

# Modernization of Managerial Accounting in International Tourism Sector: The Case of Thailand

Prateep Wajeetongratana

*Faculty of management science, Suan Sunandha Rajabhat University,  
Bangkok, Thailand*

*E-mail: prateep.wa@ssru.ac.th*

## Article Info

**Volume 81**

**Page Number: 4225 - 4232**

**Publication Issue:**

**November-December 2019**

## Article History

**Article Received:** 5 March 2019

**Revised:** 18 May 2019

**Accepted:** 24 September 2019

**Publication:** 20 December 2019

## Abstract:

The paper stems from today's understanding of the economic role of managerial accounting and offers the analysis of how accounting is organized in tourism companies in the Kingdom of Thailand. The author puts forward the potential directions following which managerial accounting systems could be modernized taking into account the current state of entrepreneurial activity in the sector of international tourism and market instability overall. Recommendations are also provided concerning the structure, the levels and the forms of managerial accounting stemming from the positions of their economic efficiency in the first place.

**Keywords:** *managerial accounting; entrepreneurship; international tourism; Thailand.*

## Introduction

Management of business activities today assumes, inter alia, performing regular and thorough analyses of the business conditions within the sector of interest. Entrepreneurial activity is always aimed at increasing income, minimizing spending, revealing the causes of (potentially) low competitiveness and detecting new business opportunities at current or new markets. Of great help in the course of such an analysis would be various algorithms and models as well as advanced technologies of accounting, business planning, cost management and the like.

Tourism today is one of the most prominent and most dynamically developing sectors of the world economy. It is of great value for formation of gross national product of any state. Intensive entrepreneurial activity also means extra employment opportunities for the local population, larger inflows of foreign currency into the country etc. Besides that, development of international tourism as a component of the services sector has one of the shortest pay-off periods.

In the last couple decades tourism has become one of the most profitable types of business, both on the country level and globally.

Tourism today is using roughly around 7% of the world capital. According to the data by the World Tourism Organization, at the beginning of 2019 the share of tourism in the total world trade in commodities and services was also around 7%. Besides that, tourism business was ranked third, straight after export of oil and cars. Finally, tourism is currently employing over 284 mln people globalwide.

One of the factors boosting the growth of tourism businesses is availability of an efficient system of managerial accounting which would be aimed at entering new markets, creating new products and services, and at various business innovations in general. Managerial accounting may also serve as a specific instrument to be used for the purposes of organizational management aiming, in the first place, at quality improvement, timely decision-making, maximization of results and minimization of risks.

Stemming from all of the above, it is quite obvious that there is a necessity to develop a system of managerial accounting for tourism organizations specifically along with the business model for tourism business growth.

Thus, the key objective of the research is development of methodological recommendations

on improvement of managerial accounting system and also analysis of entrepreneurial activities in international tourism under the conditions of sectoral instability.

**Research tasks:**

1. To explain and ground the optimal mechanism behind a managerial accounting system which would take into account the external business environment, internal business conditions, aims and types of organizations doing business in the international tourism sector.

2. To present the methodological approaches to improvement of the managerial accounting system which would include reforming the organizational structure of the whole business and introduction of the financial responsibility centers into a new structure.

3. To offer a new variant of regulation concerning managerial accounting which would standardize the whole process of managerial accounting in tourist companies.

4. To develop and substantiate the whole system of managerial reporting for business activities taking into account all specific features of tourism as a business.

5. To suggest own system of indicators for business activity in the sector of international tourism.

6. To develop and offer the fundamental basis for the methodology of entrepreneurial activity analysis in international tourism.

**Literature overview on peculiarities of managerial accounting in business**

Emergence of the category “managerial accounting” dates back to 1972 when it actually became a separate subsystem of accounting. Some researchers state that managerial accounting existed as early as mid 19th century, though under different names. However, managerial accounting under its current name has been in use since 1950s-1960s, not earlier. The classical definition of managerial accounting was provided by Simmonds as late as 1981 though.

Back in 1950 the Anglo-American Council on Productivity provided one of the very first definitions for managerial accounting which was

later widely used by both researchers and accountants themselves. According to that definition, managerial accounting was presentation of accounting information in a way to assist management, including both operational management and strategic one (Thukaram, 2004).

Australian Institute of Certified Management Accountants came up with a much broader definition: a management accountant is applying his/her professional knowledge and skills in the course of preparation and presentation of financial and other necessary reporting data in a way to supply top management with the information necessary for planning and control over organization’s activity (Johnson, 2001).

Thus, we can sum up that managerial accountants do not simply register the facts of economic activity of a certain business entity - they group and analyze all related information in such a way so that later they can influence future efficient development of this organization. Noteworthy here, such information can be actually obtained from various other departments of the organization, for example, from Marketing, Logistics and so on.

The American Institute of Certified Public Accountants (AICPA) defines managerial accounting as an accounting practice which covers the following three fields:

- strategic management - here managerial accountant serves more like a strategic partner of an organization;

- managerial efficiency - in part of decision-making strengthening and also in part of managing efficiency and competitiveness;

- risk management - as a combination of both theoretical and practical experience would be always needed for determination, measurement and management of risks (Knight, 2012).

Therefore, managerial accounting is often considered as a creative initiative in managers’ work. Top management usually is not just interested to see financial reporting, of special interest for them is how meaningful is this financial reporting for future decision-making, what positive impact it might have on the future of their organization.

British researcher Colin Drury (2013) defined managerial accounting as preparation of

the information which would be necessary in the course of managerial decision-making and for increasing production efficiency in particular. Famous American researcher Barney (1991) presented managerial accounting as identification, measurement, collection, systematization, analysis, presentation, interpretation and transmission of the information necessary for management of various objects.

The very name of “managerial accounting” may differ from country to country. In Germany, for example, there is no separate managerial accounting as such, and its functions are carried out within the system of controlling which is the process of accounting and control over production costs as well as over financial results of production.

In France, there is no managerial accounting either, thus, all important managerial decisions are being made on the basis of the so-called marginal accounting. And the basis for the latter is formed in the course of analyzing marginal income.

As of today, in the majority of Western countries managerial accounting is very much different from traditional accounting, though both are ruled by management in any case (Elokhova et al., 2017). This can be partially explained by the fact that in today’s economic conditions methodology and organization of accounting are increasingly often forced to comply to the objectives and tasks of management as this contributes to higher efficiency of decision-making (Kharchenko et al., 2017).

Also, we need to mention here that a larger share of scientific studies have been analyzing only separate instruments of managerial accounting, without going deep into its cause-effect relations with the organizational structure of the enterprise itself.

Thus, Gimzauskiene (2004) has analyzed the balanced scorecard, how it is usually implemented and developed at enterprises so that to reveal the influence imposed by changes in separate factors, such as continuous development, changes in technologies and market changes, business development overall, changes in human capital, changes on the customers’ side etc. Grondskis (2000) used the theory of constraints and costs to ground the importance of costs’

quality for the whole system of managerial accounting. This author also presented a conceptual framework for measuring costs in business.

Valanciene (2002) analyzed the role of managerial accounting in satisfaction of clients’ needs. Few year later, the same author also analyzed the intellectual capital of enterprises and offered own vision on the dichotomy of organizational methods to be used in the course of intellectual costs’ estimation (Valanciene, 2005). And two years after that, Valanciene & Gimzauskiene (2007) analyzed the role of managerial accounting itself and determined the instruments needed for evaluation, planning and management over the process of added value creation.

World famous American economists Kaplan and Norton, studying various issues of strategic management, managerial accounting and business evaluation methods, proved that a good fit model of the balanced scorecard consists of four components, all of which should be measured. Australian researchers Ifandoudas & Chapman (2005) applied the theory of scarcity to their analysis of the balanced scorecard and determined the place of managerial accounting within the general accounting system of small and medium-sized enterprises. Carr et al. (2008) dedicated several works to formulation of the concept of strategic managerial accounting. Other scientists have also studied the strategic role of adaptation and forecasting for managerial accounting (Yusof et al., 2008), organizational changes in managerial accounting (Tamosiunas, 2010), the role and the meaning of calculating the prime cost (Armstrong, 2002), methods and methodologies of managerial accounting (Pavlatos and Paggious, 2008) and its various systems and types in the course of managerial decision-making improvement (Nita, 2008; Bandurin et al., 2017).

To sum up the results of our analysis of various viewpoints on the contents of the notion “managerial accounting” we can state that the majority of foreign researchers have been studying mostly the following aspects:

- the essence and contents of managerial accounting along with its place within the accounting system of organization;

- the methods of managerial accounting;
- the correlation between the type of an organization and the instruments it is using in the course of managerial accounting.

At this, to the best of our knowledge, so far there has been no study to offer a common structure which would cover the essence of managerial accounting per specific types of organizations and suggest specific instruments accordingly.

### Introduction to own research

The market of tourist services includes the activities of tour operators and tour agents. Tour operators traditionally play the leading part in the whole sector of international tourism since they are shaping the whole tourism product which includes booking and payment for a hotel room, selection of a flight, transfer, excursions and other additional services. Besides that, tour operator sets the prices for this full package of a tourism

product and can offer discounts if needed. At later stages, tour operators are also responsible for promotion of their tourist products at the market which is usually carried out at various fairs and exhibitions, through advertisement campaigns of various types etc.

Distribution of tourist products can be carried out by the tour operator directly or through the network of tour agents. Tour agent is an individual or an organization getting a commission fee for the intermediary services connecting tour operator with tourists. The key difference between tour operator and tour agent is the number of functions and responsibilities. Besides that, tour operator would surely have a much larger budget, more employees and higher wages for these employees.

For the purposes of our research, we have analyzed the activity of 46 large tourist companies doing their business in Bangkok, Pattaya and also in the Phuket Province.

Table 1. Surveyed tourism companies (author's data)

Location			Companies' size (own evaluation by the interviewed staff)		
1	Bangkok (City)	18	1	Transnational	5
2	Bangkok (metropolitan area)	11	2	Large	8
3	Pattaya	9	3	Mid-sized	27
4	Phuket Province	8	4	Small	6
Years at the market			Ownership and market strategy		
1	10+	16	1	Thai	32
2	5-10	21	2	International franchise	11
3	2-5	4	3	Foreign	3
4	Less than 2	5	Seasonality of business activity		
Main specialization at the market			1	High	32
1	Inbound tourism	37	2	Not high	9
2	Outbound tourism	9	3	Low	5

In the course of our research we have used the following instruments of data collection:

- the survey (34 questions in total, 6 of which were open questions);
- interviews (face-to-face communication or via phone).

Data collection was carried out during the so-called high season of 2019 (in Thailand this would be January through April 2019).

### Research results

In the course of our survey among tour operators we have determined four variants of how managerial accounting can be organized.

The first variant - managerial and financial accounting are organized separately following such logic:



- costs accounting by economic items and income accounting by types of activities belong to financial accounting;

- costs accounting per calculation items and income accounting by types of services belong to managerial accounting.

Thus, the working chart of accounts would have three types of accounts: accounts belonging to financial accounting; accounts belonging to managerial accounting; accounts belonging to off-balance accounting. At this, accounting of both costs and income in both financial and managerial accounting is performed under the standard method, using separate accounts for costs within the preset limits and for their variances. To connect financial and managerial accounting there are also special linking accounts.

This variant is usually used only from time to time. At least, in our sample this type of accounting is in use by only 7 tour operators out of 46 in total.

The second variant also assumes separation of managerial accounting from the financial one. They are carried out by three classes of account. Managerial accounting, under this variant, is performed autonomously, while connection between managerial and financial accountings is purely operational. This variant is even more rare - it is used by merely 2 tour operators out of 46.

Under the third variant financial accounting is carried out according to the working chart of accounts, while managerial accounting is carried out without any use of accounts as such. At the same time, under this variant managerial accounting is combined with operational accounting. This variant is quite widely spread among the tourism companies in our sample (16 tour operators from the 46 surveyed).

Under the fourth variant, managerial and financial accountings are fully integrated and they are carried out as one common accounting with one common accounting plan. 19 companies from our sample are using this variant of accounting organization. This is the largest group, actually. And even if this is less than half, this would make them still a majority in our sample.

The key object in managerial accounting of a tourist organization is usually operational expenses on the core activity. These expenses are

mostly possible due to availability of own circulating capital and they are compensated via receipts from the sales of tours. Therefore, the key objective in managerial accounting is to manage these expenses as well as manage the results of sales. Additionally, there is a necessity to compare incomes and expenses of the core activities, or in other words, to determine the financial result from the core activity.

In managerial accounting, expenses on the core activities of tourist companies are grouped by elements and items.

Grouping by elements of expenses is carried out by accounts according to the following five elements:

- material costs;
- wage payments;
- social security payments;
- depreciation;
- other expenses.

Tourist organizations are using managerial accounting to group their production costs. The latter are then included into the prime cost of a tourist product. The following items belong here:

- the cost of purchasing the services of other organizations used in the course of a tourist product creation;
- costs directly related to activities of the production staff;
- costs incurred by other departments, also participating in production of a tourist product;
- overhead expenses;
- other business-related expenses.

Some of the tourist organizations, in the course of managerial accounting, are using the system widely known as direct costing. According to this approach, all expenses are divided into conditionally permanent and conditionally variable ones. This division usually depends on the volume of the tourist services provided, marginal volume income and the breakeven point. In tourism business specifically, variable expenses depend on the number of tourists services, changes in the cost of hotel accommodation, meals prices etc.

In financial accounting conditionally variable expenses belong to the debit account "Core production" and also to the account "General production expenses". To conditionally

permanent expenses belong: expenses on wage payments; expenses on advertisement; rent payments; depreciation of fixed assets; depreciation of intangible assets etc. Financial accounting of fixed expenses is carried out using the debit account "General administrative expenses". This account is closed on a monthly basis by means of writing off the expenses to the account "Core production" in part of variable expenses and also to the debit of the account "General administrative expenses" in part of fixed expenses.

The account "General administrative expenses" is not supposed to have a running balance, thus, it is also closed on a monthly basis by means of writing off the remaining expenses described in the accounting policy of an organization: it can be written off to the debit of the account "Core production"; or to the debit of the account "Prime cost of sales", if the organization is using the direct costing accounting system. As a result, the account "Core production" of the financial accounting will eventually reveal the prime cost of a tourist product.

### **Recommendations on further improvements of the managerial accounting system in international tourism**

In the course of our analysis of the existing models of managerial accounting used by tourist companies we have detected the following problematic moments and bottlenecks:

- the very system of managerial accounting does not really fit into the business model of tourist activities' organization and business environment in the sector of international tourism overall;

- there is an obvious lack of efficient instruments to be used for evaluation and control over expenses in tourism business;

- as of today, management in tourism is mostly oriented on administrative methods;

- in most cases, efficiency of the core activity is very poorly managed.

All these problems are relevant for the absolute majority of enterprises working in tourism, and not only tourism, actually. Managerial accounting is normally expected to strengthen the role of strategic management

which, in its turn, is aimed at raising the efficiency of the whole business and its separate units.

As a result of our analysis, we are suggesting to perform financial and managerial accounting in the frameworks of one common system of accounting, using screen accounts. The function of the latter is supposed to be performed by the accounts of the group "Expenses" (here belong depreciation, expenses of wage payments and expenses on core production). At this, accounts belonging the group "Expenses" and also the account "Sales" in managerial accounting are also performing the function of screen accounts, since they transfer circulating assets from one subsystem to another.

Preparation of forms for managerial accounting is one of the most important stages in the system of managerial since reporting serves as the key source of information for further efficient decision-making.

Managerial reporting is expected to meet the following demands:

- expediency. Reporting must match the preset objectives of its preparation;

- trustworthiness. Reporting must reveal the actual state of affairs inside the organization;

- objectivity and preciseness. Reporting must be prepared without any subjective influences or errors;

- timeliness. Reporting must be presented on time, following the preset in advance schedule and also at times when it is needed for managerial decision-making;

- periodicity. It is feasible to prepare reporting for a year, a quarter, a month and sometimes also for ten days. In some cases it would be more appropriate to present reporting by seasons.

- comparability. Reporting must be prepared according to a certain form, developed for a long term, using a system of clear indicators. It is also important to have all parts of reporting in the same currency;

- sufficient level of detail. Different levels of management need different degrees of detail for the subsequent decision-making;

- accessibility. Reporting must be clear and understandable for all potential users across different levels of management (top management,

heads of departments, leading specialists inside departments).

In the actual business practice, tourist companies are using different forms and types of managerial accounting. In the course of our survey we have found out that all tour operators in question are preparing the following reporting:

- monthly reports on incomes and expenses;
- quarter balance reports and cash flow statements;
- annual reports on incomes and expenses.

Some of the tour operators are also using running reports on the development and implementation of tours. However forms of managerial accounting in the investigated organizations can be very different. Aiming at the growth of entrepreneurial activity, we have developed and presented a system of managerial accounting for such activity which is oriented on tourism sector specifically.

We suggest that managerial reporting of entrepreneurial activity in tourism should consist of two blocks:

1. Financial condition description and financial results of entrepreneurial activities and also analysis of changes on the basis of comparing actual results with the planned budget data.

2. Key indicators of entrepreneurial activities.

The first block of managerial reporting is necessary for full description of entrepreneurial activity in the tourism sector. This block includes the managerial balance and also the report on financial results. Deviations are revealed for each article of the planned budget along with the reasons behind this deviation. Reporting of this block can be arranged on a monthly basis, as per our recommendation.

Incomes and expenses, again, as per our recommendation, can be presented by tourist destinations.

The second block of reporting is necessary for organization of managerial accounting with the aim of further strategizing. After our analysis of the tourist companies' practises we were able to determine the following key indicators of managerial reporting: expenses on innovative activities; expenses on entering new markets;

paying capacity and liquidity. Reporting of this second block can be arranged on a quarterly basis.

Analyzing the suggested here indicators and parameters of managerial accounting/reporting, top managers of tourist companies would be able to get a fuller objective picture of the state of their entrepreneurial affairs and thus would be able to make timely and well grounded managerial decisions.

### References:

1. Armstrong P. (2002). The Costs of Activity-Based Management. Accounting, Organizations and Society, 7 (1-2): 99-120.
2. Bandurin V. Et al., (2017). Taxation Regime as a Factor of Mutually Intergrated Macroeconomic Systems' Dynamics. Montenegrin Journal of Economics, 13,1: 171-179.
3. Barney J. (1991). Firm Resources and Sustained Competitive Advantage. Journal of Management, 7(1): 99-120.
4. Carr C., Kolehmainen K., Mitchell F. (2008). The Influence of Context on Strategic Investment Decision Practices: The Role of Strategic Management Accounting. European Accounting Association, Rotterdam Conference.
5. Drury C.M. (2013). Management and cost accounting. Luxembourg: Springer.
6. Elokhova, I. et al. (2017). Post industrialization prospects in the dynamics of socioeconomic transformations: cluster approach. International Journal of Ecological Economics and Statistics. 38, 2
7. Gimzauskiene E. (2004). Adoption of Management Accounting Methods in Evaluation Process of Organization. Doctoral dissertation.
8. Grondskis G. (2000). Integrated Model of Company's Cost Accounting. Doctoral dissertation.
9. Ifandoudas P., Chapman R. (2005). Combining TOC, RBV and Balanced Scorecard. Approaches for Successful Continuous Improvement in a Manufacturing SME. 5th CINet

- Conference, Strategic Priorities for the Global Knowledge Economy.
10. Johnson D. (2001). What is innovation and entrepreneurship? Lesson for large organizations. *Industrial and Commercial Training*, 33(4): 135–140.
  11. Kaplan R.S., Norton D.P. (1996). *Balanced Scorecard. Translating Strategy into Action*. Harvard Business School Press.
  12. Kharchenko, L., Ushakov, D. (2017). Environmental Factors of National Competitiveness in Modern MNCs' Development. *International Journal of Ecological Economics and Statistics*. 38,2.
  13. Knight F. H. (2012). *Risk, uncertainty and profit*. Courier Corporation.
  14. Nita B. (2008). Transformation of management accounting: from management control to performance management. *Transformations in Business and Economics*, 7(3): 53–64.
  15. Pavlatos O., Paggios L. (2008). Traditional and recent-developed management accounting techniques in the hospitality industry: evidence from Greece. *European Accounting Association, Conference in Rotterdam*.
  16. Satubaldin S. (1980). *Accounting of production expenses in the industries of the USA*. Moscow: Publishing House "Finances", 141 p. (in Russian).
  17. Tamosiunas A. (2010). Managing corporate strategic changes in the context of climate change. *Engineering Economics*. 21(1): 19–31.
  18. Thukaram M. E. (2004). *Cost and Management Accounting*. New Age International (P) Ltd.
  19. Valanciene L. (2002). Model of differentiation of company's goods in the aspect of management accounting. Available at: <https://www.researchgate.net>.
  20. Valanciene L., Gimzauskiene E. (2007). Changing role of management accounting: Lithuanian Experience case studies. *Inzinerine Ekonomika-Engineering Economics*, 5: 16–23.
  21. Vaskeliene L. (2005). Valuation Model of Organization's Intellectual Capital. Available at: <https://www.researchgate.net>.
  22. Yusof F.M., Aziz R.A. (2008). Strategic adaptation and the value of forecasts: The development of a conceptual framework. *Journal of Business Economics and Management*, 9 (2): 107–114.