



ASSIGNMENT 1 – ESSAY - MANAGEMENT ACCOUNTING

LCBB5002



Lecturer: Widin Sha'ven

Student: Ivan Georgiev

Student ID:1914979

University of Wales Trinity Saint David

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Introduction

Management accounting is a process of analysing business cost and operations to prepare an internal financial report, records, and account to aid managers decision-making process in achieving business goals. Management accounting is essential because it provides information that management needs to plan and control its activities and decide about the future. We need a cost accounting system because it allows us to make predictions about future events based on historical data (Walker, J. 2009, pp.3-4).

With the change in production units, some cost may change, and some costs may remain unchanged while others will change not in proportion to the change of production. Therefore, behaviour cost can be classified and analysed into three types. The first type is Fixed costs that remain unchanged regardless of the output a company produces. The second time is variable costs change with production volume. The third type is mixed or semi-variable costs, which are partly variable and partly fixed (Dutta, Ali and Karmarkar, 2019, p.7).

Main body

Founded in 1941 by John D. Brockville, with their aggressive approach, Harriot Hotel managed to grow and become a significant factor in the hotel industry of Americas, Europe, Asia, and Africa, financed by international banks. In nowadays, Harriot hotel is one of the key players in the global hotel industry.

Fig1. Project cost breakdown for UK division			
Item (£m)	Value	As a percentage of revenue	
Revenue	£ 60,000.00		
Employees' wages	£ 15,000.00	25%	
Advertising costs	£ 7,000.00	12%	
Interest of loans.	£ 10,000.00	17%	
Housekeeping and cleaning supplies	£ 5,000.00	8.3%	
Customer discount	£ 8,000.00	13.3%	
Stationeres used in frontdesks and restaurants	£ 3,000.00	5%	

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Figure 1 reveals the cost breakdown. The first thing that is clear to see is that the most significant share of the cost is employees wages, 25% of total revenue. The second one is that the costs are equal to 80,6% of the revenue. It leads to the idea that despite the pandemic situation, Harriot Hotels are still making a profit.

The costs and their behaviour:

The cost behaviour of employee wages can be defined as fixed because we can consider that the senior high paid staff is on a contract, which means that this cost will not change with the work

volume. On the other hand, we have staff who is not on a fixed salary, like housekeeping waitress and others, their payment is based on hourly payment, which means that some part of employee wages are variable. As a manager, the primary focus over the costs will be on employees wages. In a time of national and international lockdowns, it does not seem to be a reasonable 25 % of the revenue to be a cost from salaries. The work volume is lower than usual the capacity of the hotels and restaurants are at minimal levels (Mustoe, 2020). That is why a manager should focus his attention on this fixed cost. We must consider that the cost may become mixed if we frequently need to hire or release more people during the financial year. It would be reasonable for Harriot Hotels to reduce senior management by offering lucrative redundancy packages or using the UK government Furlough scheme (Larkin, 2009).

Advertising costs:

Advertising costs do not change with the amount of output. Of course, to sell more services, we may want to increase the advertisement costs, but there is no clear cause-and-effect connection. Furthermore, since we can set a fixed advertisement budget before starting a specific period, these costs are fixed. On the other hand, in the long run, we can see advertising costs as a variable. They will vary during the different seasons, local and international events, like music festivals, Olympic games and others (Lopez-Andreu, Papadopoulos and Hamedani, 2019 p.6). It is advisable for Harriot Hotels to increase its budget for advertising. A combination of good advertising and customer discount may attract more demand for hotels their services. Implementing a strategy to increase advertising costs may become a threat to the budget if the manager does not supervise the changing in the demand curve. With a careful approach, the results may become profitable.

The interest of loans:

The interest of loans is fixed in their behaviour. The reason for it is that every loan taken from a bank is taken under condition written in a loan agreement, where the costs are fixed. With decreasing the value of the loan, the interest rate will remain the same (Kop, 2020). It would be advisable for Harriot Hotel to try to negotiate the interest rate with the banks. The banks and the government are trying to respond to the pandemic situation, which represents an opportunity for cutting the costs from loan interest (Peachy, 2020).

Housekeeping and cleaning supplies:

The cost of housekeeping and cleaning supplies is variable. With increasing or decreasing the hotel occupancy, the costs for cleaning and maintenance will vary. The hotels and restaurants are not occupied at the same level every month. With the decreasing of the occupancy level, the need for cleaning services will decrease. The cost of cleaning supplies for a hotel with 100 per cent occupancy will be different from when the occupancy is 60 per cent (Artil and McLaney, 2009, p.58). In times of pandemic, Harriot Hotels would cut down the cleaning supplies costs, but it should not affect the quality of the products. We still can search for better supply prices which may lower the cost for supplies. Another option is to search for substitutes supplies that are not so expensive and, at the same time, are of equal quality.

Customer discount:

The cost of a customer discount is variable. Usually, the discounts are made for a specific product or service, and it is for a short period of time. Also, the cost will vary with the volume of costumers. It may be advisable for Harriot Hotel sightly to increase this cost. By definition, with decreasing in the price, we will increase the demand for the service (Solomon and Jones, 2017 pp. 26-27). The increase in this cost should be under careful monitoring. This cost is already the third considerable cost in the budget, with 13,3% of the revenue. If we lower the price too much, the customers may think that our services are of lower quality than the competitors, which may negatively affect the revenue.

Stationarities in front desks and restaurants:

Stationarities in front desks and restaurants are fixed cost. Once they are brought, they do their purpose, and the volume of customers will not change this. With the beginning of the pandemic, stationarities become a vital part of the hotel and restaurant industry (Delahaye, 2021). The cost for them can be reduced if Harriot Hotel can find new suppliers of stationarities with better, lower price. Again the lower cost must not compromise the quality of the product. If the stationarities are of low quality, they will be with a short lifespan, leading to an increase in the costs in the long-run.

Conclusion:

In the future, the United Kingdom hotel industry will face new challenges along with the Covid 19 pandemic is coming and Brexit. The combination of these two significant factors will change the face of the industry. The new cleaning measures probably will remain and will become new standards for the hotels. In the future, contactless methods of check-in and check-out will become the new normal. Also, the preferences of the clients will be different. They will become more demanding about the cleanness of their rooms. They will want more space in restaurants, lifts, gardens and many others, and the industry will have to adapt to these changes (Xie, 2021).

The main reason to advice Harriot Hotels to try to decrease some of its expenditures and, at the same time, to increase another was not just a try to cut down costs. It is also an attempt to increase the profit of the company. As a key player in the industry, the CEO of Harriot Hotels must not forget that he also has social responsibilities to its workers and the society.

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