



# Management Accounting

## Essay

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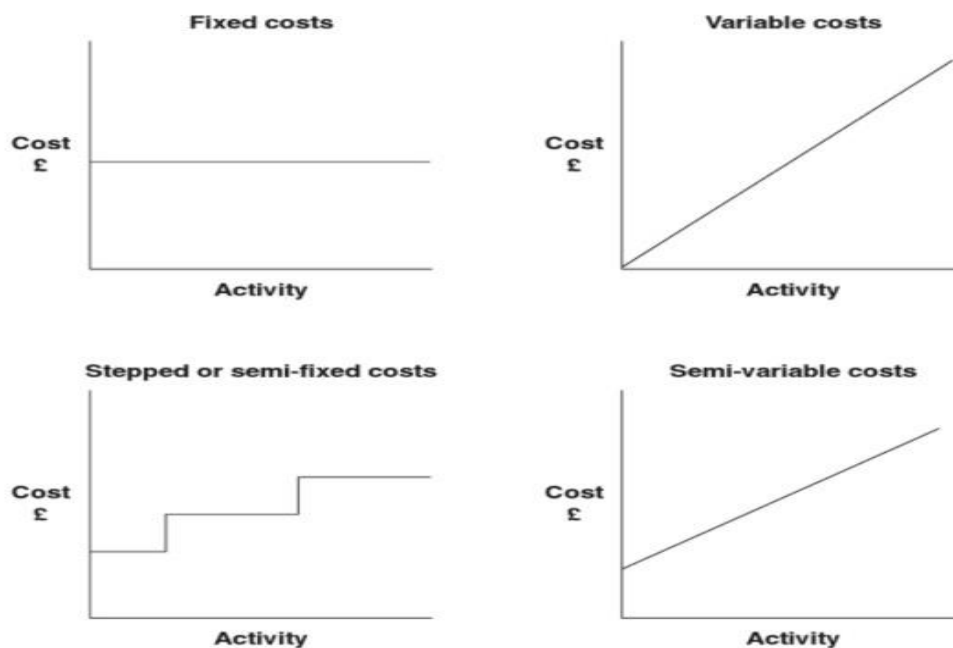
## INTRODUCTION:

Management accounting is a management tool for analysing, measuring, interpreting, identifying, and communicating financial information to achieve organisational goals. In other words, management accounting is the method of evaluating the business's costs and operations to prepare internal financial accounts, records, and reports for assisting the decision-making process of managers in accomplishing the business objective. (Arora, 2012)

Management accounting is an integral part of an organisation in evaluating cost and financial data. Management accounting's crucial role is to provide systematic accounting information so that the managers can execute their activities of planning, decision-making efficiently, and controlling. (Charifzadeh and Taschner, 2017)

### Types of Costs by Behavior

Understanding how costs behave is essential for planning, controlling, and decision-making within an organisation. According to their behavior, there are four types of costs: **fixed costs**, **variable costs**, **semi-variable costs**, and **semi-fixed costs**. (Broadbent and Cullen, 2012)



(Source: Doherty et al., 2009)

**Fixed costs** are the type of cost that does not change according to the activities' level within a specified period. It is important to be underlined that total fixed costs are constant at all levels of activity while fixed costs per unit decline proportionately with activity level. (Broadbent and Cullen, 2012)

On the other hand, **variable costs** change with the level of activities. The more unit produces, the more the costs will be. Therefore, total variable costs are linear and variable costs per unit are constant. (Broadbent and Cullen, 2012)

**Semi-variable costs** are neither completely variable nor entirely fixed in terms of changes in quantity. On the one hand, sometimes they might change in the same direction as the quantity, but not in direct proportion. On the other hand, some of these costs stay fixed until a particular level of quantity and adjust in the direction as the volume is in direct proportion. (Broadbent and Cullen, 2012)

**Semi-fixed costs**, also known as stepped costs, are these costs that remain fixed until a particular level of quantity. But these costs increase by a fixed volume after this level. In this case, there is no variable element in the total amount of these costs. (Broadbent and Cullen, 2012)

### **Covid-19 impact on the hotel industry**

The tourism and hotel industry is the great sufferer of the recent pandemic of Covid-19. The global hotel industry faced tremendous losses during this time. Due to lockdown, most of the hotels were closed, and some have not still functioned after that. Up to 2019, the UK most flourished industry was the hotel industry, and now experts are reckoning that the hotel industries may require further four years to recover from this shock. (Kwok, 2021)

From research of Pham *et al.* (2021), it was identified that UK hotels had faced a reduction in a visit of approximately 72% due to this global crisis. This result shows that the revenue from this industry has also fallen to 72%. This fall made them challenging to cover the basic costs like maintenance, staffing, and tax liabilities. The travel restrictions of lockdown created this situation worse.

## Harriot Hotel

In 1941, Harriot Hotel was established by John D. Brockville, which is now one of the world's leading hotel industries. Its current operations are in Asia, Europe, Africa, and the Americas. The CEO of this hotel is Jim Trulley. The hotel is in fixed growth, and they are doing this with the help of funding from numerous international banks.

As mentioned before, the pandemic situation created massive failure for the hotel industries worldwide. But Harriot Hotel carried out their strategies of expansion in this situation also. As an expansion strategy, they chose Mainland China as this country relaxed the lockdown situations earlier than other countries.

### Analysis of costs behavior by PER method

To determine the concept of costs according to their behaviour on Harriot Hotels, the PER (Point, Explain and Relate) method will be used.

***Projected Cost Breakdown for UK Division***

| <b><i>Item (£m)</i></b>                                | <b><i>Value</i></b> | <b><i>As a percentage of revenue</i></b> |
|--------------------------------------------------------|---------------------|------------------------------------------|
| <i>Revenue</i>                                         | <i>60,000</i>       |                                          |
| <i>Employees wages</i>                                 | <i>15,000</i>       | <i>25%</i>                               |
| <i>Advertising cost</i>                                | <i>7,000</i>        | <i>12%</i>                               |
| <i>Interest on loans</i>                               | <i>10,000</i>       | <i>17%</i>                               |
| <i>Housekeeping and cleaning supplies</i>              | <i>5,000</i>        | <i>8.3%</i>                              |
| <i>Customer discounts</i>                              | <i>8,000</i>        | <i>13.3%</i>                             |
| <i>Stationeries used in front desk and restaurants</i> | <i>3,000</i>        | <i>5%</i>                                |

#### **Employee wages**

**Point:** This cost is related to the cost of labour of Harriot Hotels.

**Explain:** Employees' wages are covered by 25% of the anticipated revenue. It is a questionably high percentage as it shows that the hotel is spending a quarter of its income on employees' salaries during the pandemic situation.

Employee wages can be both *variable costs* and *fixed costs*. As reception clerks or housekeepers, some employees may be waged on an hourly basis, which is a variable cost. Again, the company's senior staff is paid based on a fixed contract that falls in fixed cost (Vij, 2012). In this case, the variable costs will be lower than fixed costs as generally senior staff is paid more than other staff. So, this element is fixed cost dominating.

**Relate:** As spending a huge portion of income on employee wages is a questionable situation, Harriot hotels must decrease these costs. The fixed element could be reduced by offering the *Furlough scheme* available by UK government or redundancy packages. (Gov.uk, 2021)

### **Advertising cost**

**Point:** The promotional activities of Harriot Hotels are covered through this cost.

**Explain:** 12% of the revenue covers the advertising cost of the hotel. It shows that if the hotel earns £100 as revenue, then £12 will be used as advertising cost. This is an average rate.

From behaviour of cost, advertising cost is *fixed* for hotel companies. This cost will not change with the number of visits by the customers of the service level provided. But it will not incur if there are no advertising activities. (Uğur and Akbıyık, 2020)

**Relate:** As Harriot Hotel is trying to expand their territory in Mainland China, they need to advertise. So, this cost needs to be increased.

### **Interest on loans**

**Point:** This is a financial cost related to the long-term borrowings of Harriot Hotels.

**Explain:** From the table of Cost Breakdown, it is found that interest on loans requires 17% of revenue, which is too high. Due to the close down in pandemic, the company has to finance itself with external financing, leading to this expense.

Interest on loans for hotels is a *fixed cost*. The number of visits of the guest and the service provided does not affect it. The amount of interest will always be predetermined. Even if the hotel is closed for an infinity period, they will have to bear this cost.

**Relate:** The revenue of the hotel by a significant percentage due to this cost. So, somehow it must be decreased. If the hotel gets any additional money from its income, it should pay off some loan portion. It will reduce the financing cost related to it also.

### **Housekeeping and cleaning supplies**

**Point:** These costs are directly related to the daily activities of the hotel.

**Explain:** The revenue will cover the housekeeping and cleaning supplies cost by almost 8.3%. This is not very low in the pandemic situation with the vacant hotel.

In any sense, housekeeping and cleaning supplies costs are *variable costs*. It changes with the level of activities of a business. (Vij, 2012) The more rooms occupy, the more the cost will be for housekeeping and cleaning supplies. The vacant rooms require less cleaning so, fewer supplies will be used for that.

**Relate:** The pandemic situation made lesser people visit the hotels because of safety issues, and so more of the rooms remain unused. These unused rooms do not require daily cleaning. In this sense, this cost can be reduced to a reasonable level, and the remaining portion of this cost can be used other way.

### **Customer discount**

**Point:** This cost is incurred for increasing revenue, and it is also a promotional strategy of Harriot Hotels.

**Explain:** Customer discount cost holds 13.3% of estimated revenue. As there are other promotional strategies, this cost has a huge percentage of income.

Since customer discount is a promotional strategy, it is a *fixed* factor for the hotel. This element will be static even if the number of customers increases or decreases. (Pham *et al.*, 2021) This strategy is helping to attract more customers.

**Relate:** This cost can be reduced during a pandemic situation. Because even if a huge discount is provided, due to safety reasons customers may not reach them. So, using a higher percentage for this cost will not be efficient in this situation.

### **Stationeries**

**Point:** This is the administrative cost (office supplies) for the hotel.

**Explain:** From the cost breakdown table, it is found that stationaries are 5% of the revenue. In the closing phrase of the hotel, this percentage cost is not appropriate.

Stationary costs are *variable*. According to the requirements and usage, this cost changes. (Ashton and Morales, 2021) As the hotel remained close due to the government's lockdown, stationaries' use was almost zero.

**Relate:** The stationary cost must be decreased or, if possible, maybe eliminated. All the business activities of the hotel during the pandemic situation were online. So, there is no need for front desk stationary. Also, as the number of hotel guests is reduced, it requires less stationaries in the rooms.

### **CONCLUSION:**

The hotel industry is in a vulnerable situation because of the covid-19 crisis. The lockdown made most of the hotels closed their operations. (Duarte Alonso et al., 2020) After the first wave, the situation has been improved a little bit, so hotels are also operating their activities. (Davies, 2020). They are adjusting themselves to the situation of 'New Normal'. People have also started to lead a normal life to some extent. (Duncan, 2020)

According to the analysis, the hotel's fixed costs are consuming most of the portion of revenue. It means the company possesses a fixed factor dominating production. The analysis also shows that all cost elements should be decreased both variable and fixed, except the advertising cost. If the company goes along with the recommended way and can efficiently manage their costs, they will soon recover from the pandemic loss.

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