

THE RELEVANCE OF MANAGEMENT ACCOUNTING FOR THE HOSPITALITY INDUSTRY

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In the contemporary period the tourism and hospitality industry has experienced dynamic growth despite the challenges facing not only the global crisis, but also market changes, consumer behavior and technological trends. Accounting, the language of business is required to keep up with changes made to each particular area of activity so that they can provide timely relevant information to be managed by an efficient information system.

Our article focuses on presenting the importance of management accounting and cost information system in the hospitality industry, then consider identifying features of this sector and their impact on accounting. The methodology of our research falls within the economic research, being theoretical, aiming primarily to knowledge objectives and the relevance of management accounting for economic entities, and then we have the characteristics of hospitality industry and possible organizational management accounting in this sector. In our perspective cost calculation for services, packages or travel benefits must take into account the development of the accounts from Class 9, so we propose a possible method to customize them according to the Direct Costing and CVP analysis. Our research will also be explanatory descriptive, trying to answer the questions How? and Why?

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Introduction

Tourism is an economic and social phenomenon of modern civilization, very anchored in society and therefore strongly influenced by its development, it is also a factor in individual and social equilibrium, a source of fulfillment of own pleasures, which must develop in harmony with the human, natural and cultural environment and to enroll in a context of sustainable development⁶⁴. From the importance of tourism, from the perspectives of evolution of this sector but taking into account the current situation for national economies hit by the global economic crisis, the maintenance and development of an entity from the hospitality industry involves the harmonization of the market opportunities with their own resources and skills, funding strategies based on cost information complementary tourism products and services based on financial and accounting information, but considering and balancing the company's capacity to environmental conditions.

Costing and management accounting in the hospitality industry is a challenge for managers in this sector entities, but it also is, in our opinion, a promoter of success and a market strength. Romanian literature is rather poor in the treatment of these issues, but more generous is the international literature on studies of this topic. Thus, in a context of economic difficulties and the loss in results it is very important for accounting researchers to address the issue of cost

⁶⁴Processing of The synthesis of congress works, Naples, 14-18 June 2000, taken from Theoretical and Applied Economics. Supplement. 29 to 31 May 2009, Bucharest, page 136

calculation and more responsibility in the hospitality industry, making a motivational approach in understanding the benefits that the implementation of an cost information system produces.

Therefore the question arises, which costing methods are best suited for the hospitality industry? If there are more options which is the best solution? Who provides the most important information? Then the great task of the specialists to aware the management team of the hospitality industry of the importance of implementation an information system cost calculation. Our opinion is that only with businesses environment from the hospitality industry we can answer many questions that arise when exploring this arid area.

The current state of knowledge on management accounting and costing

It should start by answering the question what exactly is management accounting? Why should it be given much importance?

In the special literature this component of the accounting information system (management accounting) is also known as cost accounting, analytic or managerial accounting, definitions being different for each one.

Business Dictionary defines management accounting as "making information on the accounts and management reports to provide information, financial and statistical accurate and timely information required by managers to base decisions daily and on short term. Unlike financial accounting, which produces annual reports, mainly for outsiders, management accounting generates monthly or weekly reports to internal stakeholders."⁶⁵

According to research cost accounting is largely nineteenth century production, this is actually the predecessor of management or managerial accounting. "The first book of cost accounting is considered to be Garcke and Fell's Factory Accounts, published in 1897"⁶⁶.

Cost accounting history has been approached by Solomons in 1968, Johnson and Kaplan in 1987, and Cooper and Kaplan in 1991 which gives us a modern perspective. "The link between economics and cost accounting was emphasized by Clark in 1923 when his famous expression appeared " different costs for different purposes ". Demski and Feltman in 1976 continues this theme with emphasis on the idea of the cost allocation approach that was later exploited in a variety of contexts. Marginal cost and other aspects of accounting costs were examined by Demski and Feltham in 1976 by Zimmerman in 1979, by Kaplan in 1973, Baker and Taylor in 1979. Demski (1981) and Verrecchia (1982) analyze the cost allocation criteria, trying to develop new cost allocation procedures⁶⁷

French authors A.Burlaud and C. Simon in " Comptabilité de gestion " define management accounting as a process of identifying the economic - financial operations for accounting for accurate registration, measurement and quantification of economic acts made or likely to be made, analysis and communication of significant and relevant information to managers or other persons to use internal or external.

Management accounting defined like that has following purposes: planning (improving the understanding of economic - financial operations and other economic acts that impact the entity), evaluation (analyzing and judging the consequences of various events past, present and future of the entity), control (ensuring departures from the activities and of expected resource consumption), accountability (holding an efficient information system to help measure performance effectively). Based on the above we conclude that these French authors give a definition of American inspiration overlapping management accounting to managerial accounting.

⁶⁵ <http://www.businessdictionary.com/definition/management-accounting.html>

⁶⁶ Paul M Collier, Accounting for Managers: Interpreting accounting information for decision-making, John Wiley & Sons Ltd, 2003, p 7

⁶⁷ Joel S Demski, Managerial Uses Of Accounting Information, Springer Science & Business Media LLC, 2008, p 104

According to the author Henri Bouquin⁶⁸ management accounting corresponds to a part of the management process that provides information essential in ensuring optimal use of resources in the organization, current activities of an entity controlling, planning strategies, tactics and future activities, measuring and evaluating performance, reduce part of subjectivity in decision making and improve internal and external communication, acquisition and maintenance of organizational capabilities needed for the strategy, negotiation strategy and transformation capabilities necessary for success and survival of the entity.

Other french authors define distinct the general accounting from the analytical accounting and from the management control. From their perspective the general accounting and analytical accounting are tools of the management control, along with budgets, budgetary control, dashboard, balance score card. So management control can be partly assimilated to managerial accounting, given th fact that it is under the service of hierarchical leaders and is defined as a set of measures taken to deliver the digital data which characterize the business. By comparison with previous data set, the management team can be induced to formulate and impose corrective measures.

Charles T. Horngren and his colleagues have actually three sides of the accounting distinction between management accounting and cost accounting. "Management Accounting (or managerial) quantifies and reports financial and non-financial information that helps managers take decisions that will allow an organization's goals. Managers use management accounting information to select, communicate and implement strategy.

They use this information also to coordinate decisions on product design, production and marketing. Cost accounting quantifies and reports financial and nonfinancial accounting information about the cost of purchasing or using resources in an organization. Cost accounting includes those components of the management accounting and financial accounting which are collected and analyzed information on costs ".⁶⁹

Leslie Chadwick⁷⁰ mentions that it is difficult to separate the cost accounting from the management accounting. Cost accounting aims to effectively measure the results of the different compartments of an economic entity, the measurement of results on products, works and services. Management accounting subject is much more extensive and involves: providing information needed to conduct business, advising managers, forecasting, planning and control of activities, communication and flexibility, the existence of cost control and reporting of results, training staff, taking porter and servant role to the economic entity. In fact L. Chadwick overlaps management accounting with managerial accounting, in which a major role has the cost accounting.

The authors that that have a different opinion are Leah R. Dobson, David K. Hayes, that the overall objectives of accounting are made by the five branches of its own objectives and goals, even if they overlap. The five branches (sub-branches) of accounting are: ⁷¹

Accounting branch	Goals and Objectives
Financial accounting	Registration of financial and economic operations
Cost accounting	Calculation and control costs
Tax accounting	Calculate taxes due
Audit	Checks the accounting datas and procedures for

⁶⁸ Henri Bouquin Management Accounting, Tipo Moldova Publishing, Iași, 2004, pp 19-25

⁶⁹ Charles T. Horngren, Srikant M. Datar, George Foster, Cost accounting a managerial approach, Arc Publishing, Chișinău, 2006, p 3

⁷⁰ Leslie Chadwick, Management Accounting, Humanitas Publishing, Bucharest, 1999, pag. 14-17

⁷¹ Lea R. Dobson, David K. Hayes, Managerial Accounting For The Hospitality Industry, John Wiley&Sons Inc, 2009, p 13

Accounting branch	Goals and Objectives
	their registration
Managerial accounting	Managerial decision taking based on accounting information

Table 1 Accounting sub-branches

Chartered Institute of Management Accounting specifies activities that involve management accounting as:

- "Participation in planning at a strategic and operational level, involving the establishment of policies and formulation of budgets;
- Analysis, presentation and interpretation of relevant information to guide management decisions;
- Contributes to control and performance analysis by providing reports and comparisons with the budget, analysis and interpretation of deviations. "⁷².

Other researchers (Boland and Schultze in 1996, Hoskin 1996) call into question the triad *accounting-responsibility - account*, which suggests that any definition of accounting components involves responsibility. They define accounting as a collection of systems and processes used to record, report and analyze business transactions and these objectives are implemented through an account, an explanation or a financial report.

The organization of management accounting can be based on a variety of existing paradigms that have been approached by various researchers. Concepts such as scientific management (Taylor), Maslow theory of human resources, Rickert and Argyris, school for taking decisions (Simon) school of political science (Sleznick) provide alternative paradigms for the management or financial management as it relates to the behavioral and as well to organizational problems. ⁷³

A definition of management accounting (taken over as well by the Romanian accounting system) has as main purpose the entity's knowledge of costs of various functions, knowledge of product costs, works and services, explain the results by comparing the activity of selling costs, finding achievements and explain deviations.

But management accounting is more than "a simple statement of costs or a data handling", but must allow the management team the "keep under control" costs, the action on them, based on analysis of couples' responsibility-cost-performance ". The analysis of this couple is not possible without an approach to the market, without knowledge of customer needs. This approach is imperative especially in hospitality and tourism industry where sometimes services or packages offered are customized according to customer requirements.

In our opinion, management accounting is mainly focused on collecting expenditure cost on carriers, on destinations, places of cost, and finally, connecting them with income to assess the effectiveness of cost carriers, the overall activity, providing data to develop and substantiate strategic decisions, tactical decisions and operational decisions and the company's investment programs.

We favor the transformation accounting for Romania in a classical oriented management accounting, a managerial accounting in which each component has a considerable importance (financial accounting, management accounting, controlling or management control, management and economic analysis and financial, audit, human resources, marketing and strategy).

⁷² Paul M Collier, quote, p 8

⁷³ Susan F. Haka, Dan L. Heitger, International managerial accounting research: A contracting framework and opportunities, in The International Journal of Accounting 39 (2004) p 21– 69, disponibil on line prin baza de date Science Direct, accesat la 12.05.2011

A possible organization of management accounting in the hospitality industry No matter the definition of management accounting, a detailed view of the work done in any field of activity is impossible without the existence of an economic information system. "Good economic management information requires the development of an information system with multiple interfaces, oriented towards both inside and outside entity to management information that will help create information flows that have a high level of quality and whose purpose is to attract competitive advantages in the fight with ascendancy of needed informations manifested in contemporary society "⁷⁴and to be able to achieve the objectives it is vital and indispensable the existancy of a cost information system. The information system is a cost accounting information system through which are determined the costs of manufactured products, works and services provided and contribute as well to record these costs in the accounts.

The evolution to a new economy - the knowledge based economy - gives new dimensions and roles of information and information system. The information revolution taking place with a special intensity makes impact on the functionality and performance information system entity to increase.

In our vision the building of an cost information system in the hospitality industry starts with data collection of economic, social and cost accounting information which will then be subject of a manual processing or through a computer system, an important factor in this phase being the human one, then there will be taken into account also the external sources. This is how the database of cost information system in the hospitality industry will be made.

Given the objectives and purposes of cost information system we can say that the economic entity that is based on the following three subsystems: the informational subsystem of cost organisation , the informational subsystem of cost calculation, the informational subsystem of control information and cost analysis (controlling). The entire cost information system will provide information to the management team, which will implement one of these methods of management: management through costs and management through objectives, or a combination of the two.

⁷⁴ Iuliana Cenar, Sorin Constantin Deaconu, *Viața contabilă a întreprinderii de la constituire la faliment*, Editura CECCAR, București, 2006, p 7

Schematic cost information system of an entity in the hospitality industry can be presented as follows:

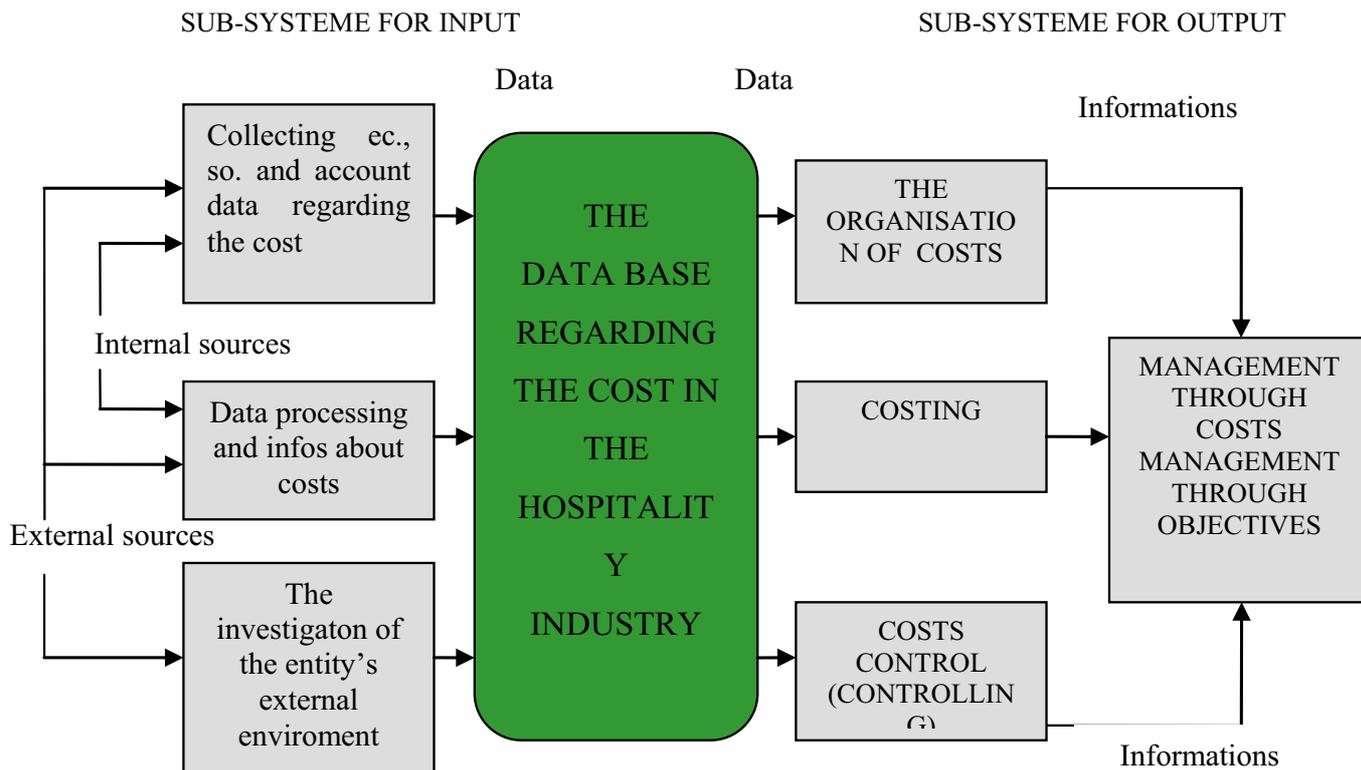


Fig. 1. Cost information system in the hospitality industry

The second subsystem of cost information can use the accounts from class 9 to provide information about the cost of services, packages and tourist services, but they must be tailored to the specific activity and the method adopted by the economic entity, or they may develop analytic accounts of expenditure and income. We believe that one of the methods appropriate for cost calculation in the hospitality industry is Direct Costing and Cost Volume Profit Analysis.

We propose the following customization of the accounts name from Class 9:

-Account 901 Domestic settlement of expenditure, account that will ensure the taking over of the incorporable costs expenditures from the financial accounting ;

-Account 902 Internal settlements regarding the effected tourism We consider beneficial the open of analytic accounts of this synthetic account for tourism packages on domestic and international tourism, treatment tickets, outpatient treatment, etc., action wich will facilitate the determination of any "differences" that can occur between the default cost and the actual cost of travel benefit;

-Account 903 Internal settlement regarding the price differences, the same detailed analytical accounts as the account 902. We consider appropriate to mention, that due to the features of the hospitality industry, existing amounts in account 903 shall have the meaning of income and not as differences;

-Account 921 Basic business travel expenses, with development of similar analytical accounts like 902 and 903. Given the fact that the proposed new method in order to determine costs in the hospitality industry is Direct Costing, we need to make some comments. Direct Costing method is based on the principle of separation costs incurred in an economic entity, depending on their behavior in relation to the physical volume of production, variable costs and fixed costs constant or conventional. We do support this separation, although we recognize that certain expenses are not completely variable or fixed altogether.

We might call them trimmers and semifixe expenses, but I opted for the name of mixed costs. Examples are many on these expenses, but we'll develop one that summarize the costs of postal services and telecommunications. Any economic entity in the hospitality industry records these type of expense as fixed costs, but given the potential tourists to call various national or international phone numbers from the phone in the room, these calls will generate additional costs. The same behavior "semi" have expenses of maintenance and cleaning materials, energy costs and examples could continue.

Mixed costs are determined by adding fixed costs to variable costs based on the formula:

$$C_M = C_V + CF$$

$$C_M = C_V/\text{Number of tourists (tourist packages)} + CF$$

We do not consider it appropriate to introduce an account to reflect mixed costs, since some of them are variable and will be recorded through account 921, and some are fixed and will be reflected through the account 924.

If we know that certain expenses have mixed character, but at the moment of their record we do not know wich part is variable and which part is fixed, we have a possibility, to use the account name 923 with mixed costs related to tourist activity for their full record followed by determining the variable and the fixe value and their settlement on the accounts 921 and 924.

For delimitation of expenditure incurred in the performance of service or benefit package tourist procedure uses maximum and minimum points using the following formula or method of least squares.

$$c_v = \frac{C_{\max} - C_{\min}}{Q_{\max} - Q_{\min}}$$

-Account 924 General administration expenses has the part where it takes from the financially accounting those expenses that do not change by changing the physical volume of production and are indirect from the types of benefits for tourism.

-Account 931 Cost of provided services is considering that it enters into correspondence with accounts 902 and 903 will be detailed on the same principle as those analytical accounts.

Conclusions

To cope with fierce competition existing on the market of this sector plus the strong influence of the global crisis is mainly important to be given a greater importance to internal and external information activities aimed at economic entity, and these data to be summarized and presented using one management team performance measurement tools namely dashboard. The dashboard is essential to the running of the economic entity, providing synthesis absolutely necessary to know and analyze activities more complete and also identifying activities such deviations' loss-achievements".⁷⁵

We believe that hospitality dashboard will not achieve its objectives if it's gonna present only this financial information, but be prepared as a dashboard that provides extra financial information to the management team in terms of customers, employees, suppliers and not least all of the before mentioned from the perspective of shareholders. An important role in performance measurement process in the hospitality industry have employees, therefore it id needed to forme primarily an organizational culture, which is considered "primary vehicle" for the successful implementation of performance measurement tools, whether it's dashboard or Balanced Scorecard.

⁷⁵ Neculai Tabără and Sorin Briciu coordinator, Actualități și perspective în contabilitate și control de gestiune, Tipo Moldova Publishing, Iasi, 2012, p 248

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