Figure 6.2 Presentation of summary schedule and sub-schedules



6.2. Setting up an E-Addendum

The origin of the USALI has incorporated inherent weaknesses into its current edition. As outlined in the literature review section, the USALI originated in the US in 1926, and over a span of 80 years, has been revised nine times. The latest edition is the result of cooperation among US-based associations and companies. No establishment from the international chains was represented and no international input has been recognized. One resounding theme that has become apparent is that many organizations using the USALI are global players; therefore, future editions should include an international perspective, making it as all-inclusive as possible (Ramirez, 2009). How could the USALI take a more global stance and address varying international accounting issues? Field (2002) wrote a practical guide to applying the USALI in the UK, and highlighted key problems. The focus group of the Hong Kong HCAA and interviewed financial controllers felt that a similar guide for applying the USALI to Hong Kong and Macau could be written and developed.

This guide can be in form of an addendum attached to the original USALI, based on consensus of senior lodging industry financial executives, public accounting authorities, representatives from industry benchmarking companies, and leading academic experts. Cooperation among HCAA, Hong Kong Hotels Association (HKHA), Macau Hotel Association (MHA), and hotel school are necessary for the development and administration of this addendum.

This addendum should not be a one-off publication; instead, it should be continuously updated. The e-material concept can be adopted, such as e-books (Annand, 2008; Buzzetto-More et al., 2007), electronic journals (Liew et al., 2000; Sathe et al., 2002), web-based Wikipedia (Zlatić et al., 2006). The proposed addendum can survive as an e-book that can be promptly amended in response to the changing business environment. The benefits of e-books also include: hyper linking, data density, customizability, greater distribution, lower costs, search ability and other multimedia features (Shiratuddin et al., 2003; Annand, 2008). The content of this e-addendum should include two main elements: an expense dictionary and the necessary revisions for accounting treatment.

6.2.1. Expense Dictionary

Depending on the regional business environment, expense items for hotels in different regions can vary considerably. Some items in the current US context-based USALI may be inapplicable in hotels elsewhere, while items that reflect Asian business feature are missing in the present USALI. Section 4.1.2 discussed a few selected examples in these situations. For example, Table 4.4 lists the comments of interviewees on the addition or deletion of items in Rooms expenses. Section 6.1.1 included some suggested sub-accounts for expense items in Rooms expenses. However, in order to make the USALI suitable for the hotels in Hong Kong and Macau, it should consider additional suggested new items, as well items found in each departmental schedule that are not applicable to the Hong Kong and Macau context.

Thus, one good method to enhance applicability of the USALI in Hong Kong and Macau hotels is to build up an expense dictionary that specifically addresses the local needs. Commonly used expenses items specific to Hong Kong and Macau can be compiled in this dictionary. An explanatory paragraph can be given with clear definitions. For instance, the items of Music & Entertainment, and Entertainment might confuse the new users. A clear explanation with specific examples for Hong Kong and Macau can be very useful.

6.2.2. Revision of Accounting Treatment

With the dynamic changes in the hotel business world, accounting treatment needs to be frequently revised. This study has found quite a few gray areas and ambiguous items/rules that financial controllers find problematic. Further explanation or revision of these topics could be included in the addendum of the USALI.

Accounting Treatment for Operating Equipment

The accounting treatment for operating equipment is vague in the current version of USALI. While the 10th edition requires all the operating equipment to be expensed, the hotels in Hong Kong and Macau still follow the rules in the 9th edition. The interviewed hotels only expense the replacement purchase but capitalize the initial purchase. In addition, several financial controllers felt that the USALI, as an industry guide, should give some suggested useful life for expensing different kinds of operating equipment. The HCAA may carry out a survey to identify the consumption period of specific kinds of operating equipment that are commonly used in hotels.

Depreciation Allowances

The discussion with interviewees on useful life of operating equipments extended to the depreciation allowances of capital asset. Some interviewed financial controllers felt there is a need to list the suggested useful life and depreciation allowances of some commonly used Property and Equipment items in hotels. In the current USALI, GOP is the ultimate financial appraisal indicator in Summary Operating Statement. In the past editions, Net Income is the ultimate item. GOP alone might be enough for management-company-operated hotels, while independent hotels and owner-operated-hotels still care about the net income after depreciation, amortization, gain or loss on sale of property and income taxes. Thus, many hotels have to deal with the depreciation treatment of Property and Equipment items. The USALI briefly mentions about depreciation method in US situations. It says that under US GAAP, straight-line method of depreciation is preferred, and declining balance method is usually used for tax depreciation. According to the Hong Kong Accounting Standard (HKAS), the company may select the depreciation method that most closely reflects the expected pattern of consumption of the future economic benefited embodied in the asset. Three methods are allowed, either straight-line, diminishing balance or units of production method (HKAS16, 2007). HKAS defines the depreciable amount and depreciation period but it does not give suggested depreciation allowances. Usually local tax department issues guidance on depreciation allowances for taxpayers. Appendix 6A and Appendix 6B list the depreciation allowances issued by Inland Revenue Department of Hong Kong and Macau Tax Department respectively. However, these two lists are prepared for general tax purpose and they are not detailed enough to be applied in hotel daily operations. This study suggests that the proposed addendum of USALI may include a list of suggested depreciation allowance specifically for hotel accounting.

Appendix 6C lists the depreciation allowances relevant to hospitality industry extracted from Australian tax rule, in which more specific categories and items are given, namely office machines & equipment, housekeeping equipment, home appliances, larger systems, recreational equipment, F&B operating equipment, and bands. These categories and items may serve as a prototype for the development of suggested depreciation allowances in hotels in Hong Kong and Macau, with minor changes to suit the contemporary changes. First, more items could be added to substantiate the content of the list. As highlighted by the interviewees with facility management background, certain assets such as steaming system, sauna, Jacuzzi, wine cellar, sea water cooling pump system, DVD dryer, microwave, artistic work and antique, which are commonly used in local hotels, have not been covered in the Austrian tax rule. Second, sub-categories could be set up to indicate the equipment under the same category item but with significantly different useful life. For example, due to the recent technology advancement, LCD televisions and plasma televisions are replacing traditional CRT televisions. The useful life of these three kinds of TV might be different. Thus, sub-categories under the item of Television Sets could be created to indicate the different depreciation allowances of these three kinds of TV. For the same reason, depreciation allowances for different types of boiler (e.g. diesel oil-fired boiler, town gas-fired boiler and heat pump) are different.

Others

Section 5 summarized other commonly mentioned problem areas that may need to be further clarified or improved, such as accounting treatment for service charges, individual line item for spas, and guidelines on cost allocation. Take the accounting treatment of service charges as an example. This study found that recording service charges as revenues has turned out to be a better handling method. Although this method may generate a higher management fee, it provides benefits of a stable income for employees, a clearer picture of hotel performance reporting, and a higher ADR. Thus, this study suggests recording service charges as Other Revenue in Rooms, F&B and Other Operated Departments. In the future, if consensus among the industry can be reached, the appropriate accounting treatment and enhancement option can be incorporated in this part of the e-addendum. Moreover, growth and updating of this part must be a continuous process.

6.3. Future Considerations in the USALI

Based on the approach of a responsibility accounting system, the USALI allows inter-hotel comparison, industry benchmarking and standardized terminology. This system has been very successful in contributing towards greater uniformity and comparability in hotel performance reporting (Kotas & Conlan, 1997; Harris & Brown, 1998; Guilding, 2009). However, consistency in comparisons made can only be achieved when the financial data is reported in such a way which conforms to the formats and definitions required in the USALI, which is both its strength and weakness. To remedy the weakness, this study suggests setting up a new section entitled “Future Considerations in the USALI” at the end of the USALI guidebook, in which some emerging topics beyond the current USALI are discussed. The study identifies two main critics of the USALI which can be potentially included in the new section.

One of the critics focused on the inadequate cost allocation to reflect the true profitability of responsibility center (Geller & Schmidgall, 1980; Schmidgall & Malk, 1992). In Section 5.2.2, industry professionals' opinions with regards to a fully-allocated departmental financial information are discussed. Supplementary profitability information after full allocation is subsequently suggested in the notes section (Section 6.1.2). Such a practice may destroy the uniformity and consistency intended by the USALI, as hotels may apply different allocation bases. However, it does enhance the reporting accuracy in each responsibility center.

The other criticism is that the USALI fails to reflect the market orientation of the hotel industry (Harris & Brown, 1998; Makrigiannakis & Soteriades, 2007). Philips and Halliday (2008) pointed out the collapsing boundaries between marketing and accounting and discussed the potential for increasing marketing/accounting synery via e-business planning. McManus and Guilding (2008) provided as synthesis of marketing and accounting literatures by exploring the potential of customer accounting. Departmental organization structure is the fundamental approach for the USALI to present reporting of unit management. In the past ten editions, the profit centers are remained as Rooms, F&B, and Other Operated Departments, while the cost centers are the sub-account headings under Undistributed Operating Expenses. However, it fails to reflect the business units/ market sector that hotels are actually focused. Different market sectors (e.g., international and regional corporate, local, commercial, convention, leisure, travel agents, wholesalers, government, aircrew, functions and others) contribute to revenues in Rooms, F&B, and Other Operated

Departments. It is important to evaluate the profitability of each market segments and then comply operational budgets. The current USALI does not meet the information needs of Sales & Marketing department. This study proposes a customer segment report as a supplementary schedule to the existing schedule in the USALI, which fundamentally challenges the traditional responsibility of the accounting system.

6.4. Significance and Limitations

6.4.1. Significance of the Findings

The USALI is widely adopted or referred to by hotels all over the world, especially by chain hotels or luxury hotels. As the ten editions of USALI are based on the contemporary information derived from the US lodging industry exclusively, it lacks an international perspective and fails to address varying international accounting issues. Currently, there is limited research on the topic of uniform hotel accounting system and its application in the countries outside the US. The extent of implementation of the updated 10th edition has remained unexplored in hotel sectors in the targeted areas of this study, namely, Hong Kong and Macau. Nevertheless, there is significant number of hotels planned in the next few years in these two cities. Thus, relevant guidance on accounting and reporting local hotel performance is very important.

This study represents the first attempt to map the extent of implementation status and identify the current and potential issues related to applicability of the latest version of USALI. It extends certain influence on the existing format of income statement in order to increase its applicability. It also contributes significantly towards fine-tuning hotel operational performance reporting in Hong Kong and Macau by proposing enhancement options to remedy the concerns of local hotel professionals. For example, interviews with hotel professionals revealed dichotomy of costs involved in frequent-guest program and the logistical handling method of the point system. Thus far, no publication has explained these two aspects in detail. The investigation into service charges distribution methods and their differential impacts on hotel management and employees represents the first effort in its field. The results highlight the mismatch between the theoretical accounting system and current industry practice, as well as the difference of accounting treatments in local hotel industry and in Western countries. The findings could provide hotels owners and management companies with a guide as to the type of distribution method to adopt for the best interest of the company and employees, and may lead to some regulations or measures for the industry. In turn, these will provide changes in the accounting practices on service charges.

This study undertakes a serious secondary data review by comparing the major changes in the 8th, 9th, and 10th editions of USALI. In addition, the study put discussion of the application of the 10th USALI to some experienced hotel industry professionals in Hong Kong and Macau. In practical terms, the findings will provide industry professionals a more comprehensive and objective picture of the uniqueness of hotel performance reporting in Hong Kong and Macau. This information will be especially useful for expatriate managers and regional executives from abroad who do not understand the local color. In addition, the results of this study will help to propose new and concrete guidelines for the continuous development of hotel reporting systems in the SARs of China through the addendum of USALI for the hotels in these regions. The collected data will serve as a reference to hotel industry leaders when considering future direction, ranking the priority options, and evaluating the alternative recommendations of hotel uniform accounting. Furthermore, by identifying the potential problem areas and enhancement options, this study can help facilitate the consistent comparability of performance reporting in the hotel industry.

In theoretical terms, this study challenges the responsibility accounting theory embedded in the USALI. The USALI relies on a departmental organization structure. Since its establishment in 1926, the principal departments have remained Rooms, Food, Beverage, Other Operated Departments and the departments under Undistributed Operating Expenses. However, it fails to reflect the real drivers of the market mix and the profitability of market segmentation. In view of this, this study proposes a supplementary customer segment report with the application of customer profitability analysis and activity based costing, which fundamentally changes the departmental responsibility structure.

The study also indirectly substantiates the content of management information system (MIS) embodied in the USALI by ascertaining and highlighting some operating examples, which have seldom been addressed in hospitality literature. The data describing the structure of the relationships of USALI being applied in the hotel management information framework (as shown in Figure 2.1) also represent the first of its kind. The plotted linkages of USALI to stakeholders and hotel information sub-systems may assist system analysts and non-hotel practitioners in achieving a better understanding of the whole MIS in a hotel.

The findings from the investigation into Macau situation will further provide implications on performance reporting for future casino-associated hotel development in other regions, such as in Singapore and Vietnam.

Lastly, this study probes into an area that has received minimal prior academic attention. The findings contribute to the body of knowledge not only on hotel performance reporting format in the SARs, but also on certain unnoticed accounting treatment for service charges and frequent-guest programs. Hospitality students should have more knowledge regarding the implementation and applicability of the USALI in local hotels. Thus, the results could be considered relevant contributions toward the enrichment of the content of university education.

6.4.2. Limitations of the study

The study is limited to the implementation status and problem areas in the application of the USALI to Hong Kong and Macau hotels. Other regions outside these two cities may require different specificities for their accounting systems because of their own contexts of rules, regulations, customs, and new business drivers. The findings, therefore, do not address wider implications outside the two studied cities.

A second limitation concerns the inability to generalize the results in terms of the implementation status of the USALI in Hong Kong and Macau. This study is exploratory and qualitative in nature, and supplemented by a minor quantitative attempt. The number of hotels involved in this study is not substantial. As mentioned in Sample Selection (Section 3.2), the participants and interviewees are from twenty-two Hong Kong hotels and nine Macau hotels, representing 33.85% of the high-tariff A and B hotels in Hong Kong, and 20.45% of the 3-to-5 star hotels Macau. Thus, the results on acceptability and applicability of the USALI are limited to the upper level hotels. Opinions of lower level hotels (e.g., 1-to-2 star hotels, budget hotels) regarding the USALI are not reflected in this study.

Third, the nature of the research topic, the hotel accounting system, is very sensitive. The interviewees might have been conservative when expressing their opinions or giving comments on certain accounting treatments. Among the 3 focus group discussions and 36 in-depth interviews, eight interviewees declined the audio recording during the interviews, and five interviews were conducted by telephone due to the busy schedules of the interviewees. The remaining twenty-three interviews and three focus group discussions were recorded with permission.

6.4.3. Recommendations for Future Study

This study suggests an addendum attached to the original USALI, which specifically addresses the reporting needs of hotel s in Hong Kong and Macau. It includes two main areas: an expense dictionary and the necessary revisions for accounting treatment.

In Hong Kong, HCAA and HKHA have already shown great interests in developing such an addendum and taken some initial actions. They have started seminars and tried to identify some problems areas in the 10th USALI which could be further clarified and improved. By cooperating with HKTB, Hotel Owners Association and Hotel General Managers Association, more complete and larger scale investigation could be conducted among local hotel to work towards consensus on the appropriate accounting solutions to the identified problems. Scholars in this field (as mentioned in literature), consultancy company, professional accounting firms and government department could also be invited for the development of this addendum.

In Macau, there is no hotel controllers association. The first step is to set up an association which functions similarly to Hong Kong HCAA. Three ways could be considered to establish this Macau hotel controllers association. First, it could be initiated by Macau Hotels Association (MHA), with the efforts of local general managers from casino hotels and university scholars. Second, HKHA may consider set up a chapter in Macau to engage with the development of USALI addendum in Macau context. As many hotel controllers in Hong Kong might also have had working experiences in Macau, these controllers are able to provide valuable insights on the applicability of USALI in Macau. Third, for similar reason, Hotel General Manager Association in Guangdong Province (as there is a relatively large number of resort hotels in this province) may consider forming a sub-committee to discuss matters on this subject. After Macau hotel controllers association brings awareness to the concerned problems of USALI in Macau hotel industry, formal chair section could be conducted to collect practitioners' views and solutions on the identified problems.

Research can be comparative in nature. Thus, future research may extend to a wider range of hotels in different areas. Although the leading players have presumably already adjusted their management accounting practices to the USALI-based format, the same cannot be agreed in relation to smaller independent hotels. Thus, future study can focus on the application of USALI in independent hotels. In addition, improving the existing hotel reporting format to reflect local needs should not be limited to Hong Kong and Macau. Field (2002) highlighted some material problems when adopting the USALI in hotels in the UK. Chan and Wong (2007) identified the efforts that could lead to a more comprehensive accounting framework for hotels in Mainland China. Respondents of the HFTP survey also called for international recognition in future USALI editions (Venegas, 2009). Future study can involve hotel professionals in different regions around the world.

This study suggests developing a list of suggested useful life for operating equipment and some commonly used Property and Equipment items in hotels. Future study may conduct survey in local hotels to identify the detailed items and their useful life, thus suggest appropriate depreciation allowances. The accounting treatment of certain items might be very special and noteworthy. For instance, some boutique hotels place valuable artistic work and antique in the lobby or guest room (Chan, 2008). These items may appreciate or depreciate as evaluations of their intrinsic value change. Different methods can be used to account for them. Under HKAS, either cost model or revaluation model is allowed (HKAS16, 2010).

The USALI was originally developed for hotels in the US; thus, the changes in financial statements through the past three editions follow US accounting standards (i.e., US GAAP). However, when applied by a company outside US, the local accounting requirements and standards may significantly affect the format and presentation of these financial statements. Most of the time, changes are required because the national GAAP of the user and other pronouncements of local authorities differ from those of the US. In Hong Kong, companies have to follow the Hong Kong Financial Reporting Standards (HKFRS) developed by Hong Kong Institute of Certified Public Accountants (HKICPA) that serve as the local GAAP (HKICPA, 2007). If hotels in Hong Kong wish to adopt the USALI, there might be a need to adjust part of the financial statement in order to be consistent with HKFRS. Thus, there is a need to identify the specific items where adjustments are needed due to these pronouncements. This study mainly focused on the reactions of the industry professionals to the operating schedules in the USALI. It did not delve on the gap between USALI and pubic accounting reporting format. Generally, hotel owners are publicly owned companies. Sometimes, successful hotel chains may go public. These hotels may follow either USALI-based accounting format or local accounting system for public companies. Another interesting research direction for future study is to identify whether there are major conflicts or noteworthy differences between the USALI and the public accounting system.

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APPENDICES

Appendix 1A: Number of Hotel Rooms and Occupancy in Hong Kong (1980-2009)

Year	No. of Rooms	Annual Growth	Occupancy (%)	Year	No. of Rooms	Annual Growth	Occupancy (%)
1980	14,899	-	87	1995	33,052	-1.31%	85
1981	16,323	9.56%	87	1996	33,536	1.46%	88
1982	17,415	6.69%	82	1997	32,624	-2.72%	76
1983	17,570	0.89%	83	1998	32,714	0.28%	76
1984	18,031	2.62%	89	1999	32,871	0.48%	80
1985	18,180	0.83%	88	2000	36,749	11.80%	83
1986	20,230	11.28%	85	2001	37,132	1.04%	79
1987	21,022	3.91%	90	2002	38,949	4.89%	84
1988	22,882	8.85%	92	2003	38,133	-2.10%	70
1989	27,031	18.13%	79	2004	39,128	2.61%	88
1990	28,146	4.12%	78	2005	43,866	12.11%	86
1991	31,163	10.72%	75	2006	47,128	7.44%	87
1992	33,534	7.61%	82	2007	51,581	9.45%	86
1993	34,044	1.52%	87	2008	54,804	6.25%	85
1994	33,490	-1.63%	85	2009	59,627	8.80%	78
2010	62,907	5.50%					
2011	66,748	6.11%					
2012	69,381	3.94%					
2013	69651	0.39%					

Source: Hong Kong Tourism Board (As of May , 2010)

Appendix 1B: Number of Hotel Rooms and Occupancy in Macau (1999-2009)

Year	No. of Rooms	Annual Growth	Occupancy (%)
1999	8,848	-	55.42
2000	8,611	-2.68%	59.15
2001	8,440	-1.99%	62.42
2002	8,360	-0.95%	69.19
2003	8,599	2.86%	66.3
2004	8,608	0.10%	77.81
2005	10,285	19.48%	72.36
2006	12,419	20.75%	73.47
2007	15,586	25.50%	78.05
2008	16,971	8.89%	75
2009	18,690	10.13%	72.1

Source: Macau Statistics and Census Service

Appendix 1C: Number of Hotels in Macau (1999 - 2009)

Year	5 - star	4 - star	3 - star	2 - star	Total
1999	8	8	10	14	40
2000	8	9	9	12	38
2001	8	9	8	12	37
2002	8	9	8	10	35
2003	9	9	8	11	37
2004	9	9	9	12	39
2005	9	11	12	12	44
2006	11	12	15	11	49
2007	14	12	14	12	52
2008	19	12	12	11	54
2009	22	13	12	12	59

Source: Macau Statistics and Census Service

Appendix 1D: List of Hotels in Macau

List of 5-star Hotels in Macau

	Hotel Name	No. of Rooms
1	Altira Macau	216
2	Landmark Hotel	451
3	MGM Grand Macau	597
4	Sands	289
5	Wynn	600
6	Grand Waldo	318
7	Four Seasons	360
8	Hotel Lisboa	1071
9	Grand Lapa (former Mandarin Oriental)	407
10	New Century Hotel	626
11	Regency Hotel	326
12	Ponte 16 – Hotel Sofitel	408
13	Riviera Hotel Macau	161
14	Hotel Royal	380
15	São Tiago da Barra	13
16	StarWorld Hotel	497
17	The Venetian Macao	2874
18	The Westin Resort Macau	208
19	Grand Lisboa Hotel	431
20	Crown Tower	208
21	Grand Hyatt	763
22	L'Arc New World Hotel	301
	Sub Total:	**11317**

List of 4-star Hotels in Macau

	Hotel Name	No. of Rooms
1	Golden Crown China Hotel	300
2	Hotel Golden Dragon	483
3	Grandview Hotel	487
4	Hotel Holiday Inn Macau	424
5	Hotel Beverly Plaza	300
6	Hotel Casa Real	381
7	Metropark Hotel	350
8	Pousada de Coloane	22
9	Hotel Presidente	308
10	Rio Hotel	449
11	Royal Intante Harbour View Hotel	298
12	Hotel Taipa Square (Rossio de Taipa)	406
13	Hark Rock Hotel	322
	Sub Total:	**4530**

List of 3-star Hotels in Macau

	Hotel Name	No. of Rooms
1	Best Western Hotel Taipa	262
2	Emperor Hotel	398
3	Hotel Fortuna	386
4	Hotel Fu Hua	141
5	Grand Emperor Hotel	291
6	Hotel Guia	90
7	Hotel Mondial	66
8	Hotel Mondial - Ala Nova	75
9	Hotel Rocks	72
11	Hotel Metropole	112
12	Hotel Sintra	240
13	Victoria Hotel	126
14	Hotel Waldo	161
	Sub Total:	**2420**

List of 2-star Hotels in Macau

	Hotel Name	No. of Rooms
1	Central	163
2	East Asia	98
3	Holiday	44
4	Hong Thai Hotel	20
5	Hou Kong	40
6	Jai Alai	44
7	Kou Va	28
8	London	46
9	Macau Masters Hotel	75
10	Man Va	40
11	Nam Tin	25
12	Sun Sun Hotel	178
	Sub Total:	**801**

Source: www.macautourism.gov.mo/en/info/hotel.php

All figures are as of November 17, 2008

Appendix 2A: Rooms — Schedule 1

	Current Month						Year-To-Date					
	Actual		Forecast		Prior Year		Actual		Forecast		Prior Year	
	$	%	$	%	$	%	$	%	$	%	$	%
■ **REVENUE**												
Transient Rooms Revenue												
Group Rooms Revenue												
Contract Rooms Revenue												
Other Rooms Revenue												
Less: Allowances												
Total Rooms Revenue												
EXPENSES												
Payroll and Related Expenses												
► Salaries, Wages, and Bonuses												
Salaries and Wages												
Bonuses and Incentives												
Total Salaries, Wages, and Bonuses												
► Payroll-Related Expenses												
Payroll Taxes												
Supplemental Pay												
Employee Benefits												
Total Payroll-Related Expenses												
Total Payroll and Related Expenses												
Other Expenses												
Cable/Satellite Television												
► Cleaning Supplies												
Commissions												
■ Commissions and Rebates—Group												
► Complimentary Services and Gifts												
Contract Services												
► Corporate Office Reimbursables												
► Decorations												
► Dues and Subscriptions												
► Equipment Rental												
Guest Relocation												
■ Guest Supplies												
Guest Transportation												
Laundry and Dry Cleaning												
► Licenses and Permits												
Linen												
Miscellaneous												
Operating Supplies												
► Printing and Stationery												
Reservations												
► Royalty Fees												
Telecommunications												
Training												
► Travel—Meals and Entertainment												
► Travel—Other												
► Uniform Laundry												
Uniforms												
Total Other Expenses												
TOTAL EXPENSES												
DEPARTMENTAL INCOME (LOSS)												

Source: Uniform System of Accounts for Lodging Industry, the 10th edition (2006)
Note: ► means the common new line items added to all the operating departments where they are appropriate, based on the comparison of the 9th and 10th edition of USALI.
■ means the unique new line items added to Rooms Departments, based on the comparison of the 9th and 10th editions of USALI.

Appendix 2B: Food and Beverage — Schedule 2

	Current Month						Year-To-Date					
	Actual		Forecast		Prior Year		Actual		Forecast		Prior Year	
	$	%	$	%	$	%	$	%	$	%	$	%
■ **REVENUE**												
Outlet Food Revenue												
Outlet Beverage Revenue												
In-Room Dining Food Revenue												
In-Room Dining Beverage Revenue												
Banquet/Catering Food Revenue												
Banquet/Catering Beverage Revenue												
Mini Bar Food Revenue												
Mini Bar Beverage Revenue												
Other Food Revenue												
Other Beverage Revenue												
Less: Allowances												
Total Food and Beverage Revenue												
■ **OTHER REVENUE**												
Audiovisual												
Public Room Rentals												
Cover Charges												
Service Charges												
Miscellaneous Other Revenue												
Less: Allowances												
Total Other Revenue												
TOTAL REVENUE												
■ **COST OF FOOD AND BEVERAGE SALES**												
Cost of Food Sales												
Cost of Beverage Sales												
Total Cost of Food and Beverage Sales												
■ **COST OF OTHER REVENUE**												
Audiovisual Cost												
Miscellaneous Cost												
Total Cost of Other Revenue												
TOTAL COST OF SALES AND OTHER REVENUE												
GROSS PROFIT (LOSS)												
EXPENSES												
Payroll and Related Expenses												
► Salaries, Wages, and Bonuses												
Salaries and Wages												
Bonuses and Incentives												
Total Salaries, Wages, and Bonuses												
► Payroll-Related Expenses												
Payroll Taxes												
Supplemental Pay												
Employee Benefits												
Total Payroll-Related Expenses												
Total Payroll and Related Expenses												
Other Expenses												
■ Banquet Expense												
China												
► Cleaning Supplies												
► Complimentary Services and Gifts												
Contract Services												
► Corporate Office Reimbursables												
► Decorations												

	Current Month						Year-To-Date					
	Actual		Forecast		Prior Year		Actual		Forecast		Prior Year	
	$	%	$	%	$	%	$	%	$	%	$	%
■ Dishwashing Supplies												
► Dues and Subscriptions												
► Equipment Rental												
■ Flatware												
Glassware												
■ Ice												
■ Kitchen Fuel												
Laundry and Dry Cleaning												
► Licenses and Permits												
Linen												
■ Management Fees												
■ Menus and Beverage Lists												
Miscellaneous												
Music and Entertainment												
Operating Supplies												
■ Paper and Plastics												
► Printing and Stationery												
► Royalty Fees												
Telecommunications												
Training												
► Travel—Meals and Entertainment												
► Travel—Other												
► Uniform Laundry												
Uniforms												
■ Utensils												
Total Other Expenses												
TOTAL EXPENSES												
DEPARTMENTAL INCOME (LOSS)												

Source: Uniform System of Accounts for Lodging Industry, the 10th edition (2006)

Note: ► means the common new line items added to all the operating departments where they are appropriate, based on the comparison of the 9th and 10th edition of USALI.

■ means the unique new line items added to Food and Beverage Departments, based on the comparison of the 9th and 10th editions of USALI.

Appendix 3A: Preliminary Interview Plan for In-depth Interview (English Version)

PART I: USALI's New items and Focus Group's Suggested Features

	Already applied	Mostly applicable	Moderately applicable	Not applicable	Open answer
10th Edition's New Items					
1. New Classification of Rooms Revenue					
–Transient	④	③	②	①	
–Group	④	③	②	①	
–Contract (block room ≧ 30 days)	④	③	②	①	
–Other (no show, day use, late/early departure,	④	③	②	①	
2. New Classification of F&B Revenue					
–Outlet	④	③	②	①	
–In-room dining	④	③	②	①	
–Banquet / Catering	④	③	②	①	
–Mini-bar	④	③	②	①	
–Other F&B revenue	④	③	②	①	
。 Audiovisual	④	③	②	①	
。 Public Room Rental	④	③	②	①	
。 Cover charges	④	③	②	①	
。 Service charges	④	③	②	①	
。 Miscellaneous	④	③	②	①	
3. New Definition of Other Operated Departments					
–Generic Other Operated Departments	④	③	②	①	
–Minor Operated Departments	④	③	②	①	
4. New Items in Rental and Other Income					
–Attrition penalties					
–Proceeds from business interruption insurance	④	③	②	①	
–Guest laundry and dry cleaning	④	③	②	①	
5. New Classification of Undistributed Operating Expenses					
–Administrative and General	④	③	②	①	
。 Security	④	③	②	①	
。 Human Resources	④	③	②	①	
。 Information Systems	④	③	②	①	
。 Centralized Accounting Charges	④	③	②	①	
–Sales and Marketing	④	③	②	①	
–Property Operations & Maintenance	④	③	②	①	
–Utilities	④	③	②	①	
6. Management fee as a separate line item	④	③	②	①	
7. GOP as key financial appraisal ratio	④	③	②	①	

PART I: USALI's New items and Focus Group's Suggested Features

	Already applied	Mostly applicable	Moderately applicable	Not applicable	Open answer
Suggested New Features					
Rooms Department					
–To record "wholesaler" under Transient instead of Group Rooms Revenue	④	③	②	①	
–To include service charges in Other Rooms Revenue	④	③	②	①	
–Add a new Rooms expense item – Music & Entertainment	④	③	②	①	
–Add a new Rooms expense item – Entertainment	④	③	②	①	
–Add a new Rooms expense item – Courier & Postage	④	③	②	①	
–Add supporting statistics of staff's upselling performance	④	③	②	①	
F&B Department –Add a F&B sub-schedule – F&B overhead	④	③	②	①	
–Add supporting statistic of expensive food items	④	③	②	①	
–More appropriate revenue and expense allocation among restaurant outlets	④	③	②	①	
Payroll & Related Expenses –Add a new expense items of Casual labor	④	③	②	①	

PART II: Potential Problem Areas

Topic	Open answer
Ambiguous items or rules - China, glassware, silver, linen & uniforms (expense or capitalize; consumption period) - Frequent guest program (associated costs; administrative logistics) - Service charges on room rates (past and present accounting treatment) Problem areas - Individual schedule for new business drivers (Spa, telecommunication, Festival products) - Deletion of Statement for gaming operations - Guidelines on cost allocation (fully allocated reporting; ABC method)	

Appendix 3B: Preliminary Interview Plan for In-depth Interview (Chinese Version)

第一部分: USALI 的新項目和目標小組提出的建議特點					
	已使用	多數情況適用	略微適用	不適用	補充
第十版的新項目					
1. 客房收入的分類					
−短暫住戶	④	③	②	①	
−團體住戶	④	③	②	①	
−合約住戶 (≧ 30 天)	④	③	②	①	
−其他 (預訂了客房卻不出現的人、客房日住費用、延遲及提早離開費用、小兒床租金)	④	③	②	①	
2. 食品及飲料部收入的分類					
−餐廳	④	③	②	①	
−客房送餐	④	③	②	①	
−宴會	④	③	②	①	
−小酒吧冰箱	④	③	②	①	
−其他	④	③	②	①	
◦ 視聽設備	④	③	②	①	
◦ 會議室租金	④	③	②	①	
◦ 附加費	④	③	②	①	
◦ 服務費	④	③	②	①	
◦ 其他雜項收入	④	③	②	①	
食品及飲料部新增的費用項目					
−瓷器、玻璃器皿、 銀器、布草是四項獨立的項目	④	③	②	①	
−免費賓客服務及贈品	④	③	②	①	
−管理費	④	③	②	①	
−特许權使用费	④	③	②	①	
3. 其他營業部門的新定義					
−主要其他營業部門(電訊、健身中心/水療、高爾夫球場等)	④	③	②	①	
−主要其他營業部門(自動售貨機、電子遊戲、影片出租、店外乾洗服務等)	④	③	②	①	
4. 租金及其他收入的新項目					
−团队未达标罚款/没收订金					
−保险补偿金	④	③	②	①	
−賓客洗衣和乾洗	④	③	②	①	
−其他	④	③	②	①	

	已使用	多數情況適用	略微適用	不適用	補充
第十版的新項目					
5. 未分配營業費用的類別					
−行政管理費用	④	③	②	①	
◦保安部	④	③	②	①	
◦人力資源	④	③	②	①	
◦資訊系統	④	③	②	①	
◦會計費用	④	③	②	①	
◦管理公司總部代付費用	④	③	②	①	
−廣告及推銷部費用	④	③	②	①	
−維修費用	④	③	②	①	
−能源費用	④	③	②	①	
6. 管理費作爲一項單獨項目	④	③	②	①	
7. GOP 作爲財政評估的核心指標	④	③	②	①	
提出的新建議特點					
房务部 - 短暫住戶下的“批發商收入”應記在團體住戶類目下	④	③	②	①	
- 服務費應記在其他收入下	④	③	②	①	
- 在客房費用下增加“音樂及娛樂”	④	③	②	①	
- 在客房費用下增加“快遞郵資”	④	③	②	①	
- 增加員工高價推銷表現的相關數據	④	③	②	①	
食品及飲料部門 - 增加一張餐飲部附屬明細表：餐飲部日常管理費用	④	③	②	①	
- 增加一張貴重食品的統計報表	④	③	②	①	
- 更合理的收入和費用分配	④	③	②	①	
工資和其它相關費用 - 增加零時員工的費用項目	④	③	②	①	

第二部分: 其它相關問題

主題	補充
問題區域 - 爲新的收入/成本動因建立/刪除獨立明細表（水療、節日禮品、電訊） - 賭場的會計報表的刪除是否合理 - 關於成本分配的會計準則 (完全分配的報表、ABC 方法) 模糊不清的類目和規則 - 瓷器, 玻璃器皿, 銀器, 布草, 制服 - 服務費 - 客戶忠誠計劃	

Appendix 4A: Casino departmental schedule in the 9th edition of USALI

Casino Department	
	Current Period
Revenue	$
Less Complimentary Allowances	________
Net Revenue	
Payroll and Related Expenses	
Salaries and wages	
Employee Benefits	________
Total Payroll and Related Expenses	________
Other Expenses	
Complimentaries:	
Rooms	
Food	
Beverage	
Travel	
Special Events	
Other Amenities	
Contract Services	
Credit and Collection	
Gaming Taxes, Licenses Fees, and Regulatory Costs	
Operating Supplies	
Postage	
Provision for Doubtful Accounts	
Telecommunications	
Training	
Uniforms	
Other	________
Total Other Expenses	________
Total Expenses	________
Departmental Income (Loss)	$________

Appendix 6A: Depreciation Allowances in Hong Kong

The followings are some rates of depreciation prescribed by the Board of Inland Revenue (extracted rates relevant to hotel industry only)

10%	**20%**	**30%**
Air-conditioning plant Bank safe deposit boxes, doors and grills Broadcasting transmitter Cables (electric) Lamp standards (street) Sprinklers Lifts and escalators (electric) Mains (gas or water)	Domestic appliances Furniture (excluding soft furnishing) Room air-conditioning units Taxi meters Type and block (if not dealt with on renewal basis)	Electric cookers and kettles Electronic data processing equipment Bar syphon apparatus Motor vehicles Bicycles

Source: Appendix A(i) Rates of Depreciation, as Prescribed by the Board of Inland Revenue (from Rule 2 of the Inland Revenue Rules)

Appendix 6B: Depreciation Allowances in Macau

According to decree- law no. 4/90/M (dated 5 March), the tangible fixed assets shall be depreciated on straight line basis within the official useful lives as specified below. (extracted rates relevant to hotel industry only)

	Minimum life (years)	Maximum life (years)
1. Residential & Commercial Building	50	100
2. Central air-conditioning and heating systems	7	14
3. Air conditioners and heaters	5	10
4. Lift and elevator systems	10	20
5. Fire security systems	10	20
6. Heavy motor vehicles	6	12
7. Light motor vehicles	5	10
8. Office furniture	5	10
9. Residential furniture	6	12
10. Carpet	3	6
11. Computers & word processors (hardware)	4	8
12. Computer software	3	6
13. Tools and utensils	3	6
14. Equipment & machinery (electronic)	5	10
15. Equipment & machinery	7	14

Appendix 6C: Depreciation Allowances in Australia

The Commissioner publishes some advisory rates for reference but these rates are not mandatory. Some rates relevant to hospitality industry are extracted from Taxation Ruling IT 2685 and are listed below:

ITEM	Effective Life (years)	Post-26/2/92 Acquisition Straight Line	Diminishing Value
Office Machines & Equipment			
Accounting machines	10	17%	25%
Adding machines	10	17%	25%
Calculators	10	17%	25%
Photocopying machines	10	17%	25%
Typewriters	10	17%	25%
Dictaphones	10	17%	25%
Telephones	10	17%	25%
Delivery tube systems(air pressure)	10	17%	25%
Cash Registers:			
-General	10	17%	25%
-Programmable	7	20%	30%
Card Imprints	7	20%	30%
Computers and its peripherals	5	27%	40%
Word processing machines	5	27%	40%
Housekeeping Equipment			
Carpets	5	27%	40%
Curtains and drapes	7	20%	30%
Furniture and fittings	15	13%	20%
Soda water fountains	15	13%	20%
Linoleum or vinyl floor coverings	10	17%	25%
Laundry plant	10	17%	25%
Bedding	REPLACEMENT		
*Crockery, cutlery, glassware and cooking utensils	REPLACEMENT		
*Linen	REPLACEMENT		
Home Appliances			
Electric clock	15	13%	20%
Electric heater	10	17%	25%
Gas coppers	20	13%	20%
Hot water services	20	13%	20%

Radios	10	17%	25%
Refrigerator	15	13%	20%
Stoves	20	13%	20%
Television sets	10	17%	25%
Vacuum cleaners	10	17%	25%
Washing machines	7	20%	30%
Microwave ovens	7	20%	30%
Hand dryer (wash room)	10	17%	25%
Larger Systems			
Air-conditioning-central type	15	13%	20%
Air-conditioning-room units	10	17%	25%
Alarm	20	13%	20%
Automatic fire sprinkler	20	13%	20%
Boiler	20	13%	20%
Broadcasting equipment-computerised	10	17%	25%
Lifts and elevator	16	13%	20%
Light control system	5	27%	40%
Lighting systems (fluorescent)	20	13%	20%
PABX	20	13%	20%
Racks	10	17%	25%
Recreational Equipment			
Gymnasium equipment	10	17%	25%
Bicycle	10	17%	25%
Billiard tables	40	7%	10%
Bowling alley (inclusive return)			
track, gutter, pit signals	15	13%	20%
Bowling balls	5	27%	40%
Carpet in bowling alley	4	40%	60%
Pinsetter and pinspotter	10	17%	25%
**Bowling pins and hire shoes	REPLACEMENT		
Food & Beverage Operating Equipment			
Tea and coffee dispensers	7	20%	30%
Fruit juice dispensers	10	17%	25%
Coffee making machine(Espresso)	15	13%	20%
Bread slicing machine	10	17%	25%
Bakery's slicing machine	10	13%	20%
Bands			
Band instruments	20	13%	20%
Music stands	20	13%	20%
Uniform	20	13%	20%