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Introduction

Management accounting is the provision that managers use to utilise the information related to accounting for making important strategies and decisions for a better performance of the organisation. Management accounting is crucial because it helps managers to develop their management system and control different functions that ultimately contributes to the betterment of the whole organisation. Without management accounting, it would have been difficult for managers to make decisions by ensuring the organisation's maximum benefit. There are several costs considered in management accounting. Among these, the widely used costs are direct costs, indirect costs, fixed and variable costs. The lockdown, moving restrictions and then the renewed lockdown-every decision brought disaster to the hotel industry. The number of foreign tourists declined rapidly. This hampered the business and revenue of the hotels dropped a lot. In the U.K., the hotels that were severely hit by covid are predicted that it will take more than four years to recover the loss.

Harriot Hotel

Harriot Hotel was one of the fastest-growing hotels, which grew by undertaking the expansion strategy. The hotel has placed its landmarks in different locations like America, Asia, Europe, and Africa. By taking loans it expanded a lot. However, the business of Harriot was hampered in the worst way due to covid-19. The hotels were not visited by the tourists, they were quite reluctant to travel, and the travel restrictions put a lot of pressure on the hotel owners to continue with the expansion strategy. The hotel had taken a great move to expand focusing on China as the lockdown has been eased there. However, the hotel still had to face challenges to restore its business. Besides, there were different strategies undertaken and the management is trying to mitigate the damages by applying cost-cutting strategies. From the costs of Harriot Hotel, it can be understood that the hotel is not properly planning its expenditure and cost structure and the essay will focus on this.

Critical analysis of the cost structure of Harriot Hotel

Employee Wages: It explains the cost that the company must incur to pay its employees (Allain, 2021).

The employee wage of Harriot is 25% of its revenue. This data indicates that the company is paying too much to their employees when compared to the revenue it generated (Ameen, 2018). The amount of revenue that they are generated is not enough to maintain such salary structure. 25% of the revenue is spent only to pay the employees which shows that only 75% is left for other expenses. That means, the company will have little or nothing to save as retained earnings which is detrimental to the success of the company.

Harriot Hotels should therefore consider reducing the salaries of their employees. It should also consider terminating the employees who have more salary and reduce the shifts of the current employees.

Advertising cost: It refers to the cost the company incurs to promote the hotels and services (Baker, 2020).

The cost of advertising is 12% of the revenue. Advertising is a variable cost, and it can be reduced or increased based on the amount of revenue (Turner, 2017). As revenue is less generated due to the ongoing pandemic, the cost of advertising is a bit high for Harriot Hotels.

When there is travel restrictions ongoing, spending a great deal of money in advertising services will not help the company to gain more revenue.

The company should spend this much of money on advertising after it gets to reduce other fixed costs like employee wages. Besides, as advertising will not really help because the lockdowns are being renewed and moving restrictions have been imposed, Harriot Hotels should stop thinking about advertising for now. It should also go for cheaper advertising channels like social media for advertising its products and services.

Interest on loans: Interest on loans is the premium Harriot must pay every year for the loans it took to expand its services (Salem, 2020).

17% has been paid by Harriot each year to the banks for paying the interest against the loans that were taken by it. This amount is also a lot for the company as it is trying to recover from the damage that was caused by covid-19. A great portion of the revenue is getting paid for interest. This is a fixed cost, and it will add up if the hotel takes more loans in the future. If this continues, it will have to pay more than 20% for paying the interest. For a company that survived covid, this amount is huge and paying such an amount will make the company face loss and uncertainty as the liabilities are getting higher than the revenue (Tan, 2021).

Harriot should use its assets for expanding its business. Moreover, even if it takes loans, it should go for alternatives that offer low-interest rates.

Housekeeping and cleaning supplies: This is the cost Harriot Hotel must incur to make sure customers are getting the proper service (Baker, 2020).

8.3% of the revenue is spent in Housekeeping and cleaning supplies. This amount is enough for any hotel as it is required to serve the customers right. If they are not satisfied with housekeeping services, the customers will remain dissatisfied and spread negative word of mouth. This is a variable cost and can be easily modified based on the revenue generation of the hotels.

As the success of a company largely relies on the service quality, Harriot Hotel should focus on Housekeeping and hygiene of the hotels (Tan, 2021). Therefore, spending 8.3% can be said to be enough for the company as it will be a good investment for the future.

Customer discounts: These are the price cuts that Harriot provides to its customers as a part of their public relations activity. Discounts are a part of promotional activities and it should be included in the business processes and marketing (Turner, 2017). However, too many discounts may backfire and bring loss to the business. 13.3% of the revenue is cut down due to the discounts which means a great portion is reduced by it. The discount price is variable and can be adjusted according to the revenue generation. For any business, discounts should not exceed 10% of the revenue generation.

Harriot Hotel should think of better alternatives of discounts. Instead of provided flat discounts, the Hotel chain may offer package deals, special rates and membership offers. These will increase the sale by not hampering the revenue of the company. This will also enable the Hotel to attract more customers without giving away discounts and enable it to restore its business for better.

Stationeries used in front desk and restaurants: The stationery and other accessories are the instruments that are used to serve the customers and completely different formalities (Lu, 2019).

5% of revenue has been spent by buying stationery is which are placed in the front desk and restaurants in Harriot order. Front desks are the places where the frontlines sit, and they represent the entire organisation. Therefore, beautification of these desks is necessary to attract more customers. Besides, the restaurants are the places where customers spend a lot of time by having food and gossiping. Therefore, these stationaries and accessories are required to satisfy their needs properly. These costs are required for the image and reputation of the hotels. Therefore, the spending on this equipment is necessary and shall not be lessened.

The company should spend around 5% on such equipment. However, caution should be ensured so that this amount does not get higher. Otherwise, the cost will not enable the company to meet the break even.

Conclusion

The predictions say it will take more than four years to restore the profitability of the hotel sector of U.K. Therefore, the hotel industry will have to go to a lot to face the challenges that COVID-19 has created for them. However, if appropriate strategies are undertaken after vaccination is completed, the industry will rise again. From the essay it was understood that the company should pay the usual amount for stationaries and Housekeeping. However, it should reduce the amount it spends on employee wages, advertising, discounts, and interest rates. That is, it should pay more for the services and reduce the other fixed costs because quality of service will bring more sales than advertising in a situation like this.

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