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Cost Accounting Techniques: Research on Hanoi Businesses

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Abstract
Cost information is important information for business administrators. If businesses in Hanoi want to operate effectively in a competitive environment, entrepreneurs must be provided with sufficient useful information in the decision-making process. Profit is an important indicator to evaluate the results of a business. But different costing methods calculate profits differently. Therefore, depending on each business decision, administrators should be provided with appropriate cost information. The author conducted research at manufacturing enterprises in Hanoi, with 170 survey questionnaires sent to 170 companies in the third quarter of 2023. The author used SPSS to process the collected data, The results show that cost accounting techniques have been implemented in businesses in Hanoi but the level of use of different techniques is different.

Keywords: Cost Engineering, Business, Cost Accounting Methods

1. Introduction

In the market economy, the role of cost management accounting information is increasingly expanding and affirming its development position. The basic reason for the development of cost management accounting is due to fierce competition between businesses and economic groups. In that competition, businesses and economic groups can succeed or fail. One of the important factors leading to the success or failure of businesses is information about cost management accounting. The importance of cost information to management activities has raised the need to develop a method capable of providing appropriate, timely, and reliable cost information for planning, control and use resources, evaluate performance and make business decisions. According to Hansen and Mowen (2006) [11], when cost information serves the information needs of audiences outside the enterprise, financial accounting will provide it. In financial accounting, the cost accounting department has the function of calculating and measuring costs incurred in the organization in accordance with generally accepted accounting principles (GAAP) to provide information about cost of goods, operating expenses on the income statement and inventory value on the balance sheet. When cost information serves business administrators, management accounting will provide it. In management accounting, cost accounting has the function of measuring and analyzing the cost situation and profitability of products, services, activities and departments of the organization in order to improve efficiency of business operations. Especially for businesses in Hanoi, with a highly competitive environment, cost information becomes even more necessary for administrators.

This article studies the level of use of cost accounting techniques at businesses in Hanoi, expressed through three main contents, including systematizing related theories, analyzing the current situation and providing solutions to increase the use of costing techniques to help managers make business decisions..

2. Literature Review

Target Cost

The expected costing method originated from Japan. This method has been applied since 1980 by large companies such as Toyota, NEC, Sony and Nissan. “The desired cost method is the totality of methods and management tools that allow achieving cost goals and operational goals at the design and planning stage of new products. The method also allows to provide a basis for control at the production stage and ensures that these products achieve defined profit targets in accordance with the product life cycle.” One point to note in this definition is that the desired cost is related to the product's profitability associated with the product life cycle, an approach that is different from traditional methods. The aspiration costing method is the method applied at the research and development stage. Administrators make comprehensive cost plans and implement cost reductions right before starting production and business operations. Making business decisions based on desired costs is carried out through the following steps: customer orientation, desired cost determination process, destructive analysis, value function implementation, value analysis and reset.

Full Cost

The full cost method (also known as the total cost method) determines both variable and fixed manufacturing costs for a product. The use of the concept of variable and complete costs concerns the issue of inventory valuation in manufacturing enterprises. Depending on the cost method used, accountants determine variable costs or determine both variable and fixed costs into the product value.

According to Garrison (1991), it makes no difference whether the cost of production is variable or fixed. Fixed production costs such as depreciation and salaries are as important as variable costs and therefore cannot be ignored for the product. The limitations of the full cost method relate mainly to inaccurate cost determination for decision making. Most full costing methods used today are used primarily to determine inventory values and provide profit information (Kaplan, 1988) [4]. They do not allow comparisons between individual products or product lines. Although the full cost method provides a reasonable, accurate analysis of the costs incurred between cost of goods sold and inventory value, Cooper and Kaplan (1988a) [4] argue that such information is sufficient and accurate for financial accounting, but not enough and accurate for decision making.

Johnson and Kaplan (1987) [7] argued that the full cost accounting method developed in the early years of the twentieth century, but is no longer suitable for the current economic situation. Because of changes in the business environment in the form of diversity and complexity of products, processes, information technology and competition. They argue that full cost (labor-based) accounting methods may have been appropriate in the past when labor was the dominant factor affecting product costs. However, direct labor facilities decreased with the rise of automation, JIT methods (each stage of the production process produces an amount exactly equal to the quantity needed by the next production stage) and quality management (an effective system of efforts to develop quality, maintain quality, and improve quality within an organization so that it can market, apply science, technology, production and supply of services to completely satisfy customer needs in the most economical way) has made the full method obsolete. In the mid-1980s, critics of the full method (Kaplan, 1985; Cooper and Kaplan, 1987 [7]) asserted that direct labor or volume-based allocations failed to measure the use of non-volume activities (engineering, support activities...) therefore providing inaccurate product cost information leads to erroneous management decisions (especially decisions to combine products, discontinue or continuing product production and pricing decisions). Brimson (1991) [2] argues that full cost accounting ignores important differences between products, services, markets, and customers that bear different fixed costs. They also do not take into account the impact of activities within the business such as engineering, support areas, and purchasing, which are activities that are not directly related to production volume but do incur a lot of costs. Brimson points out that when product cost information is inaccurate, it often causes managers to apply inadequate strategies, which in the long term can affect the competitive position of the business.

Variable Costs

The variable cost method only identifies production costs that vary with output to be included in production costs. Usually includes direct materials costs, direct labor costs, and variable manufacturing overhead costs. Fixed manufacturing overhead costs are included in period costs, so they will be recorded in full in each period to determine profit. According to Garrison, Noreen, and Brewer (2010) [6], the variable costing method is sometimes referred to as the direct costing or marginal costing method. According to Drury (2014) [5] disagrees with the above view, direct costs do not reflect variable costs, as direct costs can include fixed costs such as direct labor. Direct labor costs are variable costs or fixed costs depending on the form of direct labor cost determination.

The characteristic of the variable cost method is to consider variable costs and ignore fixed costs. According to Garrison (1991), fixed costs are related to production capacity rather than the production of products during the period. These costs are costs for machinery and equipment, insurance, salaries... all of these costs are pre-requisites for production and therefore will arise regardless of whether production activities take place or not. For this reason, fixed costs should be calculated for a period rather than for a product.

Cost by Activity

According to Garrison, Noreen and Brewer (2010) [6], the activity-based costing method is widely applied in many manufacturing and service companies and non-profit organizations such as American Express, Neurological Surdana, Dialysis Clinic. Activity-based costing is a costing method designed to provide managers with cost information to make strategic and other decisions that are likely to affect productivity. The ABC method is based on the basic principle that products consume activities, activities consume resources, ABC determines costs by activity and then allocates costs to products based on cause-and-effect relationships. If the full costing method is developed to provide data for external financial reporting, the activity costing method is developed for use in decision making. Therefore, according to Garrison, Noreen and Brewer (2010) [6], the full cost method differs from the ABC method in three points: Production and non-production costs are allocated to products but only based on cause-and-effect relationships; Some costs are not included in product costs; Multiple overhead costs are used, each of which is allocated to products and other cost objects that use a separate activity measurement method.

Garrison, Noreen and Brewer (2010) [6] present the limitations of the activity-based costing method as follows: First, applying the activity-based costing method is a large project that requires large resources. Once implemented, activity-based costing costs more money to maintain. Data related to multiple units of performance measurement should be periodically collected, periodically checked, and recorded in the methodology. The benefits from increased accuracy do not outweigh the costs. Second, the activity-based costing method produces numbers, such as the contribution margin per product, that are different from the full costing method. But managers are accustomed to using the full cost method to run the company's operations and evaluate performance. If activity-based costing is considered an accounting initiative that is not supported by senior management, it is likely to fail. Third, in practice, most managers insist on allocating all costs to products, customers, and other cost drivers in activity-based costing – including costs for idle resources, and organizational maintenance costs. This leads to high appraisal costs and low margins, causing mistakes in valuation and other important decisions.

3. Research Method

Descriptive statistics: Using primary and secondary data to evaluate and systematize data on the current status of applying cost techniques in Hanoi businesses.

Analysis and synthesis: Collected data on the current status of application of costing techniques is analyzed and synthesized so that it can be compared and evaluated at Hanoi enterprises.

Survey questionnaire: The questionnaire is designed for online surveys and is printed on paper. The online survey form is sent via a link to the email. Paper-printed ballots are sent by post. The questions in the survey applied a 5-level Likert scale: 1- Strongly disagree; 2 - Disagree, 3 - Neutral, 4 - Agree, 5- Strongly agree.

Of the 180 businesses sent survey forms, the research team received responses from 170 businesses with 170 valid survey forms.

4. Results

The costing techniques studied in this paper include target costing, full costing, variable costing, and activity-based costing. These are the cost methods that are most understood by administrators and accountants. The results of the rate of using cost techniques in different types of businesses (Manufacturing enterprises, commercial enterprises, service enterprises and other enterprises) are shown in Table 1. Statistical results show that different businesses have different rates of using costing techniques. In particular, service businesses and other businesses have a higher usage rate than manufacturing and commercial businesses, but this difference is not significant. Full cost technique is the technique most businesses choose to use (63%-80%). Activity-based costing technique is the technique that businesses choose to use the least (25%-55%).

Regarding the variable costing method, according to survey data, businesses have used it above average (over 50%), especially in other businesses where the rate of using the variable costing method is 75%. This result is quite similar to previous research results. For Firth's (1996) [8] study, the rate of use of the variable costing method used in Chinese enterprises was 70%. The research result in Malaysian businesses is 52% (Ahmad, 2012) and in Indian businesses it is 50%.

Regarding the desired cost accounting method, the usage rate in businesses according to survey results is low (from 50%-66%). Research results show that the rate of using the desired cost accounting method in Japan is very high at 88% (Larino, 1995), in Indian businesses it is 32% (Joshi, 2001), and in Australian businesses it is 38% (Chenhall & Langfield-Smith, 1998) [3].

As for the activity-based cost accounting method, this is a modern and fairly new method for businesses in Hanoi, so the rate of using this technique according to the survey results is low (25%-55%). Especially low in commercial enterprises and service enterprises. Compared to the rate of application of activity-based costing in previous studies, this rate is quite similar to other countries in the world. According to research by Lukka *et al*. (1996) [10], the adoption rate in Finnish enterprises is 6%, in Belgian enterprises it is 14%.

Table 1: Usage rates of costing techniques

Techniques		Production		Trade		Services		Other	
		No.	%	No.	%	No.	%	No.	%
Target cost	Yes	36	60%	33	63%	25	66%	10	50%
	No	24	40%	19	37%	13	34%	10	50%
Variable costs	Yes	34	57%	27	52%	24	63%	15	75%
	No	26	43%	25	48%	14	37%	5	25%
Full cost	Yes	48	80%	33	63%	31	82%	13	65%
	No	12	20%	19	37%	7	18%	7	35%
Costs by activity	Yes	33	55%	13	25%	10	26%	11	55%
	No	27	45%	39	75%	28	74%	9	45%

Table 2 shows the results of the level of use of costing techniques. The results show that the activity-based costing method is the method with the least usage among costing techniques (mean < 3). The full cost method is the most used method.

Table 2: Level of use of cost analysis techniques

Techniques	Production	Trade	Services	Other
Target cost	3.260	3.454	3.742	3.000
Variable costs	3.125	3.025	3.450	3.998
Full cost	4.230	3.590	4.390	3.679
Costs by activity	2.453	1.225	1.354	2.550

5. Conclusion

Analysis results show that, for cost techniques, two techniques, the full cost method and the variable cost method, are the techniques used with the largest proportion. The remaining techniques all have low usage rates, especially the activity-based costing method. Corresponding to the usage rate, the level of use of two techniques, the full cost method and the variable cost method, is also above average. While the remaining techniques have a very low level of use.

From the analysis results, it has been shown that the use of costing techniques in Hanoi enterprises is different for different types of enterprises. And for each type of technique, businesses also choose to implement it at different levels. The level of use of cost techniques is still low, including the following reasons: First, managers of Hanoi businesses are not aware of the importance of cost accounting methods, especially are modern methods such as the expected costing method and the activity-based costing method. Business managers are not interested in management accounting techniques in general and cost techniques in particular, and have not paid attention and learned to apply these methods to provide information for managers to use business decisions. Second, businesses in Hanoi are focusing on the financial accounting system but not paying much attention to the management accounting system, so many management accounting techniques are not applied. Third, the low demand for information to support decision making by managers leads to management accounting techniques not being used in Hanoi businesses. Managers' behavior and decisions are based primarily on experience, not on the analysis of appropriate information. This is the important reason why modern technology is applied at very low costs. Fourth, the full understanding and proficient use of costing techniques by accountants is limited. This reduces the role of management accounting and leads to management accounting techniques being underused.

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