

UWTSD

Course: BA BUSINESS MANAGEMENT

Module: Management Accounting

Essay Year 2, Term 2

Assessment 1

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Essay

Introduction

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3. Types of costs according to their behavior
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What is management accounting

Management accounting is a modern concept of accounting that is used as a powerful tool of management. The type of accounting that assists the management day to day to create operational policy.



The management accounting is allowing businesses to efficiently managing to enable achieving a positive growth. Or is the type of accounting concerned with all such accounting information that is particularly useful for the management of the business structure for performing its functions. (Turner, 2019)

Management accounting involves the use of different techniques which includes:

Standard Cost

Ratio Analysis

Internal Audits

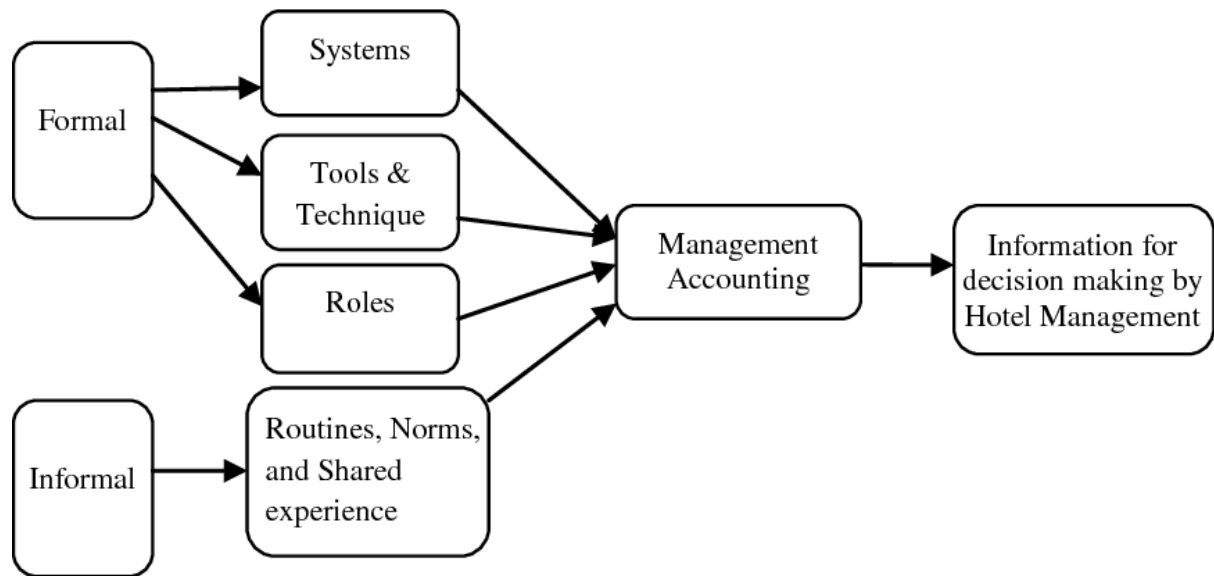
Volume and profit relationship

Budgetary control

Marginal Costs and other.

Why is a management accounting important

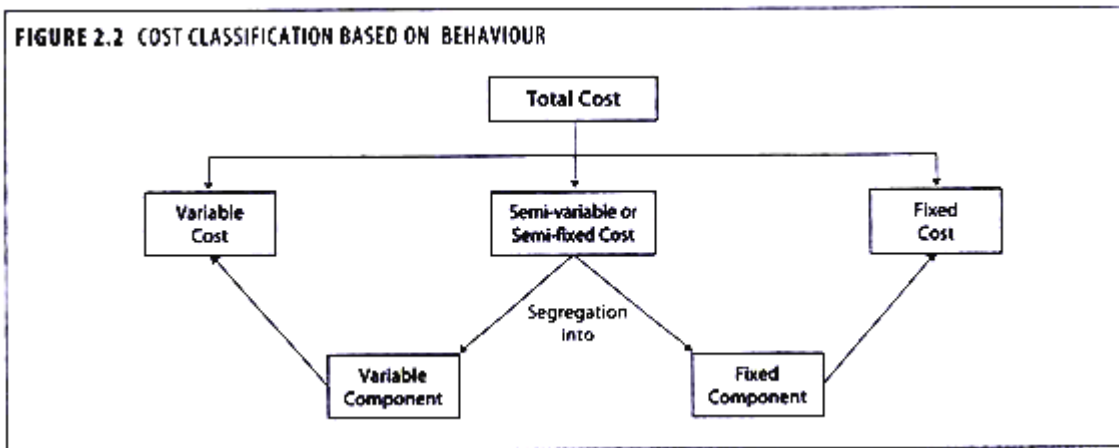
The Businesses especially the ones of state of development require a quick and effective management plan to increase revenue and become a strong competitor on the market.



Source: Adapted by CIMA (2009).

That is the reason why most managers have an insight data of all aspects of the business to determine an effective plan of action. The role of the management accounting is to enable managers based on the financial data and performance to plan accordingly with all the information available. In order to explain the role of the management accounting we need to look deeper into all of the costs and their behaviour.

Types of costs according to their behavior



The costs behaviour refers to the relationship between the total costs and the rest of the costs as such as Variable Costs, Semi Variable Costs and Fixed Costs or total level of activity. The difference between fixed costs and the rest are that they are constant, and they don't change regardless the activity level of the business. The variable costs they are not constant their level is affected proportionally with the performance of the company or business. And the mixed costs are proportion of the fixed and variable costs. (Bragg,2020)

Brief description of how the UK/ Global hotel industry has been affected by Covid-19

The Covid pandemic has a significant impact across the entire world and every industry that is part of the current economy. The primary focus defined by all governments and business is the safety of their workforce. The safety of the people impacted and determine the policies and restrictions during the Covid pandemic. (BBC,2021)

Whilst this focus will continue and the governments across the world will continue to base their decisions on the protection of the people's lives the economies will be strongly affected. The economy growth and corporate profits will sharply decline and will impact on the increase of inequality on the markets. The impact is huge for the hospitality industry especially as the one of the most affected by the covid pandemic. We cannot predict yet how the pandemic will reflect the revenue and the future of the hospitality industry. Decisions being taken to close some hotels or to change and adapt to the new covid restrictions involving an extra cost and reducing of the revenue. The entire travel ecosystem has been distracted by the covid pandemic and had a significant impact over the worldwide tourism. The strategy adapted by most operators is trying to mitigate the cash and working capital issues and constantly updating the stakeholders for the current situation of the company.

If we take as an example the Harriot Hotel company established in 1941 by John Brockville. Over the years the company has managed to become one of the key players with well established operating business in most of the continents. The company has managed to expand rapidly adopting an expansion strategy based on using finances from loans from

international bank. The recent covid pandemic and the lockdown restrictions has impacted the Harriot Hotel as the rest of the tourism industry. The CEO of the company in a recent statement of the current situation has concluded that the business had the worst year if terms of performance. They had to adapt very drastic and dynamic expansion strategy to recover some of the losses. As a brand already

Well established in Asia they will focus on expansion in Mainland China where the restrictions were relaxed much earlier compare to all the other countries.



Source: GlobalData, Travel & Tourism Intelligence Center

The other strategy that Harriot have implemented in the hotels that were hard hit by the covid pandemic by the senior management is cost cutting strategy to reduce losses in 2021. Below is a breakdown of some costs and the relevant percentage:

Item (£m)

Value As a percentage of revenue

Revenue 60,000

Employees' wages 15,000 25% is a fixed cost

Labour cost is a significant proportion of the hotels operating expenses. In our example with Harriot Hotel is 25% which is the highest percentage compared to all the other cost. The cost cutting strategy when comes to the employees is the most obvious place to save but need to balance carefully. Hotels are part of the hospitality industry and they are very much customer service based. And even though you don't want your staff to be underutilised respectively at the same time the managers don't want to be short staffed with unsatisfied customer and stressed employees. To achieve a balance and optimize costs is to forecast staffing needs and plan accordingly. Include in the forecast the segment of the luxury suits where check out takes longer and require longer cleaning.

Second is the implementation of a cross-training strategy so staff can offer help and support in another area of the operation where needed.

As a strategy the that the managers can consider is using terminals for a check in and check out to help with the labour costs.

Exploring the options to outsource workforce when the demand is high rather keeping a full-time employee.(Peterson,2020)

Adopting a regional strategy with any available government financial support to keep and the employees until the hotels start operating when the restrictions of Covid are lifted.

Advertising cost 7,000 12%

The Advertising costs are fixed costs and in our example the Harriot hotels are spending 12% and 7000 of the total revenue. The research shows that paid promotion is not always guaranteed to achieve better performance. Exploring the options to build a strong social media following as much without investing a large budget.

Interest on loans 10,000 17%

The interest on loans is a fixed cost and in our example with Harriot hotels they are high as proportion of 17%. The strategy to reduce the levels of the loan interests are depended on the current economic environment. As a manger in the hotel, you will be looking for an options for a consolidation and optimization of the current levels of repayments to reduce costs.

In the current Covid pandemic they are many ways for reducing the loan repayments and taking an advantage of different breaks offering business a chance for support.

Housekeeping and cleaning supplies 5,000 8.3%

Housekeeping and cleaning supplies are variable costs and in our example with Harriot hotel they are 8.3%. To keep high level of customer satisfaction and retention is almost impossible without exceptional housekeeping service. The housekeeping service is the backbone of any hotel and mangers are required to maintain a healthy balance. (Goldstein,2017)

In the current covid pandemic is likely that if the hotel is operating this level of cost will increase due to the policies in place. They will need to offer a high level of housekeeping supported with usage of effective cleaning products.

Customer discounts 8,000 13.3%

The customer discounts are traditionally used by mangers to help restoring lost revenue. In our example they are 13.3%. The actual process of using discounts involves a short-term offering of a room rate that is below the premium rate.

In the current situation the customers discount can help boosting the level of bookings in advance and help the business to recover once restrictions are lifted. Offering discount for key workers can increase the current level of bookings.

Stationeries used in front desk and restaurants 3,000 5%

This type of cost changes its level due to activity levels. From our example we can make a conclusion that is not high in compared to the rest of the cost. But in the current covid

pandemic we can investigate different ways to reduce the cost of stationeries. To avoid transmission and maintain environmentally friendly approach to help the recent trends.

Conclusion

To understand how this costs behaviour will evolved and responding effectively to the current changes will help the hospitality industry to recover in a post pandemic economy. The business will need to make drastic decisions and measures to rebuild consumer's trust. They will need to encourage them to get out of the house and travel and spend money saved during the lockdowns.

The covid had a huge impact over the hospitality industry and the short planning for a near future looks very uncertain. (Krishnan, Mann, Seitzman, and Wittkamn,2020)

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