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Management Accounting

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Harriot Hotel

Management accounting is a branch of accounting that seeks to generate information necessary to enable managers makes decisions that make a business to perform well financially. This accounting is important in that it helps managers make decisions that help the business create value for the shareholders. An example is evaluating the cost trends and revenues so that decisions are made to ensure that net profits are positive. Based on behaviour, costs can be variable or costs (Ogbeide, 2014). They are variable if the total cost changes as the level of production in an organization increases. They are fixed if they have to be paid whether the business is serving customers or not. With Covid 19 pandemic, UK hotels have received less number of customers, meaning that there is less revenue generated. This means that they have been operating below capacity. There has been a need to manage costs so that the net profits generated are positive. This study evaluates the case for Harriot Hotels.

Body

Harriot hotel has been expanding to increase room capacity hence increase the revenues that are generated. Like other companies in the tourism sector, Covid 19 pandemic has been a great barrier to the ability of the company to generate revenues (Davahli, & Sonmez, 2020). This means that the company can remain profitable if it cuts its costs so that the net profits are positive. The company has expanded in mainland China as travel restrictions have been eased. However, there has been huge borrowing, and the occupancy in the hotels is not full. This means that lowering the company's costs is the best strategy to ensure that the company continues to operate. However, not all costs can be reduced even if the hotel activities are reduced (Ivanov, 2014). There is a need to identify the cost behaviour and then make practical decisions on how the cost can be managed without paralyzing the hotel's operations. As of now, the following is the summary of the costs at the hotel for the UK division, where the costs are also expressed as a percentage of revenues:

Item	Value	As percentage of revenue (%)
Revenue	60000	
Employee wages	15000	25
Advertising costs	7000	12
Interest on Loans	10000	17
Housekeeping and cleaning supplies	5000	8.3
Customer Discounts	8000	13.3
Stationaries used in front desk and restaurants	3000	5
Net profits	12000	20

From the available data, the hotel makes a 20% gross profit. With the reduction in sales revenue as there are travel bans in various countries where the company operate, it is expected that the net profits can be negative, which harm the value of the hotel. The solution is to reduce various costs where possible.

Employee wages

The wages in a hotel are paid to the workers who provide their services in the company. With reduced bookings and cancellation of bookings, it is expected that there are fewer customers to be served. Some employees can be idle, hence a loss for the hotel. The wages are arrived at by multiplying the daily wage or hourly wage by the number of employees (Duarte Alonso, O'Shea, & Santoni, 2020). This means that the cost is variable as it depends on the number of employees in the hotel or the number of hours an individual has worked. With less number of visitors, there would be a need to reduce the number of working hours for the employees, hence reduce their total wages (Ogbeide, 2014). The hotel will have reduced the wage cost as the employees would be engaged less and paid less depending on the number of hours that they work. It is possible to schedule the employees in a way that everyone earns some wage, without the need to relieve some of them of their duties. In extreme cases, the employees can be laid off due to less demand for their services. If the number of employees is reduced, then the total wages that are paid to the employees is reduced (Vives, Jacob, & Payeras, 2018). There is a need to have a backup of employees who can be called upon to work when there is a need for the same. It is possible to close down some of the places that are not demanded by the customers. If the visitors do not want to get Gym or swimming services, these areas can be closed down, and the employees relieved of their duties (Broughton, 2020). This reduces the need to pay employees wages when they are not delivering services in the current Covid 19 pandemic situation. Wages are thus variable costs that can be reduced by cutting down the number of working hours or reducing the number of employees (laying some of them off) (Hemmington & Neill, 2021). In this case, the hotel would reduce the wages by 15% of the total revenue, as compared to the current 25%.

Advertising costs

Currently, the total advertising costs for the hotel is £7000. The advertising costs are variable considering that as the hotel opens new ventures, it has to incur additional advertising expenses in the country where the new hotels have been set up. Advertising costs are incurred to make the company products popular so that the consumers can make a decision (Pham et al, 2021). In the case of China, entering a new market would require that there is the marketing of new products in the new markets. However, the costs can be reduced by ensuring that cheaper channels that are more effective are selected (Pizam, 2010). There is a need to focus on the use of social media that is commonly used in the country where the hotel targets. This is considering that messages on social media can reach so many people. Other online marketing, such as blogs and ads, can be used to specifically target potential consumers (Turner & Hesford, 2018). This would lead to a reduction in the costs incurred in marketing since the traditional media that is currently used by the company is very expensive. Internet advertising is cheaper and can be effective with new technologies. The target would be to reduce the total expenses by 5% so that net profits for the hotel remain reasonable (Vij, 2012). It would not be possible to eliminate these costs, especially considering that there are new ventures the customers are not aware of. The marketing process can also ensure that the consumers are informed of measures taken to protect them during the infectious virus.

Interest on Loans

The interest on loans composes of 17% of the total revenue. The huge interest is associated with the loans that the company has taken so as to continue its expansion strategy. This is a huge cost for the company in that it reduces the net profits (Babajee, Seetanah, & Nunkoo, 2020). However,

it is okay if the invested funds generate additional revenue. The interest on loans is a fixed cost in that it is not influenced by the production quantities or activities in the hotel.

Whether the hotel generates revenue or not, this is an expense that has to be paid to the bank. Reducing this cost would require that the company does not borrow any loans in the near future and instead re-invests the net income (Boella & Goss-Turner, 2019). This is as the company continues to pay for its loan and interest. Alternatively, the company can seek other sources of financing such as equity, which can be used for investments in projects hence avoid the need to borrow from financial institutions.

Many countries, through their central banks, have offered loan rearrangement for businesses to ensure that they continue with operations. Harriot needs to enter into arrangements that led to the rearrangement of loans and interest so that they can be paid for a longer period as the invested projects generate revenues in the future (IMF, 2020). This will make it possible for the hotels to continue operating regardless of the impacts of the pandemic. In short, interest on loans is a fixed cost and cannot be eliminated.

Housekeeping and cleaning supplies

Housekeeping and cleaning supplies are variable costs in the hotels in that when the number of customers increases, more has to be purchased. Since the hotel is experiencing a lower number of customers, the company needs to reduce the number of supplies ordered, to match the existing needs of the hotel (Uğur, & Akbıyık, 2020). The current expenses amount to 8.3% of the total revenues. It is possible to reduce the expenses to below 5%, considering that the hotels are not at full capacity. This can help reduce the total costs for the company.

Customer Discounts

The customer discounts are variable considering that as more customers visit the hotels, more costs are incurred in terms of discount. The discount represents lost revenue when the customers are allowed to pay less than the actual price of the services offered at the hotels (Ntounis et al. 2021). With the Coronavirus pandemic, there has been a reduction in incomes which has hindered individuals from travelling. However, discounts attract customers to destinations of their choice (Khan, 2008). If discounts are not offered, some customers will not travel. The cost cannot be eliminated at this time because fewer sales would be experienced (Enz, 2010). The best option is to reduce the percentage discount offered over time as more customers book the company hotels, and the economies in the world recover from the pandemic (Jiang & Wen, 2020). The current discount is 13.3% of the revenue, and it can be reduced to 8% so that more revenues are generated.

Stationaries used in front desk and restaurants

When more customers visit Harriot hotels, then more stationaries are used in front desk and restaurants. This means that the cost is a variable cost (Combs, 2020). With the reduced number of customers, the company needs to buy stationery that matches the number of customers visiting the hotels (Ivanova, Ivanov, & Magnini, 2016). Where there was waste before, there is a need to ensure that it is eliminated as this can help reduce the costs. It is possible to target a cost that is less than 5% of the total revenue generated.

Conclusion

In summary, Covid 19 has led to a reduction in revenues in the hotel industry, and cost reduction is significant for the sustainability of businesses. Harriot hotel can reduce costs such as the cost of stationaries used in front desk and restaurants, customer discounts, advertising costs, housekeeping and cleaning supplies, as well as employee wages. These are variable costs that can be reduced as

business activities slow due to Covid 19. Additionally, interest on loans is a fixed cost but can be negotiated as governments have emphasised the need to support businesses to remain afloat.

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