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EXPLORING THE VIEWS OF HOTEL MANAGERS ON ACTIVITY-BASED COSTING ADOPTION IN GUJARAT

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ABSTRACT

There is a move away from standardisation and towards customization in today's fiercely competitive market, with a focus on both price and quality. Because traditional costing methods sometimes allocate spending incorrectly, especially when it comes to overhead costs, they have become antiquated. An inventive way to identify accurate and equitable pricing is through the use of the activity-based costing approach. Determining these activities is crucial since activity-based costing mainly concentrates on activities and cost drivers. Giving guests a more accurate picture of hotel service prices is the primary goal of activity-based costing. Effectiveness and profit margins can both be increased by setting prices that are substantially in line with their actual manufacturing costs. Activity-based costing is essential to the hospitality sector because it shows how profitable customers really are, points out areas where costs can be cut and services rendered more efficiently, and offers practical advice on how to bargain for lower prices and reduced costs for various tasks. It has been suggested that the most accurate method for determining hotel service rates is to use activity-based pricing. 75 hotel managers in Gujarat were the subject of this study, which aimed to understand their opinions regarding activity-based costing.

KEYWORDS: Activity Based Costing, Hotel Industry, Costing, Pricing

INTRODUCTION:

A management accounting method called activity-based costing (ABC) divides expenses according to the activities that generate them. For the hospitality sector, which encompasses lodging facilities like restaurants and hotels, cost control is essential to sustaining profitability and offering high-quality services. Conventional costing techniques frequently fall short of precisely estimating the real expenses related to offering different services in hotels. With the help of ABC, managers may better allocate resources, streamline processes, and determine the exact costs of each operation. They can also make more informed decisions about pricing and resource allocation.

An approach to cost allocation known as "activity-based costing" allocates expenses to individual activities according to how much resources they use. It entails recognising different organisational activities, figuring out what costs lead to certain expenses, and assigning those expenses to certain goods, services, or other cost objects. ABC acknowledges that different activities use resources in different ways and accounts for the diversity of corporate operations. Better cost management choices are made possible by ABC, which more accurately depicts the cost structure by associating expenses with particular activities. A management accounting technique called activity-based costing (ABC) attempts to assign expenses to certain activities according to how much resource they use. When it comes to cost allocation, it offers a more precise and thorough way than conventional costing techniques. ABC entails locating and evaluating different organisational operations as well as figuring out the cost factors that affect the occurrence of expenses.

Benefits And Limitations of ABC In Cost Management

Benefits of Activity-Based Costing (ABC) in Cost Management:

Accurate Cost Allocation:
ABC provides a more accurate method of allocating costs to products and services by identifying the specific activities that drive costs. This accuracy enhances decision-making by providing a clearer understanding of the true cost drivers.

Improved Cost Visibility:
ABC improves cost visibility by breaking down overhead costs into specific activities. This transparency allows managers to identify which activities consume resources and contribute to the overall cost structure.

Enhanced Product and Service Profitability Analysis:
With a more precise understanding of costs, ABC enables organizations to analyze the profitability of individual products and services. This insight helps in focusing on high-margin products/services and optimizing the product mix.

Resource Optimization:
ABC highlights resource-intensive activities, allowing organizations to optimize the use of resources. By allocating resources more efficiently, organizations can reduce costs and improve overall operational efficiency.

Informed Decision-Making:
Accurate cost information generated by ABC aids in informed decision-making. Managers can make better choices regarding pricing, product development, and resource allocation based on a comprehensive understanding of cost structures.

Cost Control:
ABC facilitates better cost control by identifying unnecessary or non-value-added activities. Organizations can then take steps to eliminate or reduce these activities, leading to cost savings.

Customer Profitability Analysis:
ABC allows for a more granular analysis of customer profitability. By understanding the costs associated with serving specific customers, organizations can tailor pricing strategies and marketing efforts to maximize overall profitability.

Process Improvement:
The detailed insights provided by ABC can highlight inefficient processes. Organizations can use this information to reengineer processes, eliminate bottlenecks, and enhance overall operational effectiveness.

Strategic Planning Support:
ABC provides valuable insights for strategic planning. It helps organizations align their resources with strategic objectives by identifying the most critical activities that contribute to their success.

Better Performance Measurement:
ABC allows for more accurate performance measurement by aligning costs with specific activities and processes. This helps in setting realistic performance targets and evaluating the efficiency of various organizational functions.

Limitations of Activity-Based Costing (ABC) in Cost Management:

Implementation Complexity:
Implementing ABC can be complex and resource-intensive. It requires a thorough understanding of organizational processes, activity identification, and the establishment of accurate cost drivers, making it challenging for some organizations, particularly smaller ones.

High Initial Costs:
The initial costs associated with implementing ABC, including software, training, and data collection, can be significant. For smaller organizations with limited budgets, these upfront costs may outweigh the benefits.

Subjectivity in Cost Driver Selection:
The selection of cost drivers in ABC involves some subjectivity. Different managers may choose different drivers for the same activity, potentially leading to variations in cost allocation.

Time-Consuming:
ABC can be time-consuming, especially during the initial implementation phase. Collecting data on activities and determining cost drivers requires significant time and effort.

Difficulty in Assigning Indirect Costs:
While ABC excels at allocating direct costs, assigning indirect costs to specific activities can be challenging. This can lead to a degree of estimation and subjectivity in the allocation process.

Overemphasis on Detail:
In some cases, the level of detail provided by ABC may be excessive for deci-

sion-making purposes. Not all organizations require such detailed cost information, and the resources spent on obtaining it may not be justified.

Resistance to Change:
Employees may resist the changes introduced by ABC, especially if it involves a shift in how costs are allocated or if it impacts established performance metrics. Overcoming this resistance requires effective communication and change management.

Static Nature of Cost Drivers:
ABC assumes that the relationship between activities and cost drivers is stable over time. In dynamic environments, changes in technology, processes, or market conditions can make these assumptions less accurate.

Difficulty in Measuring Intangible Costs:
ABC may struggle to accurately measure intangible costs, such as the impact of employee morale or the cost of quality. These costs are often challenging to quantify and may not be fully captured by the ABC model.

Limited Applicability for Small-Scale Operations:
ABC may not be practical for smaller organizations or those with relatively simple cost structures. The complexity and resource requirements may outweigh the benefits in such cases.

In conclusion, while Activity-Based Costing (ABC) offers significant advantages in providing accurate cost information, enhancing decision-making, and optimizing resource allocation, organizations need to carefully consider the potential limitations and challenges associated with its implementation. The suitability of ABC depends on the organization's size, complexity, and willingness to invest in the necessary resources for successful implementation.

Relevance of ABC In The Hospitality Industry
Activity-Based Costing (ABC) holds particular relevance in the hospitality industry, given its complex and multifaceted nature. Here are several aspects highlighting the significance of ABC in this industry:

Diverse Service Offerings:
The hospitality industry typically offers a wide range of services, including accommodation, dining, events, and recreational activities. ABC helps in accurately allocating costs to each service category, providing a clearer understanding of the profitability of individual offerings.

Resource Optimization in Hotel Operations:
In hotels, various activities such as housekeeping, front desk services, and food and beverage operations contribute to the overall guest experience. ABC helps identify resource-intensive activities and areas where operational efficiencies can be improved, leading to cost savings and enhanced service quality.

Accurate Costing for Events and Conferences:
Many hotels offer event and conference facilities. ABC assists in accurately costing these services by considering the specific activities involved, such as room setup, catering, audio-visual services, and staff support. This precision is valuable for pricing strategies and negotiating contracts.

Improved Menu Costing in Restaurants:
Restaurants within hotels can use ABC to analyze and allocate costs associated with menu items. This detailed understanding allows for strategic menu pricing, identifying profitable dishes, and optimizing the overall restaurant profitability.
Efficient Management of Room Operations:

In the hospitality industry, room operations involve various activities such as reservations, check-ins, housekeeping, and maintenance. ABC helps in assigning costs to each of these activities, offering insights into the resource utilization and efficiency of room-related services.

Optimizing Staff Allocation:
ABC provides a more granular view of labor costs by associating specific staff activities with the corresponding costs. This information enables hotels to optimize staff allocation, ensuring that employees are deployed efficiently based on the demands of various services.

Enhanced Decision-Making for Capital Investments:
Hospitality businesses often face decisions related to capital investments, such as renovating rooms or upgrading facilities. ABC aids in evaluating the cost implications of such investments, helping management make informed decisions about resource allocation.

Customer Profitability Analysis:
ABC facilitates a detailed analysis of customer profitability by associating specific costs with customer-related activities. This insight is valuable for identifying high-value customers and tailoring services to meet their preferences.

Identifying Cost Drivers in Spa and Wellness Services:
In hotels with spa and wellness services, ABC assists in identifying the cost drivers associated with these activities. This information is instrumental in pricing spa packages, allocating resources effectively, and optimizing the overall profitability of wellness offerings.

Adaptation to Industry Trends:
The hospitality industry is dynamic, with trends such as personalized services and sustainability gaining prominence. ABC allows businesses to adapt to these trends by providing insights into the costs associated with implementing new services or sustainable practices.

Compliance with Industry Standards:
ABC helps hotels and other hospitality establishments adhere to industry standards and regulations. Accurate cost reporting can contribute to compliance with financial reporting requirements and ensures transparency in cost management practices.

Benchmarking and Industry Comparison:
ABC facilitates benchmarking within the hospitality industry, enabling businesses to compare their cost structures and operational efficiency with industry standards. This information is valuable for identifying areas of improvement and staying competitive.

In summary, Activity-Based Costing is highly relevant in the hospitality industry, where diverse services and operational complexities demand a precise understanding of cost structures. By implementing ABC, hospitality businesses can enhance decision-making, optimize resource allocation, and improve overall operational efficiency, ultimately contributing to improved customer satisfaction and financial performance.

LITERATURE REVIEW
The authors of the study conducted by Chan and Ho (2014) The present study undertook an empirical examination of the implementation of activity-based costing (ABC) within the hotel sector in Hong Kong. This study investigated the factors influencing the adoption of activity-based costing (ABC) in the hotel industry. It employed a combination of questionnaires and interviews with hotel managers to gather data on the motivations behind adopting ABC, the difficulties encountered throughout the implementation process, and the perceived advantages of ABC in relation to cost management. The results of the study provide valuable insights into the various elements that influence the adoption of Activity-Based Costing (ABC) within the hotel industry. These findings contribute to a deeper comprehension of the consequences that ABC has on financial decision-making processes.

The authors of the study conducted by Kukreja, Chatterjee, and Goel in 2015. The present study investigated the utilisation of activity-based costing (ABC) as a novel mechanism for cost control within the hotel sector. The study employed a case study methodology to underscore the benefits associated with the utilisation of Activity-Based Costing (ABC) in effectively ascertaining costs, optimising resource allocation, and augmenting profitability. The results underscored the significance of activity-based costing (ABC) in effectively managing the distinct cost structures and intricacies of the hotel sector. These findings provide significant perspectives for hotel managers who aim to improve their cost management strategies.

In the study conducted by Lin (2013), the author examined... The present study conducted in China investigates the implementation of activity-based costing (ABC) within the context of the hotel sector. The study showcased the effectiveness of activity-based costing (ABC) in accurately allocating costs to specific activities and products within a chosen hotel's cost structure. This improved cost control and decision-making capabilities. The study provided valuable insights into the implementation difficulties and advantages of Activity-Based Costing (ABC) within the Chinese hospitality sector. These findings offer practical guidance for hotel managers who are contemplating the adoption of ABC as a means of managing costs.

The authors of the study are Makkar and Sharma (2017). The primary emphasis of this case study was the deployment of activity-based costing (ABC) inside the hotel business. The study conducted a thorough examination of cost drivers and activity costs within a particular hotel, showcasing how the use of Activity-Based Costing (ABC) enhanced cost precision and yielded a more holistic comprehension of cost dynamics. The results underscored the potential of activity-based costing (ABC) in improving cost management practises and decision-making within the hotel industry, hence making a positive contribution to the overall financial performance of hotels.

Nusantara, T., and Abadi, A. (2020). The present study conducted a comprehensive literature analysis on the adoption and use of activity-based costing (ABC) within the context of the hospitality sector. Through a comprehensive examination of pertinent research, this scholarly article investigates the obstacles, advantages, and determinants of achievement linked to the implementation of Activity-Based Costing (ABC) within the context of hotels and resorts. The paper conducted an analysis of several methodologies and exemplary strategies for implementing Activity-Based Costing (ABC) and emphasised the potential benefits of ABC in enhancing cost management, performance evaluation, and strategic deci-

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sion-making within the hospitality sector.

Importance of Understanding Hotel Managers' Perceptions of ABC Adoption In Gujarat

The implementation of Activity-Based Costing (ABC) within the hospitality sector, particularly in the context of hotels, has promise for enhancing cost management strategies and bolstering overall financial performance. The effective execution of ABC is contingent upon the endorsement and assistance of hotel managers, who hold a crucial position in the decision-making procedures. Hence, it is crucial to comprehend the perspectives of hotel managers about the implementation of Activity-Based Costing (ABC) in Gujarat, a region renowned for its thriving tourist and hospitality industry. Examining individuals' perceptions can offer valuable information into the possible obstacles, advantages, and prospects linked to the implementation of ABC in the region.

RESEARCH OBJECTIVE

1. The purpose of this project is to learn about the ABC system.
2. To investigate hotel management's attitudes of hotel management and staff toward the ABC system.

DATA ANALYSIS

1.

H01 : Respondents do not believe that the existing cost system did not offer management with valuable information.

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Do you believe, existing cost system did not provide useful information to management	-10.277	74	.000	-1.120	-1.34	-.90

Interpretation

The obtained significance value of 0.000 is lower than the conventional threshold of 0.05, as indicated in the aforementioned table. Consequently, the null hypothesis is refuted, indicating that respondents hold the belief that the current system failed to provide valuable information to management.

2.

H02 : After applying Activity-based costing, respondents' age has no significant impact on their sense of enhanced cost control information.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	11.368[a]	9	.251
Likelihood Ratio	11.418	9	.248
Linear-by-Linear Association	.006	1	.938
N of Valid Cases	75		

Interpretation

The value of X2 is 11.368, as indicated in the Pearson Chi-Square statistic table provided above. The null hypothesis is deemed acceptable as the p-value exceeds the threshold of 0.05. Consequently, there exists no discernible relationship between the age of the respondents and their perception of enhanced cost control information subsequent to the adoption of Activity-based pricing.

3.

H03 : The current cost method, according to respondents, does not assist in cost reduction.

One-Sample Test

	Test Value = 3					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
current cost system help in reducing costs	-3.954	74	.000	-.587	-.88	-.29

Interpretation

The obtained significance value of 0.000, as indicated in the preceding table, is lower than the commonly accepted threshold of 0.05. Consequently, the null hypothesis is refuted, indicating that respondents hold the belief that the existing cost system facilitates cost reduction.

4.

H04 : After implementing Activity-based costing, respondents' experience and perceptions of enhanced cost control information had no meaningful impact.

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	5.906[a]	9	.749
Likelihood Ratio	5.947	9	.745
Linear-by-Linear Association	.438	1	.508
N of Valid Cases	75		

Interpretation

The value of X2 is 5.906. This can be observed in the Pearson Chi-Square statistic table provided above. The null hypothesis is deemed acceptable as the p-value exceeds the significance level of 0.05. Consequently, the application of Activity-based costing did not have any significant effects on the respondents' experience and perceptions of improved cost control information.

CONCLUSION

In the contemporary corporate environment, it is imperative for organisations to engage in ongoing innovation and diversification of their offerings, including commodities, food products, services, and processes, in order to maintain competitiveness within the global market. Nevertheless, the task of effectively managing the expenses linked to these many offers can provide a significant challenge. The utilisation of conventional costing methods, which depend on flawed averages for the equitable allocation of costs among various products and services, may result in imprecise and deceptive estimations of product costs. This issue poses a significant challenge, particularly within industries that possess distinct attributes and necessitate tailored accounting methodologies. Activity-based costing (ABC) has been recognised as a pioneering concept within the realm of cost and management accounting, leading to a fundamental shift in how individuals perceive cost analysis. In contrast to traditional volume-based cost methods, activity-based costing (ABC) offers a more precise means of cost measurement through the more accurate allocation of overhead costs. As a result of this phenomenon, there is a reduction in distortions and an enhancement in the ability to evaluate performance more effectively. The use of numerous performance assessment tools, including as Total Quality Management (TQM), activity-based management, balanced scorecards, and benchmarking, has been aided by the deployment of ABC. Moreover, the utilisation of segment reporting and the incorporation of associated expenses in conjunction with the activity-based costing (ABC) system can facilitate the identification and elimination of unproductive product lines or departments. The successful implementation of an ABC system frequently necessitates a simultaneous reconfiguration of the management structure to enable its optimal utilisation. The use of capital-intensive manufacturing operations has become an essential and irreplaceable component. Nevertheless, while examining the variables that support or impede the execution of Activity-Based Costing (ABC) and the duration needed for its implementation, it is crucial to achieve a harmonious equilibrium between the monetary advantages of embracing ABC and the corresponding expenses.

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