



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

MANAGEMENT ACCOUNTING

Name: Jabir Abdulqadir Nur

Student number: 1909644

Module: LCBB5002

Submitted to: Mr. Rexon Nthing

March 2021

Table of Contents

Introduction	2
Management accounting and cost behaviour	2
Impact of Covid-19 on UK/Global hotel industry	2
Overview of Harriot Hotel.....	3
Cost item analysis for Harriot Hotel	3
Conclusion	5
References	6

Introduction

Management accounting (MA) helps companies in decision making process. It is useful for identifying, analysing and communicating financial information. The study sheds light on implication of MA on Harriot Hotel. Performance of Harriot Hotel was drastically hit by Covid-19 pandemic. The study includes analysis of cost breakdown for UK division of venture. It would help in implementing cost-cutting strategy of Harriot Hotel.

Management accounting and cost behaviour

Management accounting (MA) provides relevant information to managers before they decide relevant matters in organisation. MA provides financial and non-financial information to companies that help in making decisions about cash standing, profit and cost (Turner *et al.* 2017). MA is important as it provides deep insight into company's resource flow and finance. So, managers can make timely decisions on actual flow of information. Cost is value of expenditure made on development of products & services. Cost behaviour is relationship between activity level and total costs. Based on cost behaviour, costs are categorised into variable, fixed and mixed costs items (Raiborn *et al.* 2020). Variable cost varies as per level of production and fixed cost remains the same throughout the production level. Further, mixed costs are semi variables cost items.

Impact of Covid-19 on UK/Global hotel industry

Hotel industry includes primary activity of providing lodging facilities along with food, beverages and accommodation benefits to travellers. Covid-19 pandemic had not only impacted on individuals but also on businesses. Pandemic has created global financial crisis which has easily affected tourism sector. Travellers cancelled or delayed their trips due to spread of disease (Uğur and Akbıyık, 2020). Hospitality industry contributes 10% in global GDP (Hospitalityinsights.ehl.edu, 2021). However, United Nations World Tourism Organisation (UNWTO) expected 20% to 30% reduction in international tourists in 2020. In 2019, UK's hotel industry has contributed £59.3 billion GVA which is 3% of total economic output. Food & accommodation sector of UK was hardest hit by pandemic. UK's hospitality sector was down by 92% in 2020 (Commonslibrary.parliament.uk, 2021). 84% of industry temporarily paused trading and jobs in sector fell by 6%. The sector has faced an existential crisis during 2020. Hotel sector of UK has employed 1.8 million people but most of them lay

off during pandemic (Ft, 2021). Hence, 2020 acted as one of the worst year for global hotel industry.

Overview of Harriot Hotel

Harriot Hotel is one of the key players in global hotel industry. The company was established by John D. Brockville in 1941. The company profitably operates in Europe, Asia, Africa and America. The company has utilised loan from international bank for financing its expansion strategies and operations. Covid-19 outbreak has drastically hit the venture. 2020 was acted as one of the worst year for Harriot Hotel. The company had faced financial issues and losses in 2020. Therefore, adoption of cost-cutting strategy would help Harriot Hotel in preventing projected loss of 2021.

Cost item analysis for Harriot Hotel

Employees' wages: Employee wages are related to labour cost that helps in running Harriot Hotel. Employee wages are £15000 i.e. 25% of revenue. It is quite higher amount of venture as one quarter of income is spent on wages. However, making such expenditure during global pandemic is problematic for Harriot Hotel. Employee wages include both fixed and variable expenses, so it is mixed cost of hotel. Higher executives in hotels were paid higher remuneration on fixed basis and lower level employees were paid on an hourly basis which is variable cost (Sanjeev *et al.* 2012). Higher executives of hotels include general manager, front office manager and assistant general manager. Besides, lower level staff includes housekeeping, front desk clerk and maintenance staff. Harriot hotel provides higher salary to senior staff which is fixed cost than lower level staff which is variable cost. Therefore, Harriot Hotel must curb employee wages on senior staff. Hotel can offer wages as per CJRS scheme to senior staff members (Gov.uk, 2021).

Advertising cost: It falls under sales, general and administrative cost in income statements. It is discretionary expenses which are made for marking and promoting sales. Advertising costs are 12% i.e. £7000 from £60000 revenue. It is quite higher amount as hotel industry of UK mainly uses digital, internet or web advertising. Companies use search engine web, banner ads in desktop, social media and mobile websites (Statista, 2021). So, spending such high amount is not profitable for company. Customer retention is an integral part of service provided. Advertisement cost promotes customer retention of hotels (Sanjeev *et al.* 2012). As advertising costs are allocated funds over financial plan of business, it is fixed cost. In pandemic situation,

spending such higher amount on advertisement is not feasible for Harriot Hotel. Venture should cut down cost on advertisement and promote advertising on online platforms like social media and web search engines. Besides, Company can use AI Chat-bots while operating in UK.

Interest on loans: It is percentage of loan, paid to lender for using principal loan amount. Interest on loan is paid on an annual basis. An organization can opt for fixed rate or variable rate loan (Akbar and Tracogna, 2018). Harriot Hotel spent £10000 i.e. 17% interest on loan. So, it is fixed rate loan and interest on loan is fixed cost. However, taking higher amount of loan deteriorates liquidity position of business. Company is required to make payment of loan and its interest on a gradual basis which is not feasible for its profitability and liquidity position. So, Harriot Hotel must try to eliminate expenses on loan interest as soon as possible. Interests on loan are fixed expenses which Harriot Hotel is required to eliminate while operating in UK. Due to pandemic, organisations operating in hotel industry, domestic & international traveller were affected the most. Thus, preventing loan taking and using shareholders fund & retained earnings would help Harriot Hotel in boosting profitability and liquidity position.

Housekeeping and cleaning supplies: It is required for maintaining cleanliness, aesthetic upkeep rooms and maintenance of hotel. Harriot Hotel spent £5000 i.e. 8.3% of revenue £60000. In pandemic situation, maintenance of cleanliness and security for staff and customers is necessary. As per Alonso *et al.* (2020), maintenance of cleanliness helps hotels in preventing spread of disease. Housekeeping & cleaning supplies act as variable cost for hotel as maintenance staff were provided wages on an hourly basis. Harriot Hotel should increase its spending on maintenance charges as it would help in maintaining staff security & safety and would also help in attracting higher number of customers. Higher authorities of Harriot Hotel can use National Minimum Wage Payment and National Living Wage system for assessing wages of maintenance staff. It would help the hotel in making adequate expenses on staff associated with maintenance of hotel. Besides, increment must be made on expense of housekeeping tools and cleaning supplies in current pandemic situation.

Customer discounts: Customer discount is associated with sale revenue of venture. Instead of focusing on sales strategy for attracting new customers, companies should offer loyalty discounts for existing customers. As per Pham *et al.* (2021), tourism revenue changes as per changes in number of visitors. So, focusing on existing customers would help in increasing sales revenue. In Harriot Hotel, 13.3% discount has been provided to customers. Customer discounts act as variable expenses of Harriot Hotel. Hotel has £60000 revenue from which

£8000 discount is given to customers. Such an amount of discount is quite higher for Harriot Hotel while operating in global financial crisis. Instead of focusing on discounting strategy, Harriot Hotel can use social media marketing for promoting sales. Cutting off customer discounts would help Harriot Hotel in declining operating expenditure of current year.

Stationeries used in front desk and restaurants: Stationeries used in front desk and restaurants are used in services provided to customers. Stationery of hotel industry includes ball pen, adhesive tape, pencil, folders, in/out tray and calculator. Harriot Hotel has spent 5% i.e. £3000 for sale of £60000. Stationery used in front desk and restaurant is variable expenditure for Harriot Hotel. Expenditures on these items changes as per level of activity or volume. So if volume of operations is lower, hotel would spend lower funds on stationery and front desk supplies. However, Harriot Hotel must increase its expenditure of stationery items. Organisations operating in hotel industry of UK are required to adopt Covid-19 Cleaning and Operational Policy (Himaidstonehotel.co.uk, 2021). As per this policy, companies are required to maintain laptop and sanitised stationery items. Hand wash and sanitizer is required to be maintained by company for sanitizing supplies. So, Harriot Hotel is required to increase expenditure on stationery items while operating in pandemic situation.

Conclusion

Management accounting acts as provision of financial information. Harriot Hotel is one of the leading organisations in hotel industry. While operating in global pandemic situation, Harriot Hotel must cut off its expenditure of employee wages and should increase expense on stationeries use in front desk and restaurants. Spending high amount on advertising cost is not profitable for company. Harriot Hotel should increase its spending on maintenance charges for benefit of customers and employees. Expenditure on customer discount must be reduced by Harriot Hotel while operating in pandemic.

References

- Akbar, Y.H. and Tracogna, A., (2018). The sharing economy and the future of the hotel industry: Transaction cost theory and platform economics. *International Journal of Hospitality Management*, 71(5), pp.91-101.
- Alonso, A.D., Kok, S.K., Bressan, A., O'Shea, M., Sakellarios, N., Koresis, A., Solis, M.A.B. and Santoni, L.J., (2020). COVID-19, aftermath, impacts, and hospitality firms: An international perspective. *International journal of hospitality management*, 91, p.102654.
- Commonslibrary.parliament.uk (2021). *About UK's hotel industry*. Available at: <https://commonslibrary.parliament.uk/research-briefings/cbp-9111/> [Accessed on 21th February 2021]
- Ft (2021). *About UK's hotel industry*. Available at: <https://www.ft.com/content/98db5d94-ce2b-4038-bd48-64838bf13be7> [Accessed on 22th February 2021]
- Gov.uk (2021). *About UK's hotel industry*. Available at: <https://www.gov.uk/government/publications/furlough-and-redundancy/furlough-and-redundancy> [Accessed on 23th February 2021]
- Himaidstonehotel.co.uk (2021). *About UK's hotel industry*. Available at: [https://himaidstonehotel.co.uk/wp-content/uploads/\(2020\)/05/CWH-COVID-19-CLEANING-AND-OPERATIONAL-POLICY-v3.pdf](https://himaidstonehotel.co.uk/wp-content/uploads/(2020)/05/CWH-COVID-19-CLEANING-AND-OPERATIONAL-POLICY-v3.pdf) [Accessed on 25th February 2021]
- Hospitalityinsights.ehl.edu (2021). *About global hotel industry*. Available at: <https://hospitalityinsights.ehl.edu/covid-19-impact-hospitality-workforce> [Accessed on 20th February 2021]
- Pham, T.D., Dwyer, L., Su, J.J. and Ngo, T., (2021). COVID-19 impacts of inbound tourism on Australian economy. *Annals of Tourism Research*, 88, p.103179.
- Raiborn, C.A., Kinney, M.R. and Barfield, J.T., (2020). *Cost Accounting Traditions & Innovations*, 2nd edition. South-Western College: Chula Vista, California.
- Sanjeev, G.M., Jauhari, V. and Vij, M., (2012). A survey of factors influencing cost structures in the Indian hotel sector. *Worldwide Hospitality and Tourism Themes*, Vol. 4 No. 5, pp. 449-462.
- Statista (2021). *About UK's hotel industry*. Available at: <https://www.statista.com/statistics/283009/digital-advertising-spending-in-the-united-kingdom-uk/> [Accessed on 24th February 2021]

Turner, M.J., Way, S.A., Hodari, D. and Witteman, W., (2017). Hotel property performance: The role of strategic management accounting. *International Journal of Hospitality Management*, 63(8), pp.33-43.

Uğur, N.G. and Akbıyık, A., (2020). Impacts of COVID-19 on global tourism industry: A cross-regional comparison. *Tourism Management Perspectives*, 36, p.100744.