

UNIVERSITY OF WALES TRINITY SAINT DAVID

BA (HONS) IN BUSINESS MANAGEMENT, Level 5, Term 2

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LCBB5002 - Management Accounting

Assessment 1: Essay

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Introduction

Management accounting involves issues of accountant's job responsibility, skill set, professional designs and formal education requirements (Fontinelle, 2021). Management accounting is important as it helps companies to keep track of the business expenses and income. Furthermore, it helps supply financial and non-financial information to the organisations management and other internal decision makers. The larger part of the job responsibilities of the manager falls into planning, control or evaluation (Tuovila & Kindness, 2020).

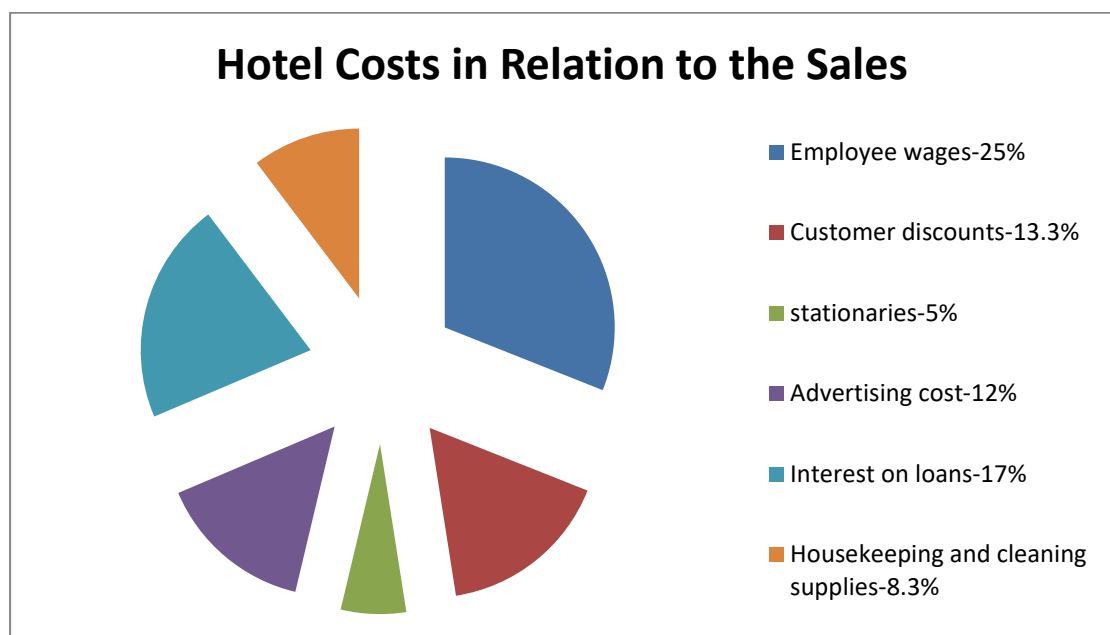
Costs are the expenses incurred by a business to run its activities. Such costs fall into different categories including variable, fixed and mixed or semi variable (Managerial Accounting, 2020). Cost behaviour is the relationship between total costs and the business activity level. Fixed costs remains constant regardless of the activity level for example, rent. Variable costs, on the other hand, change proportionately with the level of activity. This means that, when more units are sold, the cost increases, and when fewer units are sold, the cost also reduces. Semi variable costs are the combination of the two. This cost has the elements of both fixed and variable costs for example, telephone expenses which has a fixed element like the fixed subscription charges and also a variable element which is charged per minute (xplained,2020).

The strike of Covid 19 in 2020 crippled the hotel industry globally. The government enacted restrictions on travel and ordered lock downs to curb its spread. As a result, people were not able to travel. By May 2020, many hotels had their occupancy below 15% globally and many closed later on due to lack of business. Although many are trying to set recovery strategies, the economic levels of 2019 and before Covid 19 can only be achieved beyond 2023 (Krishman, et al, 2020). According to Mogelonsky (2021), hotels should figure out ways on

how to work in the presence of the pandemic and deliver exceptional services to the available guest to ensure continuity. This paper will discuss the various fixed and variable costs which are incurred by the Harriot hotel and how they should be treated to reduce the projected loss in 2021.

Hotel Costs

The hotel has incurred different costs during its operations, both fixed and variable. The chart below shows each cost as a percentage of the sales, including advertisement, wages, housekeeping and cleaning supplies, customers discounts, loan interest, and stationary cost.



From the chart above, each cost equates to a given percentage of sales with employee wages being the highest, followed by loan interest and customer discounts. The operations costs if not well managed can weigh heavily on the business bottom line. With the reduction on sales and uncertainty of the near future, the management needs to work on strategies to control, reduce and even eliminate some costs to ensure the business remains in operations.

Costs which should be reduced or eliminated

Employee wages amounts to 15,000 which is 25% of the sales generated. It being a fixed cost, it has to be incurred regardless of the amount of sales generated. The staff have to be paid even when the hotel has zero occupancy. For example, the maintenance staff, front desk clerks, office operations and cooks among others will still report to work and wait the whole shift for the guests. If the guests walk in, the hotel makes some sales. On the other hand, if there is no guest who comes to the hotel that day, the hotel will not make any sales, but the employees will be paid for the hours they have waited for the guests while on duty. Following the reduction of activity, the hotel can work to reduce the cost through different ways including reducing the number of employees. For example, if the front desk has three shifts with each shift holding 4 employees when the business activity is high, the employees can be reduced to one per shift. The rest of the employees can either be given unpaid leave or retrenched. Furthermore, the hotel can train employees on different skills such that one employee can work on different sections. For example, a reservation clerk can also work at switch board, and at reception desk or customer care desk. Also, the hotel can negotiate for a salary cut off with employees until the business picks up. All the strategies are aimed at reducing the number of employees and amount paid (Lund, 2020).

Loan interest is a fixed cost and the hotel incurred 10,000 which is 17% of the sales. The hotel is expected to part with this cost until it clears the debt. During the hard times the hotel can negotiate with the banks to extend their payment period which would spread the cost, hence reducing it. Also, many banks reduced the cost of loans during the pandemic time and the hotel can negotiate with the bank on ways to lower the loan interest (Hoare, 2015)

Customer discount cost represents a variable cost since it varies with the amount of sales. The hotel has a cost of 8,000 which is 13.3% of revenues. Such an amount can be reduced

since the customers are fewer. Discounts are only given to those who purchase the hotel food products or services. During this time of Covid-19, giving discounts can help the hotel to attract more customers hence the cost should only be reduced slightly and maintained at minimal percentages. However, strict controls should be in place to ensure discounts are awarded to the right guests and at the correct time and rate (Lund, 2020).

Stationary costs are expenses incurred when purchasing stationaries which are used in the restaurant (Lund, 2020). This cost is a variable, and the hotel incurs 3,000 which is 5% of sales. Being a variable cost, it should reduce with hotel activity. Strict control measures should be in place to avoid wastage and misuse of the stationaries such that the expense matches the sales.

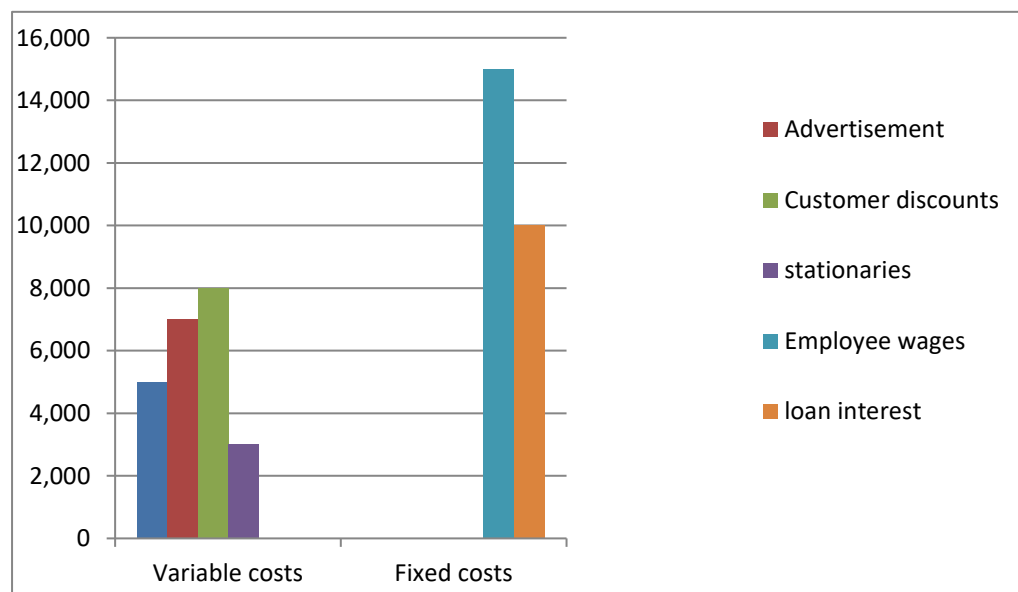
Housekeeping and cleaning supplies also vary with sales hence they are variable costs. The hotel incurs 5,000 which is 8.3% of the hotel revenues. Being variable costs, they should be low if the hotel activity is less. Some of the expenses incurred in housekeeping and cleaning supplies include guest room amenities like soap, refills, minibar drinks, among others. If a room is not occupied for that night, then these supplies are not used and can be used the next day. Also, cleaning detergents would not be used in the laundry if there is no dirty linen to clean. Following the reduced occupancy due to Covid 19 restrictions, housekeeping and cleaning supplies are expected to go down at the same rate. The supplies should therefore be controlled keenly to avoid wasteful practices which deplete profit margins and threaten the hotel financial health. To achieve this, the cost should be aligned with demand or occupancy. That way the hotel will balance efficiency with guest experience, providing the level of services expected by the guest without having idle stock or excess inventory (Lund, 2020).

Advertisement cost is also a variable cost which should reduce with the hotel activity or sales. The hotel incurred 7,000 which is 12% of revenues. Due to the Covid 19 restrictions,

business has reduced. However, to attract more customers when the supply exceeds demand, the hotel needs to have an aggressive advertisement strategy. Normally when the occupancy is low, the hotel will spend more on marketing and advertisement than when the occupancy is high (Vanstekelenurg et al, 2020). As a result, the cost is expected to increase to source for more clients. However, the channels used should be monitored to remain cost effective while at the same time bring in the desired results. The hotel will work on optimizing the advertising cost through installation of Facebook Pixel and an analytic code like Google Analytic to track performance from conversations and click. This is because, when well-integrated with the hotel system, the management will have a full view of their efforts and will also be able to know which area to concentrate on. Furthermore, they will be able leverage powerful tactics like retargeting and remarketing campaigns (Darios, 2020).

Variable or Fixed costs

The chart below shows the classes and amounts of costs incurred by the company in relation to each other.



Variable costs are expenses which fluctuate in relation to the volume of goods and services sold. As the hotel occupancy increases, variable costs increase and as the hotel occupancy decrease, variable cost decrease (Set up my Hotel, 2020). In the case of Harriot hotel, the variable costs include housekeeping and cleaning supplies, customer discounts, stationaries for front desk and restaurant, and advertisement.

Fixed costs on the other hand, are the hotel expenses that remain constant or the same despite the changes in volume of sales (Landman, 2020). However, this does not mean that they are static, it means that any changes on such costs indirectly relate to the volume of sales. In the case of Harriot hotel, fixed costs include employee wages, and loan interest.

Conclusion

Businesses incur different costs which if not well managed can weigh heavily on the bottom line. Harriot hotel has its costs to meet which fall either under variable or fixed costs. The hotel has had to meet such costs even during when the Covid 19 restrictions have crippled the hotel and tourism industry. Harriot hotel management has not given up on its expansion strategy and further wants to cut down on some costs to reduce the losses projected in 2021. The costs identified, and that can be reduced include that of employee wages, housekeeping and cleaning supplies, stationaries, customer discount, and loan interest. Advertisement will be critical during this time and is expected to rise due to low occupancy. The hotel will keep the cost steady through employing effective ways of marketing and advertisement to get desired results. Additionally, sufficient planning and execution, and control will help in reduction of the costs without sacrificing the hotel services. All the costs need to be controlled keenly under strict control measures to avoid wastage of misuse of materials or funds.

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