



MANAGEMENT ACCOUNTING ASSESSMENT 1

BA Business Management Level 5

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Task

Harriot Hotel was established in 1941 by John D. Brockville. Over the years Harriot Hotels has grown to be a key player within the global hotel industry with key operations in the Americas, Europe, Asia and Africa. Their steady growth has been as a result of aggressive expansion strategy financed by loans from major international banks. Recently the Covid-19 pandemic broke out globally leading governments of various nations to impose lock downs which have crippled the hotel and tourism industry. Jim Trulley; the CEO of Harriot made this statement during the annual general meeting which was held virtually “This has been the worst year ever for us as a business”. However, Harriot has maintained its expansion strategy with focus on increasing room capacity in Mainland China as Covid-19 restrictions were relaxed much earlier than in other countries. This is to augment for their hotels in hard hit cities of the Americas and Europe; furthermore, senior management has decided to implement a cost-cutting strategy in order to reduce projected losses for 2021.

Projected Cost Breakdown for UK Division

Item (£m)	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 discounts	8,000	13.3%
Stationeries used in front desk and restaurants	3,000	5%

Required: You have been hired as a manager within Harriot Hotels to access which costs should be increased, decreased, or eliminated in order to maintain their market leading position. You should also provide strong justifications for your decisions and indicate whether each item is a fixed or variable cost

Introduction

Every organization's goal is to successfully analyse, measure, identify, interpret, and communicate all collected information to the managerial accounting department. In order to achieve such a goal, management accounting emphasise on all accounting aims as providing relevant information about operational business metrics. (Uyar, 2010) Every corporation has accounting department that is responsible for managing all types of costs, such as product or service costs purchased by the company. In operation planning one of the most considerable aspect is budgeting where management accounting plays a crucial role. In order to spread the budget across the firm, management accounting must deliberate all performance reports and identify gaps that could potentially lead the organisation towards variances or loss. (Drury, 2019) The importance of management accounting is significant because it improves every business in benefit to develop and strengthen the financial operations within every organisation.

In management accounting we often look at the cost behaviour which indicates the relationship between activity levels and total costs. According to the cost behaviour there are four categories of costs - *fixed cost*, *variable cost*, *mixed cost (semi variable)* and *step cost*. (Fig.1)

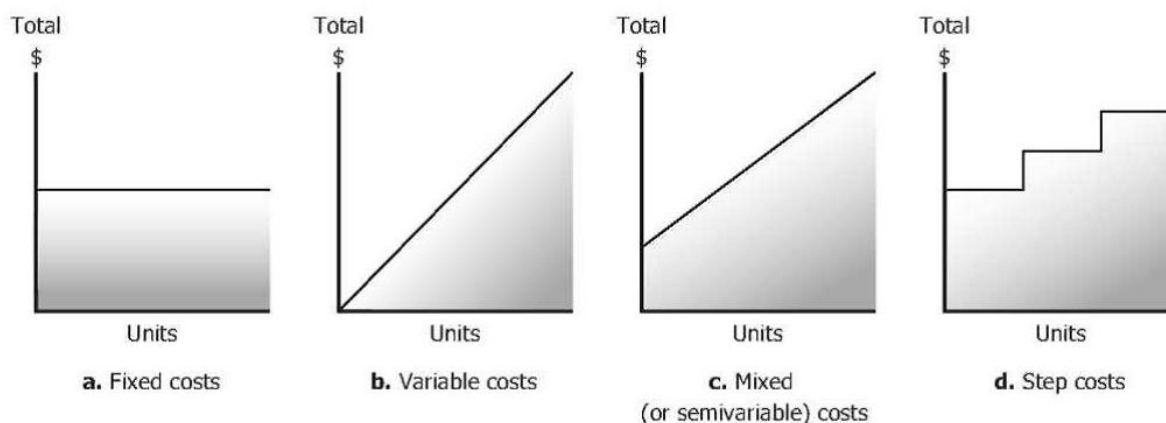


Fig. 1

As per the figure above, the fixed cost remains the same with the level of activity within the relevant range. (Hayes, 2021) An example of fixed cost is rent or mortgage payments, property taxes, employees' wages, insurance, or some other utilities.

On other hand, variable cost (Fig.1) changes in direct proportion to the level of production. For example, the total variable cost will increase every time when one or more units are produced and the other way around. (Hayes, 2021) We can consider the following as total variable cost: direct labour costs, cost of raw materials used in production and sales commissions.

Mixed cost or known as semi-variable cost is a mixture of both – fixed and variable costs and it depends on their components. For instance, the telephone expense is considered as fixed cost but in line of the charges per minute is variable cost. (Hayes, 2021)

And last from the figure is step cost which is described as a constant cost for a specific level of activity where can increase or decrease once a threshold is crossed. (Hayes, 2021) Therefore, step costs will change every time the level of manufactured production increase or decrease which leads to the step pattern cost representation.

In times of crisis the cost management plays a vital role for every business in every industry. In this report I will emphasise on the hospitality industry, how it was affected by COVID-19, and how we can save the business as using some of the accounting techniques for making important decisions.

Hospitality is an industry that is related to leisure, accommodation, food, exploring and discovering new cultures and services globally. This industry represents all restaurants, hotels, cafes, bars, etc. According to Georgina Hutton and Niamh Foley research article, the hospitality sector contributed £59.3 billion in Gross Value Added to the UK economy, around 3.0% of total UK economic output for last year.

It seems that hospitality sector has been one of the most impacted sectors by the coronavirus pandemic. The trading restriction set up by government have drastically decreased the businesses turnover. Compared to February 2020, this industry was down by 92% in April 2020. (Hutton and Foley, 2021) To avoid further financial loss, hospitality sector could recover during the summer period as running only ‘take away’ service or known as the Help out scheme. (Stubley, 2020) However, straight after summer all restrictions were imposed and the main concern for this sector was to consider how to precisely lower all types of costs where possible.

The consequences after the second lock down in most of the countries across the globe increased the level of crisis as leaving the hospitality industry with no other choice but to start planning a new strategy for saving the business. The challenge that this sector must face is to start managing every cost and how to reduce it without sacrificing the quality. (Vij, 2012)

In this paper’s scenario we have been given 6 projected costs which we will analyse and decide how to reduce them without compromising our services.

Main Body

Established in 1941 by John D. Brockville, Harriot Hotels did not stop expanding the business as leading the global industry of hospitality. The hotels chain has top locations in countries such as USA, Asia, Europe and Africa. To achieve such an incredible success the corporation had been financially sponsored by international banks. Due to the pandemic this strong organisation has faced one of the biggest challenges in its lifetime. There are many aspects that must be considered from now on for Harriot to survive during the ongoing situation. In order to save the organisation, we should have the knowledge of using management accounting as using managerial approach to some of the costs that are being occurred. These costs will have to be updated and restructured.

The first cost we need to look at is the **employee's wages**. This is one of the costs that can be considered as semi-variable cost because it's a mixture of fixed (salaries) and variable (hourly pay) costs. The employee wages were taking 25% of the total income. However, this might be a subject to change in order to save the business in future. This cost is slightly high and decreasing the wages should be justified due to the ongoing situation. To support the industry government has introduced a few schemes that can potentially help the brand to avoid any further loss and meanwhile to save its employees until the restrictions are lifted again. Furthermore, the higher level of Management could be offered alternative proposal i.e. Furlough scheme.

Advertising cost does not depend on the revenue but on the sales of the hotel as it is a fixed cost. It covers expenses related to marketing industry such as promoting the business products or services. Before the pandemic advertising cost was taking 12% of the income and will potentially stay the same as in normal circumstances. However, the ability to manage our marketing budget wisely is very important. We must adapt to a short-term plan in reducing the advertising cost by 2% and leave it at 10% of the total revenue. Therefore, this percent could be modified based on the return of marketing investments when COVID-19 restrictions are lifted.

Interest on loans is related to variable costs because of the ability to change its proportion depending on the time frame. Since the interest decrease based on the principal of the loan outstanding can be given as an example of the variable cost behaviour. In order to lower the hotel expenses my recommendation is that the interest of loan must be reduced as quick as possible since a large amount of money is lost by paying interest on these loans. Therefore, we can extend the loan lifetime and re-pay the instalments after the crisis.

The Housekeeping in nature can be considered as variable costs because it is based on the order quantity. The more products we order the higher amount of money we will pay. During the pandemic we have seen that the level of hygiene and sanitization has increased drastically across the globe. To attract more customers, we need to make sure that the hotel has installations of sanitizer in every corner and corridor

across the premisses. The total cost dedicated for these cost items before pandemic was £5,000 for housekeeping. After the coronavirus impact this cost will have to be increased in order to provide safety for all people visiting the hotel.

Supplies and stationeries on front desk are also taking part of the variable costs as they depend on the change of the order quantity. In pre COVID circumstances the budget for stationery and supplies was £3,000 or 5% from the total revenue. In order to provide better service during pandemic we must consider of supplying the reception with more face masks, box of sanitized pens, water bottles and other room provisions that could be provided upon customer's request.

Customer discounts are more likely semi-variable as it will depend on the length of accommodation but not on the priced per night. For example, before the pandemic the total of customers discounts was taking 13,3% form the revenue which was the sum of £8,000. In the current scenario this cost could be fully eliminated because of the huge impact by COVID-19 for the hospitality industry. Even if we remove this cost, this will not affect the visitation of our hotels as we can invest in other department that can compete the customer's discounts.

Conclusion

The pandemic caused by the new coronavirus turned the world into a place where every piece of the land was affected. One of the most impacted segments was the hospitality sector and its customers. Travelers around the world were truly suffering from the fact that traveling can no longer be safe, therefore every planned journey was cancelled due to safety reasons. (Ugur and Akbiyik, 2020) During the difficult time every government was working hard in order to help every business to pass through the crisis with minimum loss. However, the hospitality industry faced a huge decline in revenue as well as employees. (Hutton and Foley, 2021) The sector had to sacrifice large number of workers in order to complete the government requirements. Therefore, the sector was benefited by some of the government privileges and allowed the business to save part of the employees.

As every crisis in economic aspect, COVID-19 gave the humanity another perspective to manage and plan the business more carefully. One of the main lessons we learned was to wisely plan our costs and expenses. As a manager of a hotel, the main responsibility is to precisely plan every cost and how it could affect the business performance. As per the scenario we were given, the only alternative that could save the hotel is to slightly reduce most of the costs in order to save money during the ongoing circumstances. With reduction of some of the cost without compromising the quality, we can help the business to survive in these difficult times. We can still run the hotel; however, we will not be able to use all the capacity of the restaurants or lobby bars. Therefore, we must increase another cost that is significantly needed in order to keep the premises safe. This is the housekeeping cost which might slightly increase as we must follow the new guidelines set up from the new regime. For instance, we need to close all community areas in order to reduce people crowding.

Once we manage to prioritize what is best for the business we can always succeed. The ability and knowledge we have gained over the years will assist us in any other difficulties that we face and most importantly, it will help us save the business.

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