

MANAGEMENT ACCOUNTING

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Introduction

Management accounting is the identification, measurement, analysis, interpretation and communication of financial information to the managers with an aim of enabling them make well informed decisions that aid in the attainment of the organisational goals. Management accounting is significant in enabling an organisation to plan for the future business through determining the present situation of the organisation while following the financial patterns of its operations. It enhances the development of proper budget decisions through creating effective budgets that places costs where they should be.

Cost behaviour is the relationship between the activity level and total costs. Basing on behaviour costs can be categorised into; variable, fixed or mixed costs. Variable costs change directly proportional to the production level, fixed costs do not change with the activity level and mixed costs have the properties of both variable and fixed costs. In the UK, the hotel industry is one of the hardest hit industry with restrictions on trading having influenced the business turnover of the industry significantly. The industry continues to experience accumulating debt, ongoing fixed costs and low cash reserves and revenues that continue to persist. In April 2020 the economic output of the industry fell by 90% from February 2020. The number of employees also fell by 6% from January to March period towards the July to September period in 2020.

Assessment of the costs that should be decreased, increased or eliminated in order to enable Harriot Hotels to maintain its market leading position

Harriot Hotel was established by John D. Brockville in 1941. The hotel has grown over the years to become a key player in the hotel industry globally thus establishing key operations in Asia, Europe, Africa and America. The aggressive expansion strategy of the hotel that is

financed by loans from the major international banks has aided in the hotel's steady growth. The senior management of Harriot Hotels intend to implement a cost cutting strategy that is aimed at minimising the projected losses for 2021. This will be conducted as discussed below:

Point: Employee wages

The employee wages are related to the labour costs that are incurred in the operation of Harriot Hotels (Atrill and McLaney, 2018).

Explain: Employee wages account for 25% of the hotel's revenue which is quite high.

Therefore, the hotel has to spend a quarter of its revenue on employee wages which is quite questionable during a pandemic. Employee wages are mixed costs as they comprise of both variable and fixed costs. This is because at the low level management of the hotel, employees such as cleaners and house keepers are paid on an hourly basis thus translating to variable costs (Mathur, 2011). However, employees on the senior level of management are paid on a fixed contract basis which translated to their costs being fixed costs. The senior level management employees are likely to be paid high salaries as compared to the lower level management employees thus resulting to a large proportion of the hotel's employee salary being fixed.

Relate: It's recommendable for Harriot Hotels to cut down on its employee wages through minimising the number of the senior management employees. This can be effected through the provision of attractive redundancy packages.

Point: Advertising costs

These are the costs associated with the promotion of the products and services offered by the hotel (Hutton and Foley, 2021).

Explain: Advertising costs account for 12% of the hotel's revenue which is slightly above the industry's required. These costs are discretionary fixed costs since the level of spending bases on the hotel's management and it might vary from one budget period to the other (Edmonds and Olds, 2013).

Relate: It's advisable for Harriot Hotels to cut down the advertising costs to 10% which is the industry's required level. Additional, the hotel should modify the advertising costs based on the returns it yields from the advertising investments. This is likely to result to the percentage of the advertising costs varying in each budget period.

Point: Interest on loans

This is the amount that is charged on top on the loan that is received by the hotel (Atrill and McLaney, 2018).

Explain: The interest on loans accounts for 17% of the hotel's revenue. The interest rate is a staggered variable costs thus decreasing based on the loan principal outstanding. This is likely to result to the hotel paying a large amount of money on the loan it acquired (Edmonds and Old, 2013).

Relate: Its recommendable for the hotel to reduce its loan earlier hence avoiding a large amount of money being lost on the payment of the loan.

Point: Housekeeping and cleaning supplies

This are costs associated with the hotel's essentials such as cleaning products, sanitisers and toiletries (Davies, 2020).

Explain: The costs associated with housekeeping and cleaning supplies account for 8.3% of the revenue. This is quite low given the current pandemic that advocates for high levels of

hygiene and sanitisation. These costs are variable since they base on the quantity of orders placed (Hutton and Foley, 2021).

Relate: It's advisable for the hotel to increase the costs associated with housekeeping and cleaning supplies. This is because promoting hygiene and sanitisation within the hotel will require the availability of face masks and the installation of sanitisers which is quite costly. This is aimed at promoting high levels of hygiene and customer sanitisation which is vital in minimising the spread of Covid-19.

Point: Customer discounts

These are the costs that are allowed off the services or products customers purchase at the hotel (Mathur, 2011).

Explain: Customer discounts account for 13.3% of the hotel's revenue which is quite high given the current Covid-19 pandemic that has influenced the productivity of the hotel.

Customer discounts are variable costs since they are likely to change based on different factors such as the revenue generated by the hotel and customer demand (Atrill and McLaney 2018).

Relate: It's recommendable for the hotel to eliminate the customer discounts since they are not relevant during the Covid-19 pandemic. This is because the pandemic has influenced the revenue generated by the hotel and with high customer discounts it's likely to generate low revenue.

Point: Stationeries used in the front desk and restaurants

These are the costs incurred for the general office suppliers like pens, envelopes and printing papers that are used at the hotel's front desk and within its restaurants (Davies, 2020).

Explain: The costs associated with stationaries used at the front desk and the restaurants account for 5% of the hotel's revenue. This is quite low given the current pandemic that advocates for no sharing thus each individual customers will have to use their own stationeries. For instance, pens cannot be shared. The costs associated with stationeries used at the front desk and restaurants are variable costs since they are likely to change based on the number of customers visiting the hotel (Edmond and Olds, 2013).

Relate: It's advisable for the hotel to increase the costs associated with stationeries at the front desk and restaurants given the current pandemic. This is aimed at minimising the spread of Covid-19 among the hotel's guests and employees.

Conclusion

The investment cycle in UK's hotel industry is likely to take about 2 years to normalise with developments for Covid-19 vaccinations promising the customers to look forward to their future travels. Private equity is expected to be the industry's largest source of capital for acquisition of hotels with domestic investors being expected to be the primary source of the industry's investments. UK destinations are likely to remain attractive for the hotel investments since the restrictions on the international travel are likely to promote domestic staycations and holiday plans. Harriot Hotels can minimise its costs through cutting down on the employee wages of its senior management employees by providing them with attractive redundancy packages. The hotel should also focus on cutting down its advertising costs to 10% that is the industry's required while paying its loan earlier to avoid more money being incurred on the payment of the loan interest. The hotel can increase costs through increasing the costs associated with housekeeping and cleaning supplies since this is aimed at promoting the requirements of the customers for sanitisation and hygiene during the Covid-19 pandemic. The hotel should also increase the costs associated with stationaries at the front

desk and restaurants since it minimises the spread of Covid-19 among the employees and customers.

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