



University of Wales Trinity Saint David

London,
26.03.2021

BAMB L5 G1
Moodle: Management accounting
Assessment 1

Prepared for:
Winifred Soribe

Prepared by:
Student: Reneta Ivanova
Stud. Number: 1906323

Managing accounting is an essential and fundamental science for anyone starting a business, and the cost of doing business must be anticipated. “Management accounting is concerned with providing information to managers – that is, concerned with providing information to shareholders, creditors and others who are outside an organization. Management accounting provides the essential data with which organisations are actually run.” noted authors (Seal, Rohde, Garrison & Noreen, 2018).

The role of accounting in business is to manage and regulate the right decisions at any time of the activity, measuring all costs that are related to production, they include both fixed and variable costs.

Types of costs when reporting costs:

- Fixed and Variable Costs

Cost accounting has two main types of costs that are applied in business, they are fixed and variable. Fixed costs do not change and do not depend on production, while variable costs have a change that most often depends on the production per unit of product. Examples of fixed costs can be rent, workers' salaries, depreciation. Production costs may include property taxes and insurance. Despite changes in production, these fixed costs remain constant.

Variable costs depend on the amount of production, increasing with increasing production volume and vice versa. “A variable cost is a cost that varies, in total, in direct proportion to changes in the level of activity. Common examples of variable cost include cost of goods sold for a merchandising company, direct materials, direct labour, variable elements of manufacturing overhead, such as indirect materials, supplies and power, and variable elements of selling and administrative costs, such as commissions and shipping costs.” Noted authors (Seal, Rohde, Garrison & Noreen, 2018).

- Direct and Indirect Costs

Direct costs can be directly related to the production. Direct costs can be said to be variable costs, such as the value of direct labor, inventories, and other variable production costs.

Indirect costs are not directly related to the volume of production, they may include wages, indirect labor, taxes, utilities, used factory supplies, taxes, depreciation of buildings and equipment, factory rent, tool costs and patent costs.

- Product and Period Costs

The concept of product costs is a direct link to production, as a result of which they are used to estimate stocks. Their significance is assumed for the current period and are not considered as costs for the manufactured products, respectively and are not related to the valuation of inventories. “In addition to the distinction between manufacturing and non-manufacturing cost, there are other ways to look at cost. For instance, they can also be classified as either product cost and period cost. To understand the difference between product cost and period cost we must refresh our understanding of the matching principle from financial accounting.” Noted authors (Seal, Rohde, Garrison & Noreen, 2018).

- Controllable and Uncontrollable Costs

The main function of management accounting is to be able to control costs in each production process.

- Out-of-pocket and Sunk Costs

Financial managers analyze and draw conclusions about specific proposals whether they have not contributed to the depletion of costs or sunk costs. Running costs come into use when no costs are out of pocket. The function of financial managers is to assess whether or not there is a prerequisite for production to increase, for example, given the sunken costs associated with tools and machinery, as well as the costs associated with adding more materials and labor.

- Incremental and Opportunity Costs

The benefits of financial planning are applied on the basis of the concepts of additional and opportunity costs, which give us the opportunity to choose between two or more options in order to better achieve results. The concept of opportunity costs is not to be included in investment and production decisions.

As a result of the global coronavirus pandemic, the hotel and tourism sector has been hit hardest and has led to reduced revenues in this market. Businesses in these markets had to reconsider their strategy to stay afloat and continue the operations of the countries concerned after the pandemic. Companies had to rethink their revenue streams, and when restructuring was possible, organizations had to adapt and build new strategies. Reducing operating costs and increasing revenues is one of the viable interventions. This article assesses the costs that Harriot Hotels must increase, decrease or eliminate in order to maintain its leading position in the market. He will

also justify the decisions while indicating whether the items are subject to fixed or variable costs.

“Identifying and measuring cost may seem, at first sight, to be pretty straightforward: it is simply the amount paid for the goods supplied or the service provided. When measuring cost for decision-making purposes, however, things are not quite that simple. The following activity illustrates why this is the case.” noted authors (Atril & McLaney, 2015, 43)

The authors illustrates that the business develops a plan to achieve the desired goal, namely profit, the plan includes a structure of costs that relate to costs that are (fixed as well as variable costs). These costs are spread from the purchase of the raw material to the cost of packaging the finished products.

COVID_19 is a global pandemic and forces organizations to define the right operational strategies to maintain their operations. The main approaches are cost management models, as they play an essential role in enabling the organization to plan and manage its operations around the world. For example, Harriot Hotels, which is among the hardest-hit industries during the pandemic, needs to set out good strategies to ensure it remains competitive worldwide. Before that, she needs to understand what competition is facing in the coronavirus pandemic phase, as most operations change and organizations are forced to shift their focus. For example, employees play an instrumental role in ensuring that day-to-day activities are performed appropriately. They provide much-needed human strength leading to the implementation of strategies; and are guardians of the company's mission and vision (Pavlatos, Kostakis & Digkas, 2020, 87). Regardless of their contribution, the company must choose between retaining employees who were not essential to the organization and continue to pay their salaries at the expense of the organization, and sending some of the employees on unpaid leave. It is necessary to send several employees on long leave days to reduce costs, as the organization monitors the pandemic and when to call them to continue serving in the organization.

Conversely, salary reductions are inevitable in such circumstances and this must be demonstrated by the managers leading the course to the lowest-ranked employee. These salary cuts will be taken into account depending on the salary of individuals or company levels. The performance of this is done so that there is no unclean crying. The implementation of this initiative will reduce the company's costs and return this capital to its key aspects (Lai & Wong, 2020, 3145). The company can retain entry-level employees, short-term contractors, and non-core contracts until the pandemic

becomes manageable. This will further reduce payroll costs and return the capital back to the company. Such cost savings can help the organization continue with its expansion strategies, which include shifting the focus to increasing the capacity of premises in countries where constraints have previously been eased. Freezing all employment by the company is also essential. The organization must ensure that other employees occupy all the roles that the new staff should have performed. This would play a key role in further reducing the company's costs.

Due to the COVID_19 pandemic, many businesses and staff have been negatively affected to the extent that the number of people going on business trips has dropped dramatically. The reduction has led to the fact that most hotels in the world receive very few visitors and sometimes go without reaching even a quarter of their total capacity. It is clear that fewer people visit hotels in the affected areas, which means that household and cleaning will have to decrease. So then the capital for the purchase of household products and cleaning will have to decrease significantly. Similarly, the number of employees in this sector will also have to be halved, as it is only necessary to keep facilities in excellent shape in the case of a local population that needs the services of such facilities. (Lai, & Wong, 2020, 3154). In addition, only a small number of employees are sufficient to serve the local market, thus reducing the number of the most important things for the household and cleaning services.

Similarly, traces of the coronavirus pandemic came with the imposition of evening hours and restriction of movement; thus, outdoor advertising does not seem to be viable for many businesses. At the same time, online advertising is slightly cheaper than outdoor advertising. So, Harriot Hotels needs to reach a consensus with its advertising partners on the transition from outdoor to online advertising. This would be the most effective way to reach your potential and current customers (Pavlatos, Kostakis & Digkas, 2020, 80). In addition, other means of advertising, such as personal sales, face-to-face, or other forms of advertising that involve personal representation, will not be fruitful, as there is still a need to minimize face-to-face movements and interactions. Therefore, the company needs to move to other appropriate forms and formulate various cheaper advertising regimes that strictly adhere to the guidelines introduced by health agencies. For example, a company may accept discounts as a form of lure to local markets. This offer will be available to touch the market, which otherwise, on an ordinary day, would not visit the facilities due to what they consider a high price.

The discount for products that have a revenue is reduced so that the section can be maintained after a pandemic. The company needs to reduce its services by allowing

it to attract local customers who would not otherwise be interested in hotels, thanks to the harsh economic times. In addition, advertising aimed at attracting the local market to explore this during the blockade is vital for businesses as it provides new avenues for generating much-needed revenue. The company needs to evaluate the local market and determine how they can use it to have some income (Lai & Wong, 2020, 3156). The hotel cannot reduce the discounts as consumers have withdrawn, and it is only appropriate to have more advantageous offers to attract the few consumers to win or support customers. Discount gaps are only measurable by calculating customers visiting the premises during the curfew.

Many organizations are advised to emulate the strategy to ensure that some of their employees work from home and to convene meetings through online platforms. Due to these, and for many people working from home, there will be an automatic reduction of office supplies. The reduced number of visitors to the premises will mean a reduction in the workforce in the front office; therefore, their monthly consumption of stationery will decrease significantly, which is why the hotel needs to consolidate on these supplies as a way to reduce costs in this department. (Pavlatos, Kostakis & Digkas, 2020, 88). Strategies to increase revenue through well-thought-out services, the hotel may not know the exact amount of stationery to give up. But then he will be able to establish this after a cross-examination after a certain period. Once identified, this will reduce costs according to the prevailing needs in different departments.

The hotel needs to hold a consultative meeting with the banks or institutions with which they have loan agreements in order to think of ways to repay loans effectively. (Pavlatos, Kostakis & Digkas, 2020, 90). \ Reduced revenue for the hotel means that the facility can easily refuse to repay a loan; therefore, there must be offers for loan disbursement or suspension of loan repayment for a certain period agreed by both parties and subject to careful market research. The grace period on site will allow the hotel to develop a strategy and find more options for immediate loan repayments. The extent to which the banking institution will grant a grace period for loans is not fixed, but a matter of consensus; therefore, the amount of savings saved from this type of expenditure is uncertain.

The ingenuity of the company and the availability of the appropriate staff at their disposal will make it easier for the facility to formulate roads that will allow them to enter areas they have not occupied. Therefore, the organization will receive appropriate routes, regardless of the harsh business environment it faces. Capable leadership at the helm of the company, policies can be quickly implemented to enable

the facility to deploy and research the hospitality industry for other revenue streams (Lai & Wong, 2020, 3135). Revenues for the pandemic's financial years will still be lower, but for life, new pandemic ventures and other unexplored spaces must be the hotel's goal. Everyone detained during a pandemic must be critical and innovative in order to share viable opportunities to reduce a significant drop in revenue or even profits.

In essence, organizations are required to be ongoing regarding their implementation of cost management strategies. They require a proper understanding of both the long-term and short-term consequences of business profitability policies. They can only be achieved through effective and productive cost management, which is coordinated with organizational strategies. For example, such deployments can enable Harriot Hotels to achieve its goals while remaining competitive during challenging economic periods. Strategic cost management, including reducing certain costs, can help the organization minimize losses as they will focus their resources on key areas. The organization in question should reduce costs on salaries as it would not need the number of employees it had before the coronavirus pandemic. Also, there would be decreasing tasks, so its employees should take pay cuts to enable the organization to save on cost. It can also reduce costs on the advertisements, as there is the need to focus on online campaigns since physical gatherings are not easier to reach. Although they are fixed prices, the hotel can negotiate with its banks for possible longer repayment terms to allow the facility to reorganize its financial resources. In addition, it can reduce the cost of discounts, housekeeping and cleaning, among other costs.

References

1. Seal, W., Rohde, C., Garrison, R. & Noreen, E. (2018.) Management accounting, 6th edition, Mc Graw Hill.
2. Atril, P., & McLaney, E. (2015). Management accounting for decision makers, 8th edition, Pearson.
3. Lai, I. K., & Wong, J. W. (2020). Comparing crisis management practices in the hotel industry between initial and pandemic stages of COVID-19. *International Journal of Contemporary Hospitality Management*, 32(10), pp.3135-3156. doi:10.1108/ijchm-04-2020-0325
4. Pavlatos, O., Kostakis, H., & Digkas, D. (2020). Crisis management in the Greek hotel industry in response to the COVID-19 pandemic. *Anatolia*, 32(1), pp.80-92. doi:10.1080/13032917.2020.1850485
5. <<https://www.inc.com/encyclopedia/costs.html>> Inc Costs, February 24, 2020.
6. <<https://www.investopedia.com/ask/answers/041415/what-are-different-types-costs-cost-accounting.asp>> What Are the Types of Costs in Cost Accounting?, By Murphy C., Mar 13, 2020.
7. <<https://www.oecd.org/coronavirus/policy-responses/tourism-policy-responses-to-the-coronavirus-covid-19-6466aa20/>> OECD Policy Responses to Coronavirus (COVID-19), Tourism Policy Responses to the coronavirus (COVID-19), 2 June 2020.
8. <https://www.youtube.com/watch?v=dvR5-LA7ArU&ab_channel=eFinanceManagement> Types of Cost and Classification of Cost, eFinance Management, May 11, 2017.
9. <<https://core.ac.uk/download/pdf/6886502.pdf>> THE IMPORTANCE OF THE COST INFORMATION IN MAKING DECISIONS, Gheorghe Lepădatu.
10. <<https://tarjomefa.com/wp-content/uploads/2017/06/6847-English-TarjomeFa.pdf>> Cost Accounting Systems Structure and Information Quality Properties: An Empirical Analysis, February 2009, Journal of Applied Accounting Research.