

MANAGEMENT ACCOUNTING

ASSIGNMENT 1 – Essay

Dr. Raxon

Svetlana Grozeva – 1908892

Introduction

The aim of management accounting is to provide information to managers. Management accounting provides the essential data that helps companies to work. Management accounting is helping managers to carry out four major activities – planning, directing, motivating, controlling and decision making. Costs are classified as fixed, variable, or mixed based on their behaviour. Fixed costs remain constant regardless of operation level, variable costs vary in proportion to production, and mixed costs are a mixture of the two. Many actions in a company are based on an interpretation of cost behaviours. Managers who understand how costs operate are better able to forecast what costs would be under various operating conditions. (Will and Rohde, 2015)

The hotel industry is among the hardest hit across the globe from Covid-19. Travel bans, shelter-in-place orders, and social distancing orders have all been used to help contain the spread of the COVID-19 pandemic. Most countries have implemented partial or total border closures, with travel bans affecting the large percentage of the world's population. (UK Parliament, 2021) The Guardian article is saying the UK hotel industry recover from the serious economic hit caused by Covid 19, it could take four years to return to 2019 levels of operation. (The Guardian, 2020) In its 2020 study, the American Hotel and Lodging Association presented a negative picture, claiming that 71% of hotels will not last another six months without government grants, 77% will be forced to lay off more staff, more than one-third of hotels will face bankruptcy or be forced to sell. (AHLA, 2020)

Main Body

Brief introduction to Harriot Hotels

John D. Brockville founded the Harriot Hotel in 1941. Harriot hotels, with major operations in Europe, Asia, America, and Africa, has grown over the years into a major player for the globally active hotel industry. The Covid-19 pandemic recently prompted governments in different countries worldwide to enact lockdowns that have critically impaired the tourism and hotel industries. During the annual General Meeting which took place, Jim Trulley, the CEO of Harriot made this comment "The worst ever year for us as a company". However, the expansion strategy of Harriot has remained focused on increasing the space potential in mainland China as the constraints of Covid-19 were much more relaxed than in other countries. In addition, the management agreed to introduce a cost savings plan to minimize expected losses in 2021. This would increase the cost of their hotels in hit cities in America and Europe.

Projected Cost Breakdown for UK Division

<i>Item</i>	<i>Value</i>	<i>As a percentage of revenue</i>
Revenue	60,000	
Employees' wages	15,000	25%
Advertising cost	7,000	12%
Interest on loan	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%

Revenue

To increase sales growth, revenue management refers to the pricing strategies you use to sell your property's inventory to the right guests at the right time and via the right channel. If guests believe they are getting the best value for their money, they are more likely to spend more. A revenue management strategy not only assists in determining the optimal rate to sell rooms at, but it also allows the hotel to prepare ahead by maximizing manpower for times of higher demand and eliminating over-staffing during periods of lower demand. (Drury, 2012)

Following is a discussion of cost items:

Employees' wages

Service is Hospitality's core. Guest service means that you are attentive to the request and requirements of the guest. The key focus of a good hotel is good quality service which can be achieved by setting up such an atmosphere for the guest. When staying at the hotel guests must feel safe and relaxed, so we need a high-quality staff service.

In Harriot hotel the employees' wages are quite high £15,000, which is 25% of the revenue. The cost of labour is known as a fixed cost. But if you pay only for the number of hours you have worked on as-needed basis - normally when you hire temporary staff or contract employees - this is a variable expense. (Atrill, 2018)

On these days during a global pandemic, it would be advisable for Harriot hotels to cut down as much as is possible full-time workers like managers and offer them the Furlough scheme from the UK Government and use as much as is need only the hourly paid staff.

Advertising cost

Companies should generally invest about 5% of their overall sales in promotions to retain their current role. Companies seeking to increase or gain more market share should make a higher budget — typically about 10%.

Harriot Hotel is using 15% of the revenue in advertising costs per year, which is £7000. Fixed costs are those that are not subject to changes in the level of production or in the number of sales. We qualification the advertising cost as a fixed cost. (Weetman, 2013)

For Harriot hotels, it would be recommended to minimize the advertising cost to 5-8%. Preferable for the hotel is to use conversations in social media with the clients. This will assist in measuring customers' needs and desires, get genuine opinions and information, and pay attention to what they have to say.

Interest on loan

The interest on the loan in the hotel is 17% or £10 000 of the revenue. This is related to Harriot Hotel as a fixed cost.

The just mentioned costs may nevertheless have a substantial impact on achieving business goals. Therefore, when making decisions, these should not be overlooked or less significant. The longer-term impact of the pandemic is presumed to mean that are needed reduced costs. (Weetman, 2013)

It would recommend the hotel CEO discuss the interest instalments with the bank and take action to reduce it and for a certain period until the business opens to full capacity again.

Housekeeping and cleaning supplies

Housekeeping is connected to hotel working engagement and the ability to receive guests on these days with government restrictions and national lockdown. The Harriot Hotel is spending 8.3% of the revenue for housekeeping and cleaning supplies, which is £5000. This is variable cost.

In global pandemic every business will make as much as possible to keep the staff and customers safe. The Government and the World Health Organization supports the management with advices and recommendations on how to keep safe all workers and clients. (World Health Organization, 2020)

In this situation it would be recommendatory for Harriot Hotel to use a flexible budget for housekeeping and cleaning supplies. The real costs of a variable budget are compared with the costs for the actual level of operation over the duration and not with the budgetary costs from the initial budget when performance assessment is used. (Will and Rohde, 2015) Cleaning materials, which are variable costs, should be decreased as room occupancy decreases.

Customer discounts

The discount means a percentage or amount deducted from the usual price of goods to sell.

Guests with reservations for job, training or other legally approved reasons may still be with in the hotel by 17 May, in accordance with the new government restrictions. However, until after this date, the hotels cannot accommodate leisure stays. (GOV.UK, 2021)

Customers discounts are shortlisted as variable cost. The Harriot Hotel spend 13.3% of revenue for customer discounts, which is £8000 of revenue. Variable costs are clearly related to hotel occupancy and business volume. With increasing business volumes or occupancy, variable costs are expected to grow. Variable costs are expected to decrease as hotel occupancy decreases. (Drury, 2012)

Promotional discounts are those which are offered on hotel rooms or any other service. Its main purpose is to attract potential guests for purchasing something additional at the hotel.

It would be advised to minimize the customers discounts and to concentrate on the selling price by using the elasticity of demand. The price elasticity of a commodity should be an essential factor in price determination. The explanation is that businesses must consider the impact of choosing different prices for a certain product or service on product or service demand. The price elasticity of demand tests the extent to which a price shift influences a product or service sales volume. Since an empty bedroom is a wasted contribution, these industries employ revenue-maximizing models in which the price of a room is changed depending on the time of booking in relation to a hotel stay. These sectors learned the value of price alterations so that prices would function at a much higher degree than if prices stayed constant. (Will and Rohde, 2015)

Stationeries used in front desk and restaurant

Stationeries used in front desk can be telephone equipment, computer, printers, paper, pens and e.g.

This is variable cost, and it is always depending on how active the hotel it is. Harriot Hotel is using 5% of the revenue or £3000.

It would recommend for Harriot Hotel to maintaining the lowest possible cost of this sector by investing more time in staff training and a good and organized work structure. (Atrill and McLaney, 2018)

Conclusion

Future of Hotel Industry

The industry's current environment has changed. The COVID-19 pandemic and the worldwide economic lockdown have had a major impact on consumer behaviour. Some of the behavioural modifications that were in motion prior to the outbreak have intensified, while others have slowed or stopped. New routines and standards have emerged. After cleaning, hotels "seal" rooms by affixing stickers to doors and doorways to ensure visitors that no one has been in the room since it was cleaned. They are also speeding up efforts to replace furnishings and surfaces with those that are both easier to clean and viewed as clean, such as replacing carpeting with luxury vinyl flooring. The hotel industry is talking about improving cleaning standards, event facial check-in services with temperature checks, and robotics for replacing manual workers in the future.

Summary of Recommendation

1. Reduced Full-Time employees to a minimum.
2. Minimize the advertising cost to 5-8%.
3. Froze it for a certain period or negotiation the interest instalments.
4. Housekeeping and cleaning supplies should be decreased.
5. Recommended to eliminate customer discount.
6. Decrease the stationeries used in front desk and restaurants.

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