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ASSIGNMENT 1 – ESSAY

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Introduction

The essence of management accounting as well as all forms of accounting is to collect and process data and financial information to provide managers with the full amount of data needed to make the right decision. It is internal reporting that entails the identification, analysis and the overall interpretation of accounting information to help managers to make informed financial decisions. (Atrill, 2018). The goal of this paper is to identify the importance of management accounting. Also it will present the cost concept and the various cost structures. Lastly it aim to analyze the possible impacts of the cost over the performance of the business (Bhimani et. al 2019)..

Importance of management accounting

Management accounting is important as it provides insightful information regarding various aspect of the business a company such as measuring and tracking an organisation performance which helps in making real-time effective decisions (Drury 2012). Management accounting is relevant in implementing important cost analysis while focusing on which costs are relevant at a given point in time (Mcwatters and Zimmerman 2017). Managers can be able to do assessment on the most effective production process by analyzing the associated costs for each of the options. Decisions can relate to whether to develop new products or services, change the price or quantity of existing products or services, and properly manage costs

Furthermore the management is able to identify logistic solutions based on the cost for each of the available supply chain options. When the right decision is made, an organization is able to save some cost and channel them to the other departments (Atrill, 2018).

Classification of cost

In management accounting, cost behavior refers to the relation to changes in the volume of activity. Costs under behavior are classified either as fixed cost, variable costs or mixed costs (Drury, 2012).

Fixed costs are those costs that remain constant even with changes in the level of activity in a given range. A good example includes office rent and insurance. These costs are not affected whether there is an increase in production or even when nothing is produced.

Variable costs are costs that change with changes in the activity level. Total variable cost increases and decreases proportion in depending units produced, but total variable cost per unit is constant. (Drury, 2012, pp 29-30). For example a manufacturer with increased volume of work will need to hire more employees, thus pay more for salaries, but salary for one employee is the same before change of activity.

Mixed costs in the other hand refer to those expenses that include variable and fixed costs. An example is telecommunication cost consist fixed rental cost plus variable component (depend number of calls). (Drury, 2012, pp 29-30).

Case Study Harriot Hotel background

“The tourism industry was one of the world’s greatest markets, until the world met a pandemic in the 21th century, Covid-19” (Ugur, N.,2020)

For example is our case study with Harriot Hotel. It has grown as one of the key player within the global hotel industry from the time it was established in 1941. The main operation areas for Harriot Hotel are America, Europe, Asia and Africa. Now with the pandemic situation and all

perceptual measurements regards Covid-19 has negatively impacted on sales volume of the Tourism Industry. (Vij, M., (2012)

In general Hotel industry faced hardship and most of them were forced to close. Many people were laid off as their places of work would not sustain them. Some were not able to pay off their loans and therefore sunk into bankruptcy.

Cost analyses of Harriot Hotel

Item	Value	As a percentage of revenue	Target
Revenue	60,000		
Employees' wages	15,000	25%	20%
Advertising Cost	7,000	12%	8%
Interest on loans	10,000	17%	13%
Housekeeping and cleaning supplies	5,000	8.3%	5%
Customer Discount	8,000	13.3%	12%
Stationaries	3,000	5%	4%
Overall		80.5%	60%

Fixed Cost is marked in Blue

Variable Cost is marked in Red

Mixed Cost marked in Black

Employees' Wages

Wages to employee in frequently falls under variable cost, however in practice they tend to be fixed. There are circumstances that affect the wage costs and they can be variable cost. Depending on the specific circumstances it is determinate whether the salary costs are fixed or variable. Where is long-term downturn, the right decision in management is fixed cost saving. (Atrill, 2018, p.66)

In general it is important to pay employees competitive salaries and also important to spend much on payroll, however in economic crashes the management should consider reduce the overall amount paid for salaries.(Vij,2012)

For Harriot Hotels, employees' wages account for a $\frac{1}{4}$ of revenues generated by the hotel. Being a constant cost, it is considerable important to maintain it at that percentage of the total revenues especially during this Covid-19 period. For this purpose the management should consider to reduce the number of full-time working positions and hire people on zero hours contracts where the flexibility is much higher. Harriot Hotel should consider reducing fixed salaries costs by using Furlough schemes as introduced by the UK Government. Furthermore for those who still remain on a full time base contract the responsibility for each of the positions could be increased. Now due to the dramatic decrease in work, each employee could manage to handle more tasks per day. For example in the kitchen the Head Chef could handle some of the activities of the assistant chefs.

Also in the housekeeping department the number of staff can be reduced. Now the number of occupied rooms per day is smaller, thus small group of people can handle the overall work. Ideally the percentage may go down to **20%** in this case.

Advertising cost

This cost falls under fixed cost meaning that it is not affected by changes in the organisational workload. In the hotel industry fixed cost applies to the hotel occupancy or the general sales volume.

Though the hotel has established its presence in various regions, the advertising cost is at 12% of the total revenues. Since the focus is on increasing capacity in Mainland China, most of the advertising cost should be directed towards that region. Furthermore the management should consider cost-effective channels such as Facebook and Instagram for the main marketing and advertising activities and reduce the money paid for expensive campaigns in television or billboards for example.

Advertising cost should be reduced to as a cost cutting strategy for now but later be increased when Covid 19 is over and the world has returned to normalcy. (HMA,2020)

Here the cost can be turned down to **8%** in relation to the revenue.

Interest on loans

The loans generally fall into the fixed cost graph due to its stable nature. Some loans may have variable interest rate and change over time; however they still remain fixed in regards to the work volume and growth of the organisation.

In the Harriot hotel case the Interest on loans of 17% compared to the revenue is slightly higher and the management could consider for an agreement with bank to freeze the repayment of the loan or increase the period of the loan, which also may lead to the interest rate reduction.

The management should aim to reduce the percentage with 3-4% to **13%**.

Housekeeping and cleaning supplies

Due to restrictions and the low number of visitors in the hotel industry, the percentage of the housekeeping and cleaning supplies should be reduced as their usage is low. These are variable costs due to the fact that they are depending on the work volume of each place.

In Harriot Hotel the management should reduce housekeeping and cleaning supplies by negotiating discount with some of the suppliers (Wu and Olson 2020). Another very good practice in this situation will be to wash and iron the bed sheets in the hotel, rather than using external company. That will save on Fees for the work and delivery.

By doing these the percentage can be reduced with around $\frac{1}{3}^{\text{rd}}$ down to **5%** from the current 8.3%.

Customer discounts

Customer discounts are very effective way to stimulate sales and create customer relationship. By them the organisation offer promotional price to a chosen group or specific customer. These discounts may apply for a specific period of time or in all time. Discounts to customers falls under the category of variable cost as they can be adjusted in response to sales price of a product.

Businesses are facing lots of challenges since 2020, however the discounts attract customers and in such period each customer is highly valuable for the organisation. Discounts reduce the amount of revenues to be generated, but from the other side increase the volume of sales. The suggestion is to remain the current discounts for those clients who are using the hotel at most and reduce slightly the discounts for clients that are using the hotel very rarely. A bottle of champagne may be offered to ensure customer loyalty. (HMA,2020)

Thus the percentage may slightly go down to **12%**

Stationeries used in front desk and restaurants

Stationeries are variable costs as they may vary depending on the workload.

Since there are few visitors in the hotels, stationeries used in the restaurant and in the front desk should be decreased tremendously. The demand for stationeries has gone down since there are few people being served. (Ugur,2020)

Conclusion

The main aim of any business is to generate more revenues and create more profits. The profit figures are increasing when the sales are increasing but also by reducing the cost.. The best approach according to Potter and Schmidgall (1999) is not to terminate employees but rather have creative ideas such as reducing work hours and working in shifts or assign more responsibilities. Retaining employees is important as it ensures that the hotel does not lose top talent employees and helps saves money however small percentage of people could be sacrificed.

As for loans payment, as the manager I would recommend that there is a need to contact the international banks for them to suspend payments during this period until this world headache is

over. Temporary suspension of loan repayment will help the hotel remain in business and not to go bankrupt.

Pellinen (2003) stated that there is a need of coming up with a cash flow projection in order to understand better the areas that need more attention in terms of cutting costs.

In conclusion, it can be said that cost restructuring is crucial in time of crisis such as Covid-19. This is achieved through proper management accounting to make adequate decisions without compromising quality. In order for a business to function successfully and efficiently, it must have regular and satisfied customers, because they are the main source of income.

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