Managerial Accounting Concepts and the Hospitality Industry

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Some of the managerial accounting concepts which were first developed for the manufacturing environment can as well be applied in other sectors, such as the service industry. Although managerial occurrences in the manufacturing and service industries may differ significantly, there are areas where the concepts can be applied as both sectors have inputs and outputs.

The variable cost which is concerned with costs that change depending on the production can apply in the service industry. Taking the example of the hospitality industry, a restaurant has several services offered to guests. The variable cost applies depending on the services requested by a guest. The meals taken by the guests entail a category of variable costs as the cost increases with the volume of sales. The meals also vary in type with each type having a specific cost that is unrelated with another type of meal. Meals remain one of the ways through which restaurants determine their production to know whether there are chances for survival in the market. This is only one way through which the variable cost is applied in the service industry and is enough prove that the concept is applicable just like is the case in the manufacturing sector.

The fixed cost applies in various instances of a restaurant’s operations. One of the fixed cost of a restaurant’s operation is insurance premiums. If a restaurant has two insurance policies, the amount paid for each policy is fixed for quite a long period of time. When the amount is raised by the insurance company at some point, the new figure also remains fixed for some months or years. This is a figure included in the budget of the restaurant without adding anything to it. it is a cost incurred per month by the restaurant even when business fails for a particular month. The amount is not dependent on anything as long as the restaurant maintains the specific policy for which it subscribed. The owner of the restaurant pays the premiums whether there were sales or not. Even if the business closes for two months due to war or some other kind of uncertainty, this is a figure that must be paid and it continues to accrue where there is default.

The mixed cost which includes a figure that comprises of the fixed and variable cost is also evident in the services industry. For a restaurant, a mixed cost will include water and electricity. The water bills, for instance, have a standard fee that must be paid whether one uses water or not. This is as long as the billing number remains with the water company. The case is the same for an electricity bill. This figure will always appear in the bill and the amount accrues for the restaurants that fail to pay the amount. For restaurants that wish to forgo this cost, the owner has to make an effort to have the water and electricity disconnected from the premises of his or her operation. This means that failure to use water or electricity is not the means through which to forgo the fixed cost but having the water and electricity services fully disconnected. The variable cost included in the mixed cost also changes with the consumption rates just like is the case with the definition of a variable. It is the price for the water consumed during the period of reference. Water is billed monthly and, therefore, the monthly bill entails the fixed cost which is standard and the variable costs which are dependent with the volume of water consumed.

The job-order-costing is also applicable for a restaurant where the guest must request for a specific service and wait for some time for the order to be ready. An example is when one orders meat roasting. Most restaurants use this tactic as it is not possible to predict the number of guests who will order roast meat. Some meals are also prepared on order and the restaurant then bills the order based on the specifications of the customer. Outside catering is another element of job-order-costing where a restaurant has to determine how many of its employees will be engaged and then determine the cost of the customer’s specifications before determining the actual cost. This is evidence that the job-order-costing is also applicable in the service industry as some services cannot be made available unless the customer orders for the same.

The job-order-costing

In conclusion, therefore, the above discussion is evident that most, if not all, of the concepts developed for the manufacturing industry are applicable in the services industry. For the hospitality industry, the restaurant offers an example of how such costs apply. The fixed costs are evidenced by the insurance premiums while the variable costs apply in the meals. The mixed costs include the water and electricity services. The job-order-costing aligns with costs that are incurred with the orders made by a customer for services that are not readily available but only availed as per the specifications of the customer. Outside catering is one example of job-order costing in which the management must decide the employees to be involved in meeting the specifications made by the customer. The implication is that the accounting concepts of the manufacturing industry also apply in the service industry in distinct ways depending on the occurrences involved.