



Management Accounting

Assignment 1

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Executive summary

The manufacturing and service-oriented organisation have to wear different types of cost like fixed cost, variable cost, fixed cost and so on to produce the goods and services for the customers. The comparative advantage and sales growth in the market can only be possible for an organisation like the Harriot hotel to control the above-mentioned cost. The report as discussed that the fixed cost has severely and decline in the level of profit and sales growth. So there are some comprehensive guidelines and recommendations given for the Harriot Hotel to recover the profitability by reducing the fixed cost.

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Introduction

The fundamental objective of any manufacturing or service industry is to minimise the cost to maximize profit and sales growth in the market (Garrison, 2020). But the covid-19 pandemic situation has led the Harriot Hotel to numerous challenges and difficulties as the level of income and consumption of the customers have declined severely. The report will focus on the policies and strategies of the Harriot Hotel to minimise the cost to resume its profitability and growth.

The analysis of the cost structure of Harriot Hotel with suggestions regarding cost-cutting options with necessary justifications

Table Name: The given Cost Structure of the Company		
Revenue	60,000.00	
Supplies for housekeeping & cleaning	5,000.00	8.30%
Interest expense	10,000.00	17.00%
Customer Discounts	8,000.00	13.30%
Advertisement Cost	7,000.00	12.00%
Wages and salaries of Employees	15,000.00	25.00%
Stationaries	3,000.00	5.00%
Source: Author		

The costs are the value of money that a manufacturing company has to sacrifice to produce goods and services for the customers (Noreen, 2020). The cost can be classified into different categories like absorption cost, marginal cost, fixed cost, variable cost and so on which must be taken into consideration to determine the selling price. The marginal costs are the costs that determine the cost of additional units produced by taking into consideration of the variable cost and by excluding the fixed cost (Brewer, 2020). The absorption costs are the costs that determine the cost of total units produced by taking into consideration of both variable and fixed cost in the production process. The fixed costs are the costs that an organisation has to sacrifice mandatorily whether the organisation can make a profit or not. For example, the electricity bill of Harriot hotel is the fixed cost that it has to pay whether it can produce the goods and services or not. On the other hand, the variable costs are the costs that an organisation can minimise with the increase in production and selling. Variable cost changes according to the change in the level of production and selling in the

market (Chen, 2018). For example, the cost of raw materials and transportation are the variable cost which changes according to the volume of production and sales. On the other hand, mixed costs are costs that include both variable and fixed cost. The cost of electricity, gas and water are examples of mixed cost (Drury, 2019).

From the perspective of the cost structure of Harriot hotel, the wages and salaries of the employees and the waiters are the examples of fixed cost which cannot be avoided at any cost. The costs of raw materials like the cost of a vegetable, chicken, fish and so on are the example of variable cost. The manager of the hotel can minimise these variable costs if they can increase the average net sales (Chen, 2018). On the other hand, the monthly rent of the hotel, utility bills like electricity, gas and water are examples of a mixed cost. The hotel authority can reduce some of the mixed cost and some of the other mix costs cannot reduce whether the net sales increase or decrease. The variable and fixed cost both can positively or negatively influence the profitability of the hotel. If the variable costs increase according to the increase of production and sales, then the hotel can make less profit (Cohen, 2014). If the variable cost decreases according to the increase in production and sales, the hotel can make maximum profit. On the other hand, if the hotel cannot be able to increase production and sales, the fixed cost can lead to the organisation facing a loss. But if the hotel can increase the level of production and sales, the fixed cost can lead the hotel to face handsome profit and growth in the market (Harford, 2018).

The cost structured analysis of Harriot hotel indicates that it has to incur a large amount of fixed cost in each of the accounting periods. On the other hand, the hotel has to bear a limited amount of variable cost in each of the accounting periods compared to the proportion of the fixed cost. According to the given information, it can be understood that the hotel authority has to bear £47.5% of the revenues as the fixed cost and about 22% of the revenue has to pay as the variable cost in each of the production process (Whittaker, 2021). The management accountants argue that if the fix costs are going to increase, the organisation have to face are a considerable loss. On the other hand, if the organisation can control the fixed cost, it can make a competitive profit in the market (Cohen, 2014). Besides, the minimum amount of fixed cost ensures the highest amount of financial leverage. The financial leverage is the precondition for the Harriot hotel to go for the next production, to pay the debts and to pay the wages and salaries of the employees. So the cost

structure of the Harriot Hotel indicates that as it is experiencing a huge amount of fixed cost, it is experiencing a lower amount of financial leverage which is obstructing the appraise of profitability and production (Jack, 2021). That is why, the Harriot hotel has made a significant loss during the covid-19 endemic period as it could not go for mass production various as it has to pay huge fixed cost like the rent of the hotel, the wages and salaries, the utility bill and so on.

So in that case, the Harriot Hotel should have take urgent initiatives to reduce the fixed cost to generate maximum financial leverage. As the hotel authority cannot increase the level of production and sales during the covid period compared to the normal situations, which can be reduced, and the wages and salaries of the employees (Maier, 2021). If necessary, the Harriot hotel can retrench the additional numbers of employees who are not needed in the covid-19 pandemic period to reduce the cost of labour. Since the inception of the covid-19 pandemic period in the UK, the different organisations of the UK sacked about 782000 payroll employees to reduce the excessive pressure of fixed cost (Maier, 2021). According to the data of the office for national statistics, there is about 15% of additional employment created due to the hit of the covid-19 pandemic and other economic relations in the UK (ONS, 2021). So the Harriot hotel can adopt the tight labour market policy to avoid the additional fixed cost in the organisation.

To generate maximum operating leverage, the Harriot hotel has to prepare necessary policies and strategies to reduce the fixed cost. For that purpose, first of all, the Harriot hotel can sack the additional employees and labours to save the cash outflow from the organisation. Secondly, the Harriot Hotel can reduce the wages and salaries of the existing employees without sacking them. Between the two options, the Harriot hotel can consider the first option as the first option can save additional cash outflow and it can also prevent employee dissatisfaction in the organisation. The second option can help the managers of Harriot Hotel to minimise the fixed cost, but it can generate huge dissatisfaction and riots among the employees which can hamper the overall production operation (Jack, 2021).

The Harriot Hotel can also consider another effective option that is to offer the customers has a discount to attract them to the services of the hotel. The covid-19 pandemic has declined in the level of income of the general people. Consequently, the people have been compelled to reduce

the level of consumptions of goods and services especially entertainment services. According to recent statistics, about 12.5 million UK people have experienced a severe drop in income level due to the application of the lockdown by the government (Jack, 2021). So offering the discount can motivate and encourage the customers to show interest to purchase the services. Besides that, strategy, the Harriot hotel can reduce the price level of the goods and services which were charged in normal situations from the customers. The price-cutting of the goods and services can make the customers able to buy the goods and services which consequently can minimise the overall losses (Whittaker, 2021).

Another important approach that the Harriot Hotel can use and apply is to enhance the level of advertisement. As the common people got disappointed to purchase goods and services due to the fall of their income level in pandemic period, the managers of Harriot Hotel can motivate to increase the confidence among the customers to buy services with minimum cost or with on account cost (Drury, 2019). So, the managers can reevaluate the prices of the services and can show to the customers through aggressive advertisement activities through the different offline and online medium like Facebook, Instagram, and Twitter, electronic and print media and so on so that customers can get informed. The office for national statistics shows that about 4.5 million of the youth of the UK spend their time through social media platforms (ONS, 2021). So, the Harriot hotel can exploit these opportunities to introduce the goods and services to the youths.

But to reduce all of the fixed cost items makes a negatively impact on the service quality and customer satisfaction. For example, cleaning items, facial tissues, spray items are an indispensable part of customer service and satisfaction (Chen, 2018). So, Harriot should not reduce these items these items are directly related to customer satisfaction.

Conclusion

The service industry like the Harriot Hotel is underlying in severe financial leverage and profitability crisis in the market due to the outbreak of the covid-19 pandemic. So, in those cases, the cost minimization strategy is the precondition to maintain profitability and sales growth. So, the managers of Harriot hotel should focus on reducing the fixed cost items and like the wages and

salaries of the employees, the cost of capital, the cost of house rent and so on to maintain the expected level of production and profit.

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