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Assignment 1

MANAGEMENT ACCOUNTING

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Introduction

The rapid change in the modern business environment dictates for prevalent management accounting within an organisation. Management accounting is vastly instrumental in the business decision making of a company hence elevating its competitiveness and growth. Essentially, management accounting provides deep insights on the overview of the operations of a company instigating the management to adopt strategically feasible decisions. Correspondingly, data driven financial and operational decisions augment the competitiveness of an organisation. Moreover, through its industry and competitor analysis the company is able to make planned moves that make it to stay ahead of its competitors. Management accounting empowers the strategic planning of an organisation hence sustaining its success and growth. For instance, it gives accurate data that guides the management in creating policies and planning resources to achieve both long term and short term decisions. Furthermore, management accounting monitors and measures the performance of a company ensuring that all the operational and tactical policies of the company are geared towards its overall goals. This essay seeks to examine the cost cutting strategy of Harriot hotel in reducing its projected losses in 2021 to efficiently recover from the pandemic.

Globally, governments introduced numerous strategies to manage the spread of Covid-19 virus which presented unprecedented challenges within the hospitality (Bhairavi, 2021). Restrictions were placed on travels and stay at home orders issued which led to a sharp decline in hotel occupancies and revenues. Moreover, community lockdowns and social distancing protocols limited the operations of hotel restaurants to only take outs. All these Covid-19 protocols challenged Harriot's hotel operations in every way leading to the drastic fall in its revenue (News, 2021). While the hotel is slowly recovering from the Covid-19 pandemic, it is important for Harriot hotel to embrace cost control and mitigation structures. Harriot's control structures should aim at the decrease or elimination of unnecessary costs hence improving its revenue to support its expansion strategies. Harriot hotel seeks to increase its room capacity in Mainland, China where the Covid-19 protocols have been fairly eased.

According to Edmond and Olds (2013) the management of Harriot has to carefully categorise its revenue and non-revenue generating costs to ascertain the fixed and variable costs that are necessary within its operation. Revenue generating costs are costs that are incurred directly in the generation of revenue by the hotel. On the contrary, on-revenue generating costs indicate costs

that are indirectly incurred in revenue generation. Collier (2015) outlines that fixed and variable costs are costs that are solely depend on the level of activity within an organisation. Fixed costs are costs that remain constant regardless of the level of activity within the organisation. As a result, the fixed cost per unit decreases with the increase in production. Conversely, variable costs are costs that are directly proportional to the level of activity of the hotel. And so, the change in the hotel activity attracts a comparative change in variable costs (Hart, 2012). Understanding the cost behaviours of its various costs is significant in deciding the cost treatment of each cost to be incurred in 2021. As a result the company is able to strategically decide if to decrease, increase or eliminate the cost item. Below is the cost treatment of each cost item within Harriot to reduce the projected losses in 2021:

Employee wages: Horngren (2013) affirms that employees are a significant asset of Harriot that promotes desired customer services within a company. Employee wages entail employee salaries and wages rendered to contracted employees within Harriot hotel. Employee wages within Harriot are assigned as both fixed and variable costs. This is because most of its casual employees are on zero based contracts while the senior and junior managers receive fixed monthly salary hence attributing to its fixed wage costs (Collier, 2015). Harriot hotel has projected its employee wage costs at 25 % of its revenue which is relatively high given that its hotel sales within the UK are still low. Therefore, it is crucial for the hotel to reduce its employee wage costs to maximise on its current revenues. The hotel should prioritise on adjusting the employees work schedules to minimise unnecessary expenses as well as keep overtime expenses at the minimum. Moreover, the company should embrace smart services digital strategy to take over repetitive human employee tasks (News, 2021). Similarly, the company can lay off some of its employees through offering attractive exist packages. This is to reduce the number of employees within the business premises hence reducing the hotel's long term wage responsibility (Arora, 2016). Furthermore, Harriot hotel can also partner with other companies that are essential key service providers to find temporary work for its furloughed employees to reduce its expenditures until its revenues stabilise.

Advertising costs: According to Collier (2015) advertising costs are costs that are associated with promotional activities of the Harriot's brand, products or services. Advertising costs are vital in creating awareness of its new outlets in Mainland, China. Besides, advertising is important in helping the hotel showcase its post covid safety measures and services to attract

more consumers. Advertising costs are variable expenses since they mainly depend on the number of advertising programs the hotel engages in (Collis and Hussey, 2017). Moreover, each advertising program a company engages in has different quotation of costs as compared to another. For example, the costs of advertising on radio or television vary from costs of paying social media influencers (Hart, 2012). The company has estimated its advertising costs to 12 % which is quite high considering the fact the hotel still has low revenues. The company can reduce these expenses through employment of a brand and social media manager who will create attractive ads and manage its social media platforms (Collier, 2015). Likewise, the company can engage in email marketing to attract existing customers through personalising their experiences according to their history of purchase.

Interest on loans: Harriot's expansion strategy has been mainly funded by loans from international banks hence attracting monthly interests on the loan principals (Edmond and Olds, 2013). However, Arora (2016) states that the company needs to streamline its debt to equity ratio to be able to effectively manage to pay interest on its existing and new loans. Interest on loans is a variable cost depending on the interest capped on the varying loan amounts. Harriot hotel has designated 17% of its revenue to pay its interests which is relatively high. This impedes the company from taking more financial loans as its financial burden will be higher than equity. For that reason, the hotel needs to discuss with its financial institutions on new loan contract terms to reduce interest payable until the company has recovered back to its normal financial position (Bhairavi, 2021).

Housekeeping and cleaning supplies: Housekeeping and cleaning supplies costs are costs that are incurred in the daily maintenance of high hygiene levels within the hotel. Housekeeping and cleaning supplies are variable costs that are incurred according to the occupancy of the hotel. For example, increased number of customers will lead to more consumption of housekeeping and cleaning supplies (Horngren, 2013). Post-covid-19 pandemic consumers are extremely conscious of the hygiene levels within the hotel. Therefore, Harriot hotel should be ready to increase its expenditure on housekeeping and cleaning supplies above the anticipated 8.3%. Consumers need to see visible sanitizing points at entry points of the hotel, frequent cleaning of high touch surfaces and maintenance of high hygiene levels by employees. Preliminary findings suggest that 40 % of consumers are more attracted to hotels with increased safety precautions (News, 2021).

Customer discounts: Customer discounts is a marketing tool used within Harriot to attract more customers to its brand hence increase the overall sales revenue (Collis and Hussey, 2017).

Harriot hotel has a history of seasonal discounts to its customers. For instance, it introduces discount packages according to seasons of the year such as summer, autumn and springs. The hotel should slightly increase customer discounts from 13.3% as it will need to introduce more discounts to restore its brand identity after the pandemic. Likewise, customer discounts will help to increase occupancy within the hotel (Collier, 2015). Nevertheless, the company should have only few attractive complementary and cost effective discount items. For example, the hotel could offer massage services or few free meals. Customer discounts are variable costs which depend on the number of customers who will be interested in using those (Hart, 2012).

Stationeries used in front desks and restaurants: According to Arora (2016) stationeries in Harriot's front desk and restaurants are majorly used in facilitating efficient customer delivery. Stationery expenses are variable expenses since its consumption depends on the level of hotel activity. Stationery expenses emanate from billing, receipts, noting of customer reservations and orders. Nonetheless, the pandemic demands for minimal physical interaction between customers and hotel staff to reduce the spread of the virus (News, 2021). As a result, Harriot hotel should consider incorporating the long-term digitalization strategy that includes the use of smart services, mobile platforms and Artificial Intelligence (Bhairavi, 2021). For instance, it should develop interlinked mobile services that enable customers to order for meals, make room reservations, pay online as well as receive receipts through emails or text messages. This will help to eliminate its projected 5% stationery costs for 2021 and years to come.

Conclusion

The Covid-19 has been an eye opener for many businesses within the hospitality industry. For these businesses to continue to survive the operational environment changes instigated by the pandemic they need to embrace modern technology in their operations. Modern technology is instrumental in reducing the number of employee engaged, utilising social media marketing and eliminating other operational expenses. Likewise, a company needs to evaluate and classify their costs to ensure that it implements feasible cost cutting strategies.

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