

International Multidisciplinary
Research Journal

Golden Research
Thoughts

Chief Editor
Dr.Tukaram Narayan Shinde

Publisher
Mrs.Laxmi Ashok Yakkaldevi

Associate Editor
Dr.Rajani Dalvi

Honorary
Mr.Ashok Yakkaldevi

Welcome to GRT

RNI MAHMUL/2011/38595

ISSN No.2231-5063

Golden Research Thoughts Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial board. Readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

International Advisory Board

Flávio de São Pedro Filho
Federal University of Rondonia, Brazil

Kamani Perera
Regional Center For Strategic Studies, Sri Lanka

Janaki Sinnasamy
Librarian, University of Malaya

Romona Mihaila
Spiru Haret University, Romania

Delia Serbescu
Spiru Haret University, Bucharest, Romania

Anurag Misra
DBS College, Kanpur

Titus PopPhD, Partium Christian
University, Oradea, Romania

Mohammad Hailat
Dept. of Mathematical Sciences,
University of South Carolina Aiken

Abdullah Sabbagh
Engineering Studies, Sydney

Ecaterina Patrascu
Spiru Haret University, Bucharest

Loredana Bosca
Spiru Haret University, Romania

Fabricio Moraes de Almeida
Federal University of Rondonia, Brazil

George - Calin SERITAN
Faculty of Philosophy and Socio-Political
Sciences Al. I. Cuza University, Iasi

Hasan Bakfir
English Language and Literature
Department, Kayseri

Ghayoor Abbas Chotana
Dept of Chemistry, Lahore University of
Management Sciences[PK]

Anna Maria Constantinovici
AL. I. Cuza University, Romania

Ilie Pinteau,
Spiru Haret University, Romania

Xiaohua Yang
PhD, USA

.....More

Editorial Board

Pratap Vyamktrao Naikwade
ASP College Devrukh, Ratnagiri, MS India Ex - VC. Solapur University, Solapur

R. R. Patil
Head Geology Department Solapur
University, Solapur

Rama Bhosale
Prin. and Jt. Director Higher Education,
Panvel

Salve R. N.
Department of Sociology, Shivaji
University, Kolhapur

Govind P. Shinde
Bharati Vidyapeeth School of Distance
Education Center, Navi Mumbai

Chakane Sanjay Dnyaneshwar
Arts, Science & Commerce College,
Indapur, Pune

Awadhesh Kumar Shirotriya
Secretary, Play India Play, Meerut (U.P.)

Iresh Swami
Ex - VC. Solapur University, Solapur

N.S. Dhaygude
Ex. Prin. Dayanand College, Solapur

Narendra Kadu
Jt. Director Higher Education, Pune

K. M. Bhandarkar
Praful Patel College of Education, Gondia

Sonal Singh
Vikram University, Ujjain

G. P. Patankar
S. D. M. Degree College, Honavar, Karnataka

Maj. S. Bakhtiar Choudhary
Director, Hyderabad AP India.

S. Parvathi Devi
Ph.D.-University of Allahabad

Sonal Singh,
Vikram University, Ujjain

Rajendra Shendge
Director, B.C.U.D. Solapur University,
Solapur

R. R. Yallickar
Director Management Institute, Solapur

Umesh Rajderkar
Head Humanities & Social Science
YCMOU, Nashik

S. R. Pandya
Head Education Dept. Mumbai University,
Mumbai

Alka Darshan Shrivastava
Shaskiya Snatkottar Mahavidyalaya, Dhar

Rahul Shriram Sudke
Devi Ahilya Vishwavidyalaya, Indore

S.KANNAN
Annamalai University, TN

Satish Kumar Kalhotra
Maulana Azad National Urdu University

Address:- Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.aygrt.isrj.in

USE OF ACTIVITY BASED COSTING IN KOLHAPUR HOTEL INDUSTRY



Asif Babalal Waghware and A. M. Gurav

¹Research student ,

²Research guide Department of Commerce & Management,
Shivaji University, Kolhapur.



ABSTRACT

The aim of this paper is to provide idea about the bases used for calculation of operational cost of hotels in Kolhapur region. It is found that there is no any specific method used by the hotel authority for the cost calculation purpose. Due to the rapid growth in the industrial sector, educational sector and medical sector in Kolhapur region, the number of visitors are increased along with this the auspicious places like Mahalaxmi Tempe and Jotiba Temple is situated in Kolhapur and hence the tourist are attracted to Kolhapur in large number. Effect of this is the hotel industry in Kolhapur is grown up and there is need to reduce the operational cost in hotels. With

the help of this paper researcher want to suggest the time as a important factor used in calculating cost of hotel product.

KEYWORDS : *Activity Based Costing, Operational Cost, Time Factor.*

INTRODUCTION :

The previous research in cost accounting has traditionally focused in accounting and cost accounting in large manufacturing organization and in addition to this most researchers has presented their work in non-profit making organization and public sector organization. But in the field of hospitality service industry there is very little work is going on in the field of costing area. Hotels and tourism enterprise has been playing vital role in the hospitality field and these aspects are neglected for costing purpose. The basic aim of this paper is to explain that how Activity Based Costing (ABC) can be applied to hotels in Kolhapur region. Activity based costing is one of the methods of cost accounting which allocate resource cost to product by using two stages-procedure on the basis of activity consumption by drivers. It is the method which is useful to overcome the problem of traditional costing system which can distort product cost by allocating overhead cost to product mainly by direct labour hours. The structure of hotels is especially suitable for activity based costing application, because it has various products like lodging, bar and dining which belong to different market segment. The indirect cost of these hotels is an important proportion of the total cost. In such case the valuation of this hotel product may be distorted by a traditionally accounting system. This

article made an attempt to apply the activity based costing in Kolhapur hotels where managers calculate cost of their product traditionally.

Industrial Background

Kolhapur is traditionally an Agro based economy. In the last four to five decades it has grown in the field of foundry industries. The total production of foundry industry is up to 6,00,000 tons per year. Along with this rapid growth was taken place in the field of education and medical. There are number of management institute, engineering institute and traditional colleges were stated not only in city place but also in rural areas. Also the multi-specialist hospitals were started in the Kolhapur region and different types of heart surgery and cancer surgery is cheaply available in Kolhapur. Another major aspect is that Mahalaxmi temple and Jotiba temple from Kolhapur area are the best divine places for the tourist. A number of devotes visiting these two respective auspicious places to devote the goddesses. As a result there is great increase in the hotel business.

Effect of all these things took place so that the people leaving surrounding to Kolhapur are coming to Kolhapur to satisfy their devotion and the large number of tourist from all around the India visiting to Mahalaxi Temple and Jotiba Tempe. Due to this hospitality business grown up and number of small and large hotels started in Kolhapur and recently five star hotel has also been stated in Kolhapur. Now there is price competition is going on. The hotel owners are advertising their products in different manner like by allowing discounts or by giving extra service etc. Hence there is need to maintain the cost information regularly in hotels for decision purpose. In this age of competition, the Activity Based Costing is very much useful for cost calculation and avoiding wastage.

Cost allocation in traditional costing system

Most hotels have a high proportion of fixed cost. The room department has fixed cost mainly department wages and salaries as compare to variable cost like laundry, dry cleaning etc. Hotel food and beverage operations require high fixed cost mainly in kitchen and restaurant wages and energy cost. In the first step all cost are classified in two sections of "Personal cost" and "Other costs". The number of workers working in each segment is used a basis to allocate the cost in the related cost center and the personal cost includes salaries and wages. Those general costs that are directly traced to a special cost center, are assigned to the same cost center. For example, the telephone bill cost and electricity bill cost allocate to each section as per consumption of each section.

Cost allocation in Activity Based costing system

After studying all above mentioned facts the researcher has traced out some important activities undertaken in the hotel industry these are explain in brief here below.

a) Reception and Office: under this category researcher has considered the activities like reservation and information, check-in and check-out, meeting and welcome customers, opening customer's accounts, accompanying customers when they are leaving and closing customer's accounts.

b) Housekeeping: under this category researcher has considered the activities like cleaning the rooms, making beds, vacuuming and replenishing linens.

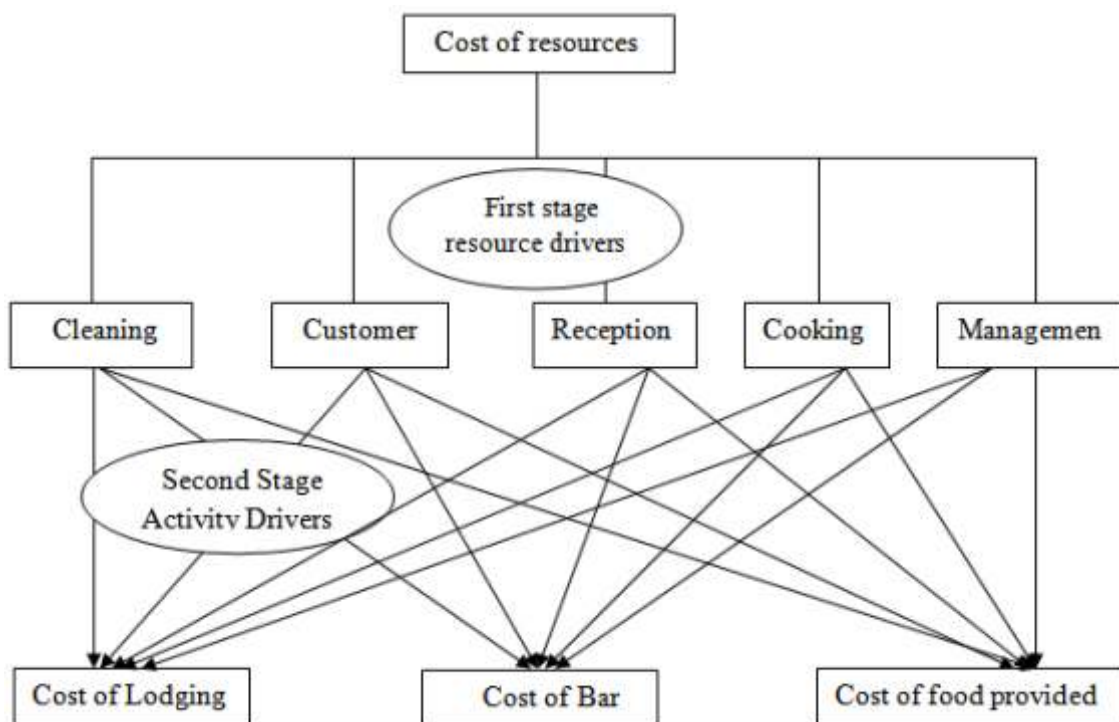
c) Food and beverage: under this category researcher has considered the activities like taking orders,

preparing kitchen, making breakfast, lunch, dinner, kitchen and restaurant cleaning etc.

d) **Banqueting:** under this category researcher has considered the activities like providing foods for ceremonies such as weddings, seminars and official meet.

With the help of above four basic activities the researcher has developed the activity based model showing diagrammatic presentation of different activities operated in hotel industries.

A model showing ABC system in hotel.



Cost allocation to reception and office activities.

Reception and office costs include all direct and indirect costs i.e. depreciation and staff salary and wages also it includes costs which are allocated from human resource, accounting and finance and administrative cost center. The cost gathered in reception and office cost pools can be allocated to customer segments based on the practical capacity of the receptionists. The time factor is also used to allocate these costs because cost depends on the type of customer coming in the hotel. Finally it is concluded for cost allocation to this activity that total time consumed for each customer group by the number of customers of that group is divided by capacity cost rate and assign accumulated costs to the reception and office.

Cost allocation to housekeeping activity.

Total cost of housekeeping can be allocated to the customers by practical capacity of the related personnel. Because different customers have different nature like students, sport students and tourist makes room dirty more than the other customers, so hotel staff has spare more time to clean their rooms. Total time of housekeeping is calculated by adding together total time consumed by all sub

housekeeping activities.

Cost allocation to food supply activity.

In this category breakfast, lunch and dinner these three activities are included, and each activity includes sub activity. To calculate food activity time manager has to consider time for preparing food, drinks, serving them as per order and wait till time for customer eating food. Because the staff has to wait to end of food eating for cleaning the tables and dishes. In this activity manager has to calculate total time used by different customer for different activities like breakfast, lunch and dinner and link with total supply capacity of the hotel and allocate the cost to each customer for calculating profitability.

Conclusion

It is concluded that with the help of above mentioned major activities and bases suggested for the calculation of cost of hotel products in Kolhapur region, there is possible to implement activity based costing system in the hotels. The researcher has mentioned few outcomes of the said study here under.

- The activity based costing provides guidelines to the manager to determine different groups of customer and classify the individual customer for calculating customers profitability.
- This model provides idea to the managers for design strategy and improves processes quality. The existing costing system is not suitable to analyze customer profitability.
- The activity based costing provides the cost of activities and require time for these activities.
- With the help of activity based costing the manager can calculate the unused capacity of reception, housekeeping and food department. Because the unused capacity in the hospitality industry is badly affected on profit.

Reference:

1. Activity based costing: a case study on a Taiwanese hot spring country inn's cost calculations by Wen-Hsien Tsai and Jui-Ling Hsu. Department of Business Administration, National Central University, Chung-Li, Taiwan.
2. Customer profitability analysis using activity based costing approach to improve the company's competitiveness, by Silfia Anugrah, Accounting department, Andalas University, Padang-2011
3. Cost accounting in Greek hotel enterprises: an empirical approach by Odysseas Pavlatos and Ioannis Paggios, Technological Institute of Chalkida, University of Piraeus- 2007

Publish Research Article

International Level Multidisciplinary Research Journal For All Subjects

Dear Sir/Mam,

We invite unpublished Research Paper, Summary of Research Project, Theses, Books and Book Review for publication, you will be pleased to know that our journals are

Associated and Indexed, India

- ★ International Scientific Journal Consortium
- ★ OPEN J-GATE

Associated and Indexed, USA

- EBSCO
- Index Copernicus
- Publication Index
- Academic Journal Database
- Contemporary Research Index
- Academic Paper Database
- Digital Journals Database
- Current Index to Scholarly Journals
- Elite Scientific Journal Archive
- Directory Of Academic Resources
- Scholar Journal Index
- Recent Science Index
- Scientific Resources Database
- Directory Of Research Journal Indexing

Golden Research Thoughts
258/34 Raviwar Peth Solapur-413005, Maharashtra
Contact-9595359435
E-Mail-ayisrj@yahoo.in/ayisrj2011@gmail.com
Website : www.aygrt.isrj.in