



Module code: LCBB5002

Module: Management Accounting

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Assignment 1 - Essay

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Introduction

Management accounting, often referred to as cost accounting, is the process through which cost information is identified, analysed, interpreted, and communicated to the cost managers to aid in strategy formulation and business goals achievement (Drury and Tayles, 2019). By using varied management accounting techniques of cost-cutting and efficiency improvement, managers can make sustainable business decisions. It further provides detailed financial and resource information and detects flaws, and provides ways to formulate long term strategies for scaling the business (Baggott, 2017). The cost can be fixed, variable, semi-variable or mixed cost and various strategies are followed for controlling costs. The global hotel industry has been badly affected by COVID-19 as occupancy rate are dropping significantly, and new investment is on hold (Mehta, Kumar and Ramkumar, 2021). Moreover, the global travel ecosystem is experiencing a downturn, and new hotels are closing down temporarily.

In this report, as a Manager of Harriot Hotels, I will cover different aspects of cost and strategies to cut down costs to overcome various challenges.

Company Overview: Harriot Hotels

Harriot hotel, a key player in the global hotel sector, was founded by John D. Brockville in 1941. The hotel chains have a presence in Europe, America, Africa, and Asia, and this organisation follow an aggressive expansion strategy of expansion to keep up its steady growth. Like other hotel chains around the globe, Harriot hotel is passing the worst time as a business and looking to minimising loss by operating business in those countries where restrictions are relaxed (Jiang and Wen, 2020).

Main Body

The elements of cost behaviour are fixed cost, variable cost, and mixed cost. Fixed cost does not change with the activity level within a relevant range and will incur even if no service is offered or the unit is manufactured. Variable cost, on the contrary, change in proportion to the production level meaning variable cost increases when more people are served at Harriot hotels and decreases when fewer people are served (Drury and Tayles, 2019). Mixed cost is a combination of fixed and variable cost.

The critical analysis of the cost of Harriot Hotels expansion will be conducted using PER method that illustrates points to be focused on, its explanation, and relation to the real-world scenario.

Employee wages

Point: Employees Wages

Employee wages refers to the labour cost arisen in operating Harriot Hotels.

Explain: While total revenue will be £60,000 million, the employee wages will be a total of £15,000 million that is 25% of revenue, which is huge, and it indicates that Harriot Hotels have to expense a quarter of its revenue on employee wages which is unjustifiable in this current COVID-19 pandemic. As the global Hotel and Tourism business is shrinking, and the revenue is declining, this cost needs to be revised (Jiang and Wen, 2020).

Employee wages might have a fixed and a variable cost component as the lower-level employees like housekeepers, front desk personnel, and receptionist might be paid hourly which renders to variable cost (Vij, 2012). On the contrary, senior-level employees and top-level managers with higher payment and remuneration may have fixed-term contracts with the company, and in such case, their remuneration will be fixed cost.

Relate: It is advised that Harriot hotels need to lay off senior managers by offering them a suitable redundancy package such as the Furlough scheme available in the UK. However, Harriot Hotels need to make sure that this layoff of the employee will not decrease its operational and financial performance.

Advertising cost

Point: Advertising cost

Advertising Cost relates to the expenses incurred for Harriot Hotels for marketing campaigns, print and broadcast ads, catalogues, brochures, and varied promotional efforts (Drury and Tayles, 2019).

Explain: Advertising Cost is 7,000 million, which translates to 12% of Revenue which is high considering the economic recession and shrinking of the Hotel and Tourism business is the pandemic. Advertising cost changes from time to time, and it is primarily a fixed cost but Harriot hotels can spend a variable portion on marketing every year. The Advertising cost fluctuates depending on the season, market, weather, demand, and other factors like the ongoing COVID-19 crisis (Jiang and Wen, 2020). Thus, a 12% advertising cost in the hotel and tourism sector is justifiable in the fall, holiday season, and warm-weather, when the advantages of revenue surge can be taken by deploying more funds but is unjustifiable in the current situation as the tourism business, are largely impacted by the pandemic and people have lessened movement and preferring to stay at home to avoid COVID-19.

Relate: It would be recommended that Harriot hotels cut down advertising cost during the COVID-19 period to decrease its cost.

Interest on loans

Point: Interest on loans

It relates to interest paid on loan taken by Harriot Hotels to expand its business (Drury and Tayles, 2019).

Explain: Interest on loans is 17% of revenue which is high and indicates that Harriot hotels spend almost one-fifth of their revenue on loan interest which is questionable during an economic recession caused by COVID-19.

Interest on loans might be a fixed cost for Harriot hotel as they have taken this loan for expansion purpose. 17% of interest loan for expanding business in the booming economy is quite relatable since 31.9% of fixed cost causes 65-75% of the total cost, and the hotel industry uses a flexible strategy that focuses on the high-quality and low-cost market position (Vij, 2012). 17%

of Interest on the loan is advantageous at the time of booming economy as well as current situation as without expansion in Mainland China, the business will incur a loss in 2021 due to immobile business operation in Europe and America.

Relate: It is recommended for Harriot Hotels to continue incurring Interest on Loans by current expansion activities it will help in generating revenue shortly.

Housekeeping and cleaning supplies

Point: Housekeeping and cleaning supplies

It relates to the cost incurred for housekeeping and cleaning supplies purchasing (Baggott, 2017).

Explain: The Housekeeping and cleaning supplies cost for Harriot hotels is 8.35%, and since housekeeping and cleaning is a core task for hotel sectors for retaining customers and clients, this cost is apprehensible. Housekeeping and cleaning supplies is a variable cost and will incur while housekeeping and cleaning are done regularly (Baggott, 2017). If Harriot Hotels in Mainland China experience high occupancy rate and regular customers, they can incur housekeeping cost at the current level. But insufficient booking and vacant hotel rooms' cleaning will incur excessive cost and reduce profit (Soin and Collier, 2013). However, for reducing the spread of germs, regular sanitization of hotel rooms and restaurants are required.

Relate: It is recommended for Harriot Hotels to observe whether hotels' occupancy rate is high. If they are occupied fully or at least 70-80%, 8.35% cost is justifiable, otherwise, Harriot needs to cut down housekeeping cost.

Customer discount

Point: Customer discount

It relates to the cost incurred for offering customers a discount on room fare and other services.

Explain: The customer discount for Harriot Hotels is 13.3%, which might be justifiable as the hotel sector is experiencing an economic downturn and lack of customers. Thus, for attracting and retaining customers, this discount might be necessary (Vij, 2012). Customer discount is a variable cost that increases with increasing customers. Customer discount is a quite common technique in the hospitality industry, and customers are offered more discounts in the off-season

(Soin and Collier, 2013). However, Harriot Hotel might survey whether the decrease in discount will result in decreased customers in this pandemic situation and can redesign the pricing structure accordingly.

Relate: It is recommended for Harriot Hotels to provide a discount at this level to attract more customers and lessen the number of vacant rooms to generate profit.

Stationeries used in front desks and restaurants

Point: Stationeries used in front desks and restaurants

It relates to the stationaries used at the front desk and restaurants.

Explain: The stationary cost of Harriot Hotels is 5% of its profit which is high considering the ongoing pandemic when the profitability has become badly affected. Stationeries used in front desks and restaurants are variable cost which will decrease when the restaurant facility will be lessened, and the front desk is less decorated. If reducing stationary cost does not significantly lessen the number of customers, it can be slightly lessened (Soin and Collier, 2013).

Relate: It is recommended for Harriot Hotels to slightly decrease stationaries costs.

Conclusion

Despite the COVID-19 outbreak, two-third of the hospitality leaders are optimistic about the future UK Hotel industry, and they believe that profitability will improve in the next five years (Agustina and Yosintha, 2021). Andreas Scriven, Deloitte head of hospitality and leisure, predicts that the restrictions on international travel this summer saw many UK consumers switch their holiday plans to domestic staycations (Impact of COVID-19 on the hospitality industry | Deloitte Netherlands, 2021). As 25% of employee wages are too much in the COVID pandemic, Harriot Hotel is advised to lessen employee wages by laying off high-paid managers with attractive compensation. Advertising cost is a fixed cost lessening which is badly required as increased advertising cost would not boost revenue as it did before. Providing interest on loans is necessary for continuing its expansion in China to lessen the projected loss, so Harriot has no other option but to pay interest on loans. The Housekeeping and cleaning supplies cost should be cut as well (Jiang and Wen, 2020). But Harriot needs to offer customer discount for keeping booked, and the stationaries costs can be minimized slightly.

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