

# MAIN MANAGEMENT ACCOUNTING TOOLS EMPLOYED AND KEY MANAGEMENT ACCOUNTING ISSUES IN ACCOMMODATION INDUSTRY

**Halil Akmese, Asst. Prof.**

Necmettin Erbakan University, Tourism Faculty, Department of Tourism Management, Konya/Turkey

## ABSTRACT

Financial statements and budgets are indispensable management accounting tools which provide vital information in order to determine the problems or develop the business process as part of the management process. Continuous monitoring of business processes and determination of current or possible problems as soon as possible is evaluated as one of the critical approaches in service industry. It might be stated that external environment monitoring regarding to the operations related developments is of great importance besides the internal monitoring of operations. Major aim of this study is to determine the main management accounting tools employed by hotel managers as a means of internal monitoring and evaluation and key managerial issues to be of importance regarding to the external business environment monitoring. An online research survey which is based on the previous research of Damito and Schmidgall (2010, 1-13) is applied to the high ranked hotels' managers located in Turkey. Findings are analyzed by means of basic statistical methods.

**Keywords:** management accounting, accommodation industry, internal and external business monitoring

**Jel Codes:** M40, M41, M42

## 1. INTRODUCTION

In recent years, with the increase in global competition, difficulties also has increased for executives (Chenhall & Langfield-Smith, 1998, p. 1) and managers of accommodation businesses want to use accurate and reliable financial information for protection of assets, elimination of errors and the better direction of business policy. Besides, they need additional information related to issues such as ensuring customer satisfaction, marketing strategies and pricing policies. From this point of what could be done in future periods should be planned and evaluation of the past should be done (Sarı & Çam: 2014, 248). This verifies that the necessity of benefiting from management accounting (Chenhall & Langfield-Smith: 1998, 1). Damito and Schmidgall state that competitive pressures are demanding that lodging managers are properly trained to perform adequately. Lodging managers employ a variety of skills in performing their duties. One area of expertise is the use of managerial accounting reports that are provided by lodging controllers. The strategic use of certain managerial accounting skills by managers who work with controllers will be the key to the future success of many lodging ventures. In this sense it might be useful to take a look to main management accounting tools and issues generally referred in accounting literature. This study has been managed in order to provide information about the management accounting in the accommodation business and the importance of management accounting issues with respect to the perceptions of hotel managers and is based on the previous study of Damito and Schmidgall (2010, 1-13).

## 2. MANAGEMENT ACCOUNTING

Currently, there are many different sectors. Industries, food and beverage businesses, automotive factories and hotels are just a few of them. These sectors are also varying among themselves. For the reason that it is part of the business's information systems, management accounting makes it possible to ensure the planning and control of business operations (Türksoy: 1998, 15). Management accounting focuses on the information need of internal users. It's required that the business managers have knowledge, good planning and ensure cost controlling. Thus, management accounting reports will provide more detailed information (Hornigren, Harrison and Oliver: 2011, 775). Management accounting also supports the strategic targets of a company (Şavlı: 2006, 3) and provides information to employees within the business. The aim is to increase the efficiency and productivity of decision-makers throughout the organization by providing the required information (Drury: 2012, 7). Besides, supports the measurement of financial information, motivates the behavior of managers and constitutes essential cultural values to achieve the strategic targets of the business (Dumitrescu: 2008, 402). In this respect, management accounting is not just related to the theme with measurements at the same time creating value (Şavlı: 2006, 3). It's possible to come across a variety of description commented and from past to present, related to management accounting concept. According to the description of International Management Accounting in 1989; major aim of management accounting is to identify all the activities related to the management, to measure, to analyze, interpret, to plan the communication process, to evaluate and to ensure accountability by checking the

appropriateness of the use of resources within the organization (Şavlı: 2006, 3). In Zounta's and Bekiaris's (2009: 205-206) research, management accounting is defined as a system for taking decisions relating to the internal environment of the business. In another description, it is defined as a system that will help the management to improve the business efficiency and approved as supporting managers at all stages of the management process (Warren, Reeve & Duchac: 2013, 758). In line of explanations, management accounting has been developed to meet all these needs. In terms of providing information related to planning, managing and controlling functions, business will be provided beneficial information (Şavlı: 2006, 2).

### **3. MANAGEMENT ACCOUNTING IN ACCOMMODATION INDUSTRY**

Management accounting in accommodation businesses defined as a unit that provides information for administrators who are responsible for the management and control of activities (Jagels & Ralston, 2006, p. 2). It evaluates by organizing business' plan for the future and providing estimation of financial information (Dumitrescu: 2008, 403). Its aim is to plan financial issues, to evaluate past, present and future activities and to provide accountability with resource consumption control and an effective information system (Sorin & Carmen: 2012, 887). Businesses can also use management accounting while they are positioning themselves in the highly competitive environment. It is necessary to have clear information about the environment in which they operate for the efficiency of positioning (Mia & Patiar: 2001, 112).

Unlike other accounting functions within the organization, accounting management provides information for the business management in line with the wishes and needs of the business. It is a system that presents evaluation by using the results of sub-systems such as budgeting, decision-making and performance evaluation to managers to affect productivity and profitability (Sarı & Çam: 2014, 149). In terms of management and also sustainability and the success of the business, to supply with the wishes and the needs of management accounting in the process of current and future related decision making it is required to develop new techniques and to adopt the existing ones (Chenhall & Langfield-Smith: 1998, 1). Management reporting is systematically analyzed in the short-time period and control of financial information is provided regularly (Pizam & Holcomb: 2008, 172).

Owing to the fact that accommodation businesses are in a sector that contains too many services at the same time, they work in labor-intensive after becoming operational, coexist with different cultures, operate in a variable environment and customer expectations change; it is required that they have to provide a competitive advantage and acquire productivity to reach the profit maximization. This can be achieved by ensuring an effective management system. In this sense, management accounting has great importance and implications for accommodation businesses (Angelakis, Therious & Floropoulos: 2010, 87).

### **4. LITERATURE REVIEW**

There are many studies on management accounting in literature. Some of these studies will be dwelled on within the scope of this study. Chenhall & Langfield-Smith (1998: 1-19) conducted a study on 140 large businesses in Australia about the benefits of management accounting implementations and adoption. According to the survey results have been achieved, in recent years it will be more beneficial to adopt traditional management accounting implementations.

Joshi (2001: 85) researched the level of use of new management accounting in India and the international distribution. The results of a research in Australia and the results of India were compared. According to the results, it is revealed that the use of traditional management accounting is more than the use of the newly developed management accounting.

Sulaiman Ahmad & Alwi (2004: 493) searched that the adoption level of traditional management accounting and strategic management accounting applications in Malaysia, Singapore, China and India. At the end of the analysis, in four Asian countries, it is determined that the use of strategic management accounting is insufficient, but the use of traditional management accounting is beneficial.

Pavlatos & Paggios (2009: 81) conducted an empirical research on 85 hotels in the Greek accommodation sector to measure the use of traditional management accounting and strategic management accounting implementations of management accounting implementations. According to the results of the research, it is determined that the use of traditional management accounting is more widespread and it has been found to give better results.

Angelakis, Theriu & Floropoulos (2010: 87-95) have aimed with their research to determine the rate of use of traditional and new management accounting implementations in Greek businesses and to measure the similarities and differences of the results by comparing with the results of Finland. According to the results of the survey, the rate of use of the new management accounting implementations reveals similarities with other countries, but it was determined that the rate of management accounting implementations was lower.

Pavlatos & Kostakis (2015: 150) conducted a study in order to investigate the effect of the economic crisis, which had been occurred between 2008 and 2013, in management accounting implementations in Greek sector. 301 businesses have been surveyed on the use of management accounting. According to the survey conducted, it is determined that the level of use of traditional cost accounting techniques decreased, and the budgeting techniques have been widely used.

## 5. FINDINGS

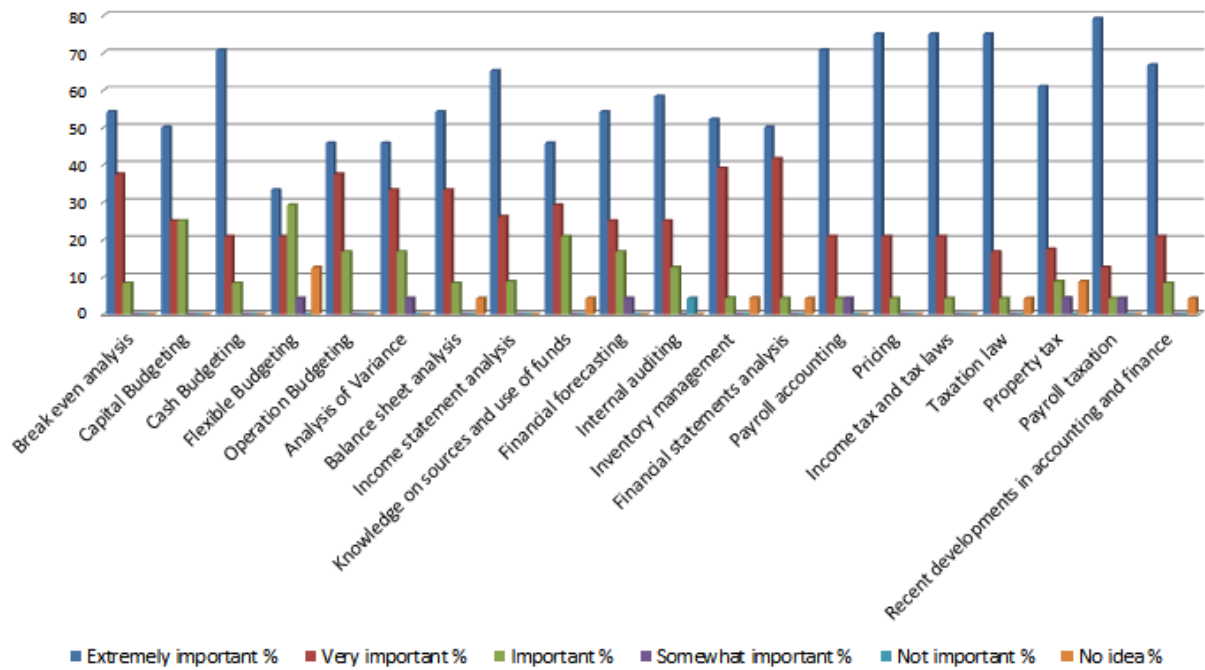
Research questionnaire responses revealed that 91,7% of the participants stated that they are operating as international chain hotels and the rest 8,3 percent as national chain hotels. 54,2 percent as five star hotels and 45,8 as four star hotels. Professional positions of respondents are as follows: General managers (8,7%), accounting managers (43,5%), marketing and sales managers (30,4%), front office managers(17,4%).

Questionnaire items are arranged to be responded on a 5 scale Likert ranking from extremely important to not important and additionally a choice of “have no idea” is added in order to determine the participants who are unaware of the specific management accounting tools or issues. Responses are ranked on a scale of: 5=extremely important, 4=very important, 3= Important, 2=somewhat important, 1=Not important, 0= No idea. Responses regarding to the research items might be summarized as follows in table 1 and depicted in graph 1.

Table 1: research responses summarized

	Management accounting tools and issues	Extremely important		Very important		Important		Somewhat important		Not important		No idea	
		%	n	%	n	%	n	%	n	%	n	%	n
1.	Break even analysis	54,2	13	37,5	9	8,3	2	0	0	0	0	0	0
2.	Capital Budgeting	50	12	25	6	25	6	0	0	0	0	0	0
3.	Cash Budgeting	70,8	17	20,8	5	8,3	2	0	0	0	0	0	0
4.	Flexible Budgeting	33,3	8	20,8	5	29,2	7	4,2	1	0	0	12,5	3
5.	Operation Budgeting	45,8	11	37,5	9	16,7	4	0	0	0	0	0	0
6.	Analysis of Variance	45,8	11	33,3	8	16,7	4	4,2	1	0	0	0	0
7.	Balance sheet analysis	54,2	13	33,3	8	8,3	2	0	0	0	0	4,2	1
8.	Income statement analysis	65,2	15	26,1	6	8,7	2	0	0	0	0	0	0
9.	Knowledge on sources and use of funds	45,8	11	29,2	7	20,8	5	0	0	0	0	4,2	1
10.	Financial forecasting	54,2	13	25	6	16,7	4	4,2	1	0	0	0	0
11.	Internal auditing	58,3	14	25	6	12,5	3	0	0	4,2	1	0	0
12.	Inventory management	52,2	12	39,1	9	4,3	1	0	0	0	0	4,3	1
13.	Financial statements analysis	50	12	41,7	10	4,2	1	0	0	0	0	4,2	1
14.	Payroll accounting	70,8	17	20,8	5	4,2	1	4,2	1	0	0	0	0
15.	Pricing	75	18	20,8	5	4,2	1	0	0	0	0	0	0
16.	Income tax and tax laws	75	18	20,8	5	4,2	1	0	0	0	0	0	0
17.	Taxation law	75	18	16,7	4	4,2	1	0	0	0	0	4,2	1
18.	Property tax	60,90	14	17,4	4	8,7	2	4,3	1	0	0	8,7	2
19.	Payroll taxation	79,2	19	12,5	3	4,2	1	4,2	1	0	0	0	0
20.	Recent developments in accounting and finance	66,7	16	20,8	5	8,3	2	0	0	0	0	4,2	1

Graph 1:



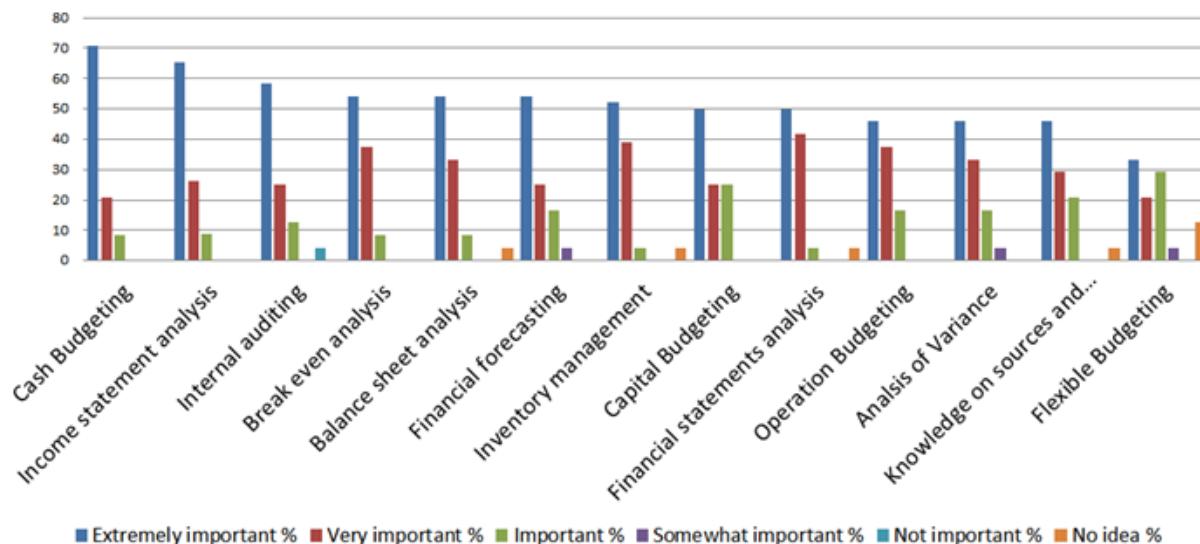
Managers’ views on the importance of managerial accounting tools might be summarized as in table 2 and depicted in graph 2 as follows. Cash budgeting is evaluated as the most important management accounting tool for the managers of accommodation industry. Income statement analysis and internal auditing are ranked as the second and third most important tools which are essential in managerial decisions. On the other hand flexible budgeting seems to be the least frequent referenced management accounting tool.

Table 2: Main management accounting tools ranked

	Management accounting tools	Extremely important	Very important	Important	Somewhat important	Not important	No idea
		%	%	%	%	%	%
1	Cash Budgeting	70,8	20,8	8,3	0	0	0
2	Income statement analysis	65,2	26,1	8,7	0	0	0
3	Internal auditing	58,3	25	12,5	0	4,2	0
4	Break even analysis	54,2	37,5	8,3	0	0	0
5	Balance sheet analysis	54,2	33,3	8,3	0	0	4,2
6	Financial forecasting	54,2	25	16,7	4,2	0	0
7	Inventory management	52,2	39,1	4,3	0	0	4,3
8	Capital Budgeting	50	25	25	0	0	0
9	Financial statements analysis	50	41,7	4,2	0	0	4,2
10	Operation Budgeting	45,8	37,5	16,7	0	0	0
11	Analysis of Variance	45,8	33,3	16,7	4,2	0	0
12	Knowledge on sources and use of funds	45,8	29,2	20,8	0	0	4,2
13	Flexible Budgeting	33,3	20,8	29,2	4,2	0	12,5

In the management accounting tools section of the questionnaire there seems to be a controversy regarding to the use of financial statements analysis and income statement analysis. In fact income statement analysis is part of the whole approach of financial statements analysis. This might be due to the importance attributed to the cash management issues by hotel managers. This attitude seems to be the reflection of managers’ behaviors that they heavily rely on operational results rather than financial situation of the organization.

Graph 2: Main management accounting tools ranked



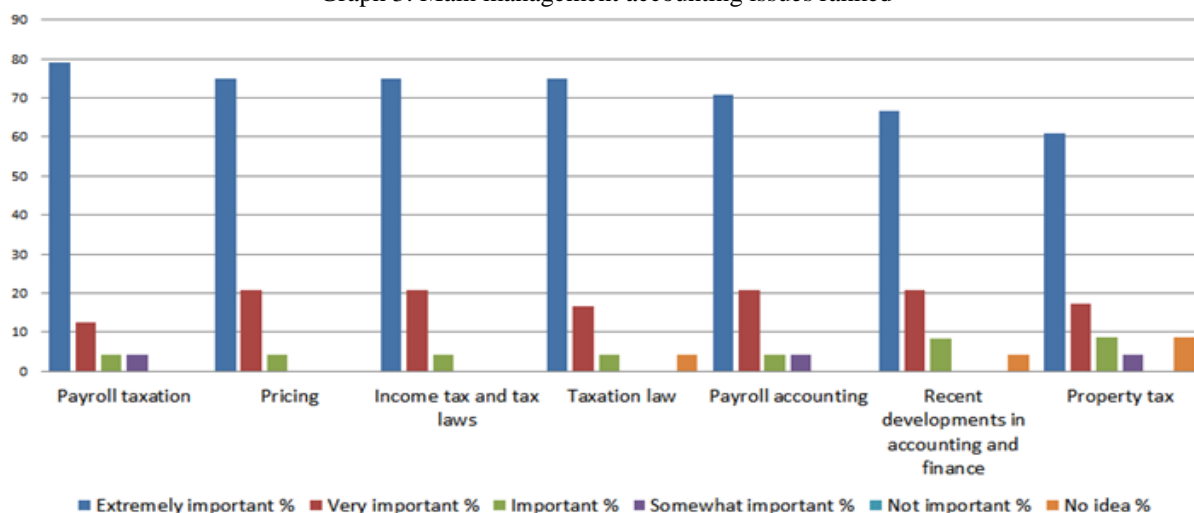
Regarding to the management accounting issues mainly capturing attention and need to be monitored continuously accommodation managers ranked the payroll taxation as the most important management accounting issue within the scope of lodging management process. Pricing and income tax- income tax laws are ranked as the second and third most important issues. Regarding to the management accounting issues property tax regulations are the least important issue and managers seem to be less interested in recent developments about accounting and finance.

Table 3: Main management accounting issues ranked

Management accounting issues	Extremely important %	Very important %	Important %	Somewhat important %	Not important %	No idea %
1 Payroll taxation	79,2	12,5	4,2	4,2	0	0
2 Pricing	75	20,8	4,2	0	0	0
3 Income tax and tax laws	75	20,8	4,2	0	0	0
4 Taxation law	75	16,7	4,2	0	0	4,2
5 Payroll accounting	70,8	20,8	4,2	4,2	0	0
6 Recent developments in accounting and finance	66,7	20,8	8,3	0	0	4,2
7 Property tax	60,9	17,4	8,7	4,3	0	8,7

Additionally some of the managers have no idea about taxation laws, recent developments in accounting and finance and property tax issues. This might be due to the understanding that these issues are directly related only to accounting managers.

Graph 3: Main management accounting issues ranked



## 6. CONCLUSIONS AND RECOMMENDATIONS

It might be concluded that most of the participants, nearly 59% responded as extremely important and 26% as very important that main management accounting tools and issues are useful and needs critical consideration within the process of accommodation management process. Cash budgeting, income statement analysis and internal auditing seems to be the top three management accounting tools frequently employed by hotel managers. This might be due to the management process which heavily relies on numerical plans and need for internal control which arises from the nature of labor intensive feature of accommodation industry. On the other hand flexible budgeting seems to be the least frequently used management accounting tool among hotel managers. Upon the completion of this research in order to shed light to the controversy between cash budgeting usage rate and flexible budgeting usage rate hotel managers are asked to clarify this controversy and it is found that top managers are not prone to the use of flexible budgets in order not to familiarize their personnel to changes in projected budgets. A very small minority of participants, about 2%, responded that they have no idea about varying listed items. Findings of the research reveal that most of the management accounting tools and issues included in the research questionnaire are valued as highly important regarding to their contribution to the management process in accommodation industry. Additionally it might be recommended that hotel managers might monitor recent developments in accounting and finance in order to keep pace regarding to modern management accounting tools and techniques. If they monitor the developments in these tools or issues they may adopt up to date management accounting tools in order to lead their organization to gaining a competitive advantage over their competitors.

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#### **BIOGRAPHY OF THE AUTHOR**

##### **Asst. Prof. Dr. HALIL AKMESE**

Dr. AKMESE was born in 1980. He started his M.Sc. in Department of Business Administration at Selcuk University after graduating from Tourism and Hotel Management Department of Bilkent University with the degree of Bachelor of Science. He worked as a lecturer between 2003 and 2014 at Social Sciences Vocational School of Selcuk University. He completed business administration Master's degree program at Social Sciences Institute in 2006 and received doctorate diploma in Business administration in 2013 from Social Sciences Institute. He has become an assistant professor in 2014 at Necmettin Erbakan University. He has been working at Tourism Faculty and lecturing accounting, finance, management, financial statements analysis, cost accounting, sustainability and corporate social responsibility courses.