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Introduction

Management accounting is an organisation internal process of providing essential financial and non-financial timeless information to managers. Moreover Management accounting supports managers to perform their responsibilities: planning, directing, controlling (assessing risks), and making decisions. Management accounting is dealing with preparation of reports based on relevance and flexibility of data regarding business operations that aims at helping managers make effective decisions, affecting the future (Seal et al. 2015).

The COVID-19 crisis has impacted negatively on the global hospitality industry. This resulted to most governments placing lockdown and other travel restrictions all over the world. Hotel occupancy rates are down, and the COVID-19 pandemic is causing chaos on hoteliers across the world (Jiang and Wen, 2020 and Delloite 2021). In general the whole situation pushed the managers to use the accounting concept to find different ways to reduce cost and save the business (Alonso et al. 2020). This essay will use the case study of Harriot hotel to illustrate how such organisation find solutions to cut cost, thus survive in this difficult conditions.

Importance of Management Accounting

Managers rely on management accounting in making important decisions touching on business operations. Managerial accounting helps in extracting valuable information for each department and then analyses it. Then the management is able to make projections for the future especially in relation to whether an organisation should hire more staff or reduce staff, invest in buying of equipment or should outsource from other suppliers or vendors (Atrill and McLaney, 2018). Management is also in a position of determining if diversification into other areas or

markets would be profitable venture. It also provides insightful information for possible investment in the organisation.

Managerial accounting helps in cash flow forecasting and the estimation of various production cost (Garrison and Noreen, 2012). Managers are able to set prices according to the associated cost for product and services.

Classification of Cost

There are various basis of classifying cost in management accounting. According to Seal et al. (2015) the cost can be classified by behavior (fixed costs, variable costs and mixed costs), nature (material costs, labour costs and expenses), by traceability (direct cost and indirect costs) etc. This essay will examine the cost by behavior.

Fixed costs are costs that remain the same within the changes in the level of activity (Seal et al. 2015, p.35). These costs cannot be eliminated and are incurred in normal business operations. In the long run, fixed costs may have a tendency of changing (Atrill and McLaney, 2018).

In contrast variable costs, change with changes in the level of output (Seal et al. 2015, p.34). The variable cost depend on the output, thus an increase of the output will increase the variable cost. In some cases Mixed Cost is also occurring in certain cases. It is a mixture of both fixed and variable cost.

Cost analyses of Harriot Hotel

Harriot Hotel has grown to become one of the leading hotels in the hospitality industry. The hotel is well known in number of countries in Europe, Asia, Africa and America. The Harriot has stuck to its growth plan, concentrating on the increasing room capacity in Mainland China. Now

as many other business and hotels in particular the management is pushed into a strategy of cutting some of the costs.

The table below shows the current financial situation of Harriot hotel and the various costs the management seeks to reduce. It is notable that the current cost is equal to slightly more than 80% compare to the Revenue. The hotel management is aiming to reduce cost in areas where this could be possible.

Item	Value	As a percentage of revenue
Revenue	60,000	
Employees' wages	15,000	25%
Advertising Cost	7,000	12%
Interest on loans	10,000	17%
Housekeeping and cleaning supplies	5,000	8.3%
Customer Discount	8,000	13.3%
Stationaries	3,000	5%
Overall		80.5%

Employees' Wages

This refers to the total sum of employee labour compensation working for the hotel. The permanent employees and those in senior management fall under fixed cost while daily paid and agency workers fall under variable cost. Therefore wages relates to both fixed and variable categories.

Currently the hotel is paying £15,000 in wages to its employees. This percent (25%) is relatively high. The hotel industry is well-known for being extremely labour-intensive. As a result, a large portion of the cost-cutting effort should be devoted to payroll and other employee-related expenses (Vij, 2012). As a manager, I believe that this percentage is very high and needs to be decreased to 18%.

Advertising cost

Advertising costs are cost incurred in promoting the Harriot Hotel and what the business offers.

The advertising cost is 12% of revenue value which is high considering there is a global pandemic. The cost falls under fixed cost according to Seal et al (2015) in the short run, though it may change in the future and be a variable cost based on variety of factors such as COVID-19.

Harriot Hotel needs to lower advertising cost (12%) to 6% in relation to the revenue until the pandemic is over. According to Pham and Dwyer (2021) at the moment the demand for hotel services is low and so the advertising campaigns will not have the desired effect.

Interest on loans

Interest on loan is the amount Harriot Hotels borrowed from the bank.

In case of Harriot it is stated in the loan agreement that the hotel has to pay 17% in relation to revenue that should be the case unless a new agreement is reached.

Interest on loans is a fixed cost as the organisation has to pay the amount which does not change as per the agreed terms.

Even though it is difficult to adjust a fixed cost agreement after it has been made (Seal et.al 2015, p 67). As a manager, I suggest negotiating with the bank for a lower interest rate to minimise the amount owed. The hotel should aim at reducing the percentage to 12%.

Housekeeping and cleaning supplies

Cleaning supplies and housekeeping supplies are used in keeping the Harriot hotel clean.

Housekeeping and cleaning supplies are 8.3% of revenue, this cost is a variable cost as it depends on the amount of products to be bought. This expense can be modified by the hotel considering COVID as hotels need to meet the standards.

World Health Organization (2020) defined COVID-19 as a pandemic with a substantial degree of spread, seriousness, and inaction. As a result, the pandemic has officially become a serious concern for any hospitality sector. According to Jiang and Wen J. (2020) in this situation, the safety of the visitors and employees is of paramount importance.

Irrespective of the decreased amount of work the need of cleaning supplies is a key factor. Therefore the percentage needs to be slightly increased to 8.5%.

Customer discounts

A discount is a reduction on what consumers pay for their stay at the Harriot Hotel and is mainly deducted from the usual price.

This is a variable cost due to the fact that the Hotel may choose to offer different discounts to different customers (loyal clients).

Harriot's percentage of discount to customers is 13.3% which is relatively high, in relation to the UK government which has stated: "Except in specific circumstances Holiday accommodation

must remain closed” (GOV.UK, 2021). When the guest volume is high customers can be given more discounts.

It is worth to decrease the customer discount to 5%, hence to maintain the hotel’s market leading position. This is because the hotel will not be used for leisure purposes until further notice therefore it is at a loss, and as a part of the Harriots implementing cost-cutting strategy the customer discount should be minimised as a cost. The explanation for this is that customers are not willing to spend as much as they were before COVID-19 (Pham and Dwyer, 2021, p 8).

Stationeries used in front desk and restaurants

Stationeries are materials used in different offices in completing certain tasks.

The amount spent on stationary is 5% of revenue which is a high cost giving consideration to the current circumstances of the pandemic.

They fall under variable cost category. Many hotels can further minimize their variable costs (McKinsey, 2021) Stationeries used change, with changes in the level of output. An increase in production capacity results in an increase in demand for stationeries.

It is recommended that the focus should be on reducing the level of stationeries used to 3% in the front office and restaurant as the number of customers is low as of lockdown.

Conclusion

One of the world's greatest markets until the world met a pandemic in the 21st century was the tourism industry. Hotels had employed millions of people but most of them were deployed and sent home (Ugur and Akbiyik, 2020). According to Sheppardson (2021) though over the past one year Covid-19 has brought challenges in the hotel industry, there is more hope

for the hotels that will remain determined and resilient. Though Covid 19 has affected the hotel industry in the United Kingdom, Harriot hotel has potential of remaining in business by adopting strategies such as taking cost cutting measures.

Extensive cost reduction should be done for costs that cannot be done away with. As a manager at the Harriot hotel my decisions would be to make the following changes from the revenue costs as follows: decrease employee wages to 18%, reduce the cost on advertising to 6%, aim to cut the interest on loans to 12%, housekeeping and cleaning supplies to be slightly increased to 8.5%, customer discount to be minimized to 5% and lastly to decrease stationeries to 3%. By implementing this cost- cutting strategy Harriot could reduce the projected losses for 2021.

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