



MANAGEMENT ACCOUNTING ESSAY

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1. Introduction

Management accounting deals with the identification, examination, measurement, and understanding of accounting information which assist the users of the information regarding operational decision making (Scott, 2019) . It focuses on the internal reporting for supporting decision making of an organization.

It differs from financial accounting because the intended purpose of managerial accounting is to help users internal to the company in making well-informed business decisions. The main difference between managerial accounting and financial accounting relates to the intended users of the information. Managerial accounting information is aimed at helping managers within the organization make well-informed business decisions, while financial accounting is aimed at providing financial information to parties outside the company (Tuovila, 2020).

Management accounting or managerial accounting is vital for an organisation for several reasons. It reviews the current product range, provides crucial financial and business statistics, and helps to identify profitable products for an organisation (Tulsian & Tulsian, 2015). For making decision on launching a new product, management accounting is a critical instrument. It helps to determine the price, quantity, and required staffs for producing that product. Management accounting also helps to take decision regarding staffing of the organisation. It lets the organization know how many staffs are required and how they will be distributed.

2. Types of Cost by behavior

According to the behaviour, cost can be categorised into variable, fixed, and mixed cost. Variable costs are those that changes according to production units. It means it varies with the increase or decrease with the level of production. Fixed costs remain unchanged with the level of production. They will be incurred even if no unit produced. Finally, mixed costs are the combination of variable and fixed cost. In this cost, some portion of the cost is fixed and the remain portion varies with the level of production (Drury, 2013).

3. Covid-19 Influence on the Hotel Industry

The Covid-19 outbreak affects almost all sectors of world economy badly. The hotel industry probable is the most affected one. UK hotel industry is not separate from it. Before pandemic, this industry prospered so high in 2019. The experts estimated that UK hotel industry will probably require four more years to go back to the previous glory (Jolly, 2020) . During pandemic, due to the lock down phrase, the visit of tourism to hotels reduced to almost zero and after the lock down phrase even now the number of visits is quite low. There is a 72% decrease in visit to hotels of UK after lockdown (Pham, et al., 2021). This reduced the tourism revenue to 72% also. The travel restrictions made this industry more vulnerable for UK and worldwide. The staffing, tax payables, maintenance every single cost became extravagant for this industry during this time.

4. Harriot Hotel

Harriot Hotel is one of the major competitors in the hotel industry of the world which was established in 1941. John D. Brockville was the founder of this hotel. Currently it is performing its operations in Asia, Americas, Africa, and Europe. It is mainly funded by loans of various international banks which resulted in steady growth from aggressive expansion. Jim Trulley is the CEO of this hotel.

In the pandemic crisis from Covid-19, the global tourism and hospitality industry along with the hotel industry faced tremendous failure. But even in this situation, Harriot Hotel continued their expansion strategies. As China relaxed the restrictions of lockdown earlier than the rest of the world, Harriot Hotel concentrated on growing room capacity in Mainland China.

5. Critical analysis of costs behavior by PER Method

Point: Employee wages

This point is related to the labour costs required for operating activities in Harriot Hotels.

Explained: From the Projected Cost Breakdown, it is found that Employees wages are 25% of the predicted revenue. This percentage is quite high.

Employee wages can have both fixed and variable elements as some employees can be paid on hourly basis, such as housekeepers or front desk clerks. Some can also be paid on fixed term contracts, such as senior staff members. Here the first one will be considered as variable costs and the later will be as fixed costs (Vij, 2012) . The percentage of fixed will be higher than variable as the collective senior staff salaries would cost more than that of other staffs.

Relate: Harriot hotels are suggested to decrease the fixed portion of this cost by cutting down senior managers through offers of redundancy packages or Furlough scheme provided by the government of UK.

Point: Advertising cost

This cost related to the promotional activities of Harriot Hotels.

Explained: The advertising cost is found to be 12% of the revenue. This is a moderate rate. It means for £100 of sale £12 will be expended as advertising cost.

Advertising cost is fixed in nature for hotel industry (Uğur & Akbıyık, 2020). Because how many changes occur in the number of services provided the amount of advertising will remain same. It does not change with the level of service provided.

Relate: Promotional activities are foremost tools for reaching to customers. Harriot Hotels is planning to expand their activities in Mainland China. So, taking this in consideration they should increase their advertising cost. It will help to expend more on promotional activities and make the hotel to be known by more people.

Point: Interest on Loans

This cost is related to financing activities of the hotel which must pay of fixed borrowings.

Explained: The percentage of interest on loans on revenue is 17%. This is quite a high percentage. It depicts that during the pandemic phase due to the increase in external financing the financing expenses also increases.

For hotel industry interest on loans is fixed costs. It is not affected by the changes in level of activities. The rate and volume of the interest cost will always be the same. It depends on the volume of loan taking. If the loan amount is high, then its interest cost will be also high.

Relate: This cost consumes a greater percentage of the revenue. So, this should be decreased. The loan should be paid off with the additional money earned from revenue. It will reduce the interest expenses also. Excessive financing cost is not good for any business.

Point: Housekeeping and cleaning supplies

It is related to the day-to-day activities of the Harriot Hotels.

Explained: From the given Cost Breakdown, it can be said that the housekeeping and cleaning supplies occupy almost 8.3% of the revenue.

Housekeeping and cleaning supplies are variable costs. It depends on the level of consumption and usage. If there are more guests in the hotel, then more supplies will be used so the costs will increase (Vij, 2012). Again, if the rooms remain vacant then less supplies will be needed. As it moves with the level of service provided, housekeeping and cleaning supplies cost is considered as variable costs for hotels.

Relate: Due to the lock down situation, lesser people visit the hotel, and more rooms remain vacant. It means the consumption of daily supplies is also less. That is why the housekeeping and cleaning supplies should be reduced in this sense.

Point: Customer discount

This cost is also related to the promotional activities of Harriot Hotels.

Explained: Almost 13.3% of revenue are associated with customer discount cost. As a promotional strategy this partakes a great percentage of revenue.

Customer discount is considered as fixed costs for hotels. No matter how much rooms are vacant the rate of discount will be equal for all customers (Pham, et al., 2021). When there are opportunities for growth in that case this cost can be increased. Customer discount will motivate customers to choose the business over its competitors.

Relate: In the crisis of pandemic, people are more concerned about their health, so they want to stay home as much as possible. In this situation, the customer discount policy will not work very well. So, this cost should be reduced.

Point: Stationeries

This cost is also related to the day-to-day activities of the Harriot Hotels.

Explained: Stationaries are found to be 5% of the projected revenue. This level is acceptable as it is not so high but still it can be managed further.

Stationary costs are variable cost in all manner. They are purchased according to the need and consumption. It means if hotel rooms are vacant and less guests visit the hotel, then stationaries will be consumed less.

Relate: Although the percentage of stationary in relation to revenue is very low this cost can be reduced more. As all the booking activities have become online based the front desk stationary consumption has reduced (Faulconbridge & Young, 2021) . Besides, as less guests occupy the rooms, stationaries using for them also reduced. So, this cost can be reduced.

6. Conclusion

The global crisis of tourism industry makes the hotels more vulnerable. At one phrase all hotels were remained shut for a time being due to lock down restrictions (Alonso, et al., 2020) . So, over the period the restrictions are relaxing, and Hotels have started to operate again. Although the pace is very slow, but they have started to move forward. They are adopting with the 'New Normal' situation (Davies, 2020) .

From the above PER analysis, it is found that most of the costs connected to revenue fall under fixed costs. It means the factor of production for Harriot Hotels is fixed costs dominating. Except the advertising cost all fixed cost should be reduced in response to this pandemic situation. The variables cost also need to be reduced to an acceptable level. If all costs can be managed properly, then the hotel will gain its previous glory back.

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