Management Accounting Practices in the Hospitality Industry

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The tourism and hospitality industries are key to the economies of many countries, and governments are interested in these sectors because of their multiplier effect. Management accounting allows the control, the anticipation of problems, and the opening up of perspectives in companies; this tool is very powerful in preparing accounting information to improve the company's costs, revenues, and results.

management accounting techniques and practices | hospitality industry | ratios and indicators | USALI

1. Traditional Management Accounting Practices

Traditional management accounting practices are budgeting, budget variance analysis, product costing, product profitability, return on investment, break-even point, strategic planning, and tableau de bord.

Budgeting is a financial technique for planning and control, performance evaluation, communication, coordination, and staff motivation [1]. Budgeting plays a central role in organizations [2] and is considered a key indicator [1] for the short-term development of a hotel business [3].

Budget variance analysis is widely used in the hospitality industry [1][4][5]. This analysis should be specific to understand which area requires more attention to address situations more accurately [6]. There are comparisons, variances, and explanations of variances relating to the annual budget [7].

Product costing deals with the calculation of the cost of goods or supply of services [8]. This practice was widely developed in the 1990s in Europe [9] and, according to Zounta [10], is an advantage in hospitality management accounting.

Product profitability is calculated through the difference between the product revenue and the cost of production, sales, and support [11]. This practice allows companies to understand the potential profitability of a product, which products are profitable, and how to make products more profitable, among other things [11].

Return on investment (ROI) has been recognized as a financial indicator that is used by hotel managers when they want to make important decisions about capital investment [12]. Although ROI is a valid technique in management support information systems [13], there is great diversity in its forms of calculation.

The break-even point is an analytical technique that calculates the sales units which make the total revenue equal to the total cost [14]. This tool helps to plan an activity for a specific period [14]. The break-even point calculation can be presented through quantity or through value [14].

Strategic planning considers the process of making decisions and controlling subsequent activities with the aim of enabling managers to choose the best strategic path for the company [15][16]. Strategic planning is a technique that has been studied for over 40 years and continues to be regarded as a central concept in a company that sets long-term goals [15][16]. Strategic planning is an interesting tool for tourism development, as companies need to formulate long-term strategies to maintain competitive advantage [15].

Tableau de bord (TB) emerged in France around 1930 as a financial reporting tool that measures the performance of a company, monitoring and coordinating economic and individual operations in line with corporate strategy [17][18]. However, cultural differences among countries implied weak dissemination [18]. A study conducted by Chand and Sharma [19] in Indian and Canadian hotels provides evidence of this; the results indicate a more rational approach to hotel management accounting techniques in Canada. Nevertheless, organizational changes over the years have forced companies to adopt non-financial measures, leading TB to move in that direction [20].

2. Contemporary Management Accounting Practices

Al-hosban et al. [21] argue the importance of hotels applying contemporary practices. Contemporary management accounting practices are activity-based budgeting, activity-based costing, the balanced scorecard, benchmarking, customer profitability analysis, economic value added, product lifecycle costing, target costing, and kaizen costing [4][22]. Contemporary management accounting practices are activity-based budgeting, activity-based costing, the balanced scorecard, benchmarking, customer profitability analysis, economic value added, product lifecycle costing, target costing, and kaizen costing [4][22].

Activity-based budgeting is a budgeting technique used by companies that have adopted activity-based costing. It allows a comparison of budget values with actual values among the several activities of a company [4]. The implementation of activity-based budgeting is facilitated by a cost-management system [23].

Activity-based costing (ABC) emerged in the late 1980s. In this technique, costs are accumulated per activity [24]. This system is important because any company establishes a set of distinct activities that are interrelated [24]. ABC takes a present and future view of costs and activity performance and is considered to be a system that enables cost management [25].

The balanced scorecard (BSC) was developed in the 1990s; it measures a company's performance through the evaluation of financial and non-financial indicators [26]. The BSC works as a process from the internal perspectives (learning and growth and business process) to the external perspectives (customers and financial) [27].

Benchmarking “is a very versatile tool that can be applied in a variety of ways to meet a range of requirements for improvement” [28] (p. 10580). The practice allows comparison among different companies, facilitating the positioning of a company in the market [29][30].

Customer profitability analysis (CPA) allocates all revenues and costs to individual customers to calculate the level of profitability and determine who is generating profits [31][32]. This analysis is used in decision-making and in monitoring [13]. Over the years, the use of customer relationship management systems has increased, making it possible to improve the knowledge of profitable and unprofitable customers [33]. This practice identifies the 20 percent of customers who contribute to 80 percent of the profit [34].

Economic value added (EVA) “is a strategic planning tool and its purpose is to guide managers to use the assets more responsibly and to weight the real cost of the stock, of tourists and of frozen assets” [35] (p. 40). By highlighting the relationship between return and risk, the EVA indicator provides an assessment of the performance of capital allocation efficiency [35]. This strategic planning tool is influenced by several factors, such as net operating profit after tax and the cost of capital [29][36][37]. EVA seeks to overcome the limitations imposed by traditional MA techniques such as ROI, since the latter does not adequately clarify investment decisions [38].

Product lifecycle costing “is a system that tracks and accumulates the actual costs and revenues attributable to cost object from its invention to its abandonment” [39]. Mohan [39] considers it important to keep track of the product during the various stages of its lifecycle. This monitoring results in the maximization of revenue, cost reduction, better decision-making, and evaluation with greater accuracy [39].

Target costing is a cost accounting methodology designed to overcome the problems that traditional costing creates [40]. The aim of target costing is to help managers plan their costs, manage, and reduce them [40]. Thus, the cost of the product arises from the market price because the aim is to have a competitive product with reasonable costs [40].

Kaizen costing is a technique to highlight the continuous efforts of an entire team to meet objectives and achieve long-term improvements [6]. Kaizen costing reduces costs and focuses on continuous improvement during the production process of a product or service [6].

3. Other Management Accounting Practices

In addition to the practices indicated above, there are others specific to the hospitality industry, although they are related to the mentioned practices. For example, operational ratios and indicators are often used in tableau de bord, the balanced scorecard, and benchmarking. The Uniform System of Accounts for the Lodging Industry (USALI) is also applied in several practices in as much as it is an accounting system that provides a lot of information and uses some practices in-house, such as budgeting and budget variance analysis.

In detail, hospitality operational ratios and indicators allow the business to be monitored, as well as its profitability [41]. There has been growth over the years in the use of ratios such as total occupancy rate, occupancy rate, revenue ratios, staff costs, and customer satisfaction. This development aims to obtain the necessary information for decision-making [42]. According to Amat and Campa [43], the hotel company must choose the best option for its reality. The best way to know the ideal value of the ratios is to analyze them over the years [43]. Slattery [44] argues that revenue per available room (RevPAR) is the most widely used performance indicator in the hotel industry. According to Casqueira et al. [45], the most used ratios, and the most interesting ones, in the accommodation department are the occupancy rate and average daily rate (ADR); notwithstanding, RevPAR results from the multiplication of occupancy rate and ADR (Andrew et al., 2007 apud [41]). Gomes et al. [46] state that these ratios are also the most used by small and micro hotels. In addition to the above ratios, the total revenue per available room (TRevPAR) is considered the most comprehensive indicator because it considers all sources of revenue for each hotel [47]. "TRevPAR […] is an indicator of business success and represents a ratio of total operating revenues and the total number of available rooms" [48] (p. 24). This indicator can be influenced by several factors, such as location, size, and the number of stars of the hotel [49].

USALI was created in 1926 by the Hotel Association of New York City. USALI is a uniform, generalized system that can be used for any hotel [50]. Uniformity, comparability, standardized sector indicators, and ease of use are some of the advantages of this uniform system of accounts [51].

USALI works in the hospitality industry through the division of departments, assigning income and costs. This system establishes clear and simple rules, but with a high degree of precision [52]. It also stands out for its attribution of responsibility to different departments, so that all elements are integrated into the objectives to be achieved with a view of the continuous improvement of the organization [52].

Organized in five chapters, USALI includes many schedules and statements, the most important being the summary operating statement (SOS) which includes the revenues and expenses of operating departments, undistributed operating expenses, and non-operating income and expenses for owners and operators. The operating departments with the greatest relevance are rooms and food and beverages (F&B). However, all the other operating departments existing in each hotel are present under an SOS heading that refers to "other operating departments". In addition, there is miscellaneous income. In non-distributed departments, there are expenses such as administration and general, information and telecommunications systems, sales and marketing, property operation and maintenance, and utilities. Non-operating income and expenses refer to income, rent, property and other taxes, insurance, and others [53].

The SOS for owners differs from the SOS for operators as it is calculated from the net income.

USALI includes financial ratios and operating metrics. These tools help to compare the information contained in financial statements and support operating schedules. Considering operational metrics, these help managers and users to analyze the operations of a hotel and can relate expenses to business volume and/or revenue.

The changes identified over the years have meant that management accounting techniques have been altered and adapted to the characteristics of each hotel [54][55]. These techniques can be applied in the short or long term according to the hotel managers' objectives [13]. In hotels, operational ratios are often used to assess performance. To make benchmarking possible, the USALI is implemented in a way that allows uniformity.

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