

Cost Accounting in Tourism Industry

Option 1: Cost Allocation in Tourism – Analyzing the Role of Activity-Based Costing (ABC) in Tourism Businesses

Abstract

The tourism industry operates in a highly competitive and cost-sensitive environment where accurate cost allocation is essential for sustainable profitability. Traditional costing methods often fail to allocate indirect costs effectively, leading to distorted pricing and inefficient managerial decisions. This study examines the application of Activity-Based Costing (ABC) in tourism businesses such as hotels, airlines, and tour operators. The paper analyzes how ABC improves cost accuracy, enhances operational efficiency, and supports strategic decision-making. Using secondary data, industry case studies, and academic literature, the research evaluates the benefits, challenges, and practical implications of ABC implementation. Findings suggest that ABC enables tourism organizations to better understand cost drivers, optimize resource utilization, and improve profitability while maintaining service quality.

Introduction

The tourism industry is one of the largest contributors to global economic growth, generating employment and revenue across multiple sectors such as hospitality, aviation, and travel services. However, tourism businesses face increasing operational costs, fluctuating demand, and intense competition. Effective cost accounting has therefore become a critical managerial tool. Cost allocation plays a vital role in determining service pricing, profitability analysis, and strategic planning. Traditional costing systems, which allocate overheads based on volume-related measures such as labor hours or room nights, often fail to reflect the true consumption of resources in service-intensive industries. Activity-Based Costing (ABC) has emerged as a more accurate approach by allocating costs based on activities that drive resource usage. This paper explores the relevance and application of ABC in tourism businesses and evaluates its impact on cost control and profitability.

Literature Review

Existing literature highlights the limitations of traditional costing systems in service industries. Researchers argue that tourism operations involve complex activities with high indirect costs, making conventional cost allocation methods inadequate. Kaplan and Cooper (1998) introduced ABC as a system that assigns costs to products and services based on the activities required to produce them. Several studies in hospitality management demonstrate that ABC provides more accurate cost information, supporting pricing decisions and cost reduction strategies. Empirical research on hotels and airlines indicates that ABC improves transparency and enhances managerial accountability. Despite its advantages, scholars also note challenges such as high implementation costs and data collection complexity.

Methodology

This study adopts a qualitative research approach based on secondary data analysis. Academic journals, industry reports, and published case studies form the primary sources of information. The research focuses on tourism subsectors including hotels, airlines, and tour operators. ABC implementation frameworks are analyzed to understand activity identification, cost driver selection, and cost allocation processes. Comparative analysis is used to evaluate the effectiveness of ABC versus traditional costing systems in tourism businesses.

Findings

The findings reveal that ABC significantly improves cost accuracy in tourism operations. Hotels using ABC are able to identify high-cost activities such as housekeeping, front-desk

operations, and maintenance. Airlines benefit from ABC by allocating costs to activities such as ticketing, baggage handling, and in-flight services. Tour operators gain insights into itinerary planning, customer service, and marketing costs. Overall, ABC enhances profitability analysis by revealing unprofitable services and enabling cost optimization.

Discussion

The discussion highlights that ABC supports strategic decision-making by providing detailed cost information. Tourism managers can use ABC data to redesign processes, eliminate non-value-added activities, and improve service efficiency. However, successful implementation requires organizational commitment, employee training, and robust information systems. While ABC may involve higher initial costs, the long-term benefits outweigh these challenges. The study emphasizes the need for a phased implementation approach tailored to the size and complexity of tourism businesses.

Conclusion

This research concludes that Activity-Based Costing is a valuable cost accounting tool for tourism businesses. By accurately allocating costs based on activities, ABC enhances transparency, cost control, and profitability. Tourism organizations facing rising operational costs and competitive pressures can benefit significantly from ABC adoption. Future research may explore quantitative performance comparisons and technology-driven ABC systems in tourism.

References

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