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## **Classification of Costs Serves Cost Management in Animal Feed Processing Enterprises**

**Tran Thi Du**

University of Labour and Social Affairs, Hanoi, Vietnam

Corresponding Author: **Tran Thi Du**

### **Abstract**

Cost accounting plays an important role in the content of management accounting. Costs determine the price of manufactured products, directly affecting the profit of the business. Cost is the value of resources spent in an organization's production and business activities to achieve a certain purpose. The content of costs is very diverse and rich and can be classified according to many different criteria. With each cost classification, certain cost structures are formed to provide cost information from many angles for administrators to make business decisions and control costs

effectively. The article presents ways to classify costs including classifying costs according to operational functions, classifying costs according to cost elements, classifying costs according to cost behavior or according to the relationship between costs. Costs with activity levels, classifying costs according to the relationship between costs and cost collection objects. At the same time, the article presents the current status of cost classification at animal feed processing enterprises and offers solutions to improve cost classification for cost management in enterprises.

**Keywords:** Cost Classification, Fixed Costs, Variable Costs, Mixed Costs

### **1. Theoretical Basis**

Cost classification is based on allocation criteria to divide a business's costs into different types and groups to serve specific goals. Some common cost classification methods are used to manage costs in businesses.

**Classify costs according to operational functions.** According to operational functions, costs are divided into production costs and non-production costs. Production costs: Are costs incurred within the enterprise's workshops and production teams. Production costs contribute to the production cost of the product. Production costs are divided into 3 categories: direct materials costs, direct labor costs, and manufacturing overhead costs. Non-production costs: are costs that arise outside the scope of product production. Includes selling expenses and business management expenses. This classification plays an important role in determining product prices based on total costs, is the basis for determining gross profit targets, enterprise-wide profits, and is the basis for establishing a financial reporting system. According to mandatory regulations. The method of classifying costs by function is also the basis for businesses to build a cost estimation system for each cost item, serving to provide cost information for the cost control and decision-making process.

**Classify costs according to cost factors.** This classification method is based on the initial resource element of the cost to classify costs, not based on where the cost arises and for what purpose it is used. According to this classification, costs are divided into cost elements: Cost of raw materials, tools, labor costs, depreciation costs of fixed assets, costs of services purchased from outside and costs another in money. Classifying costs by cost elements is the basis for evaluating the use of input resources of the activity, thereby controlling costs based on cost estimates and classifying costs. According to cost factors is the basis for establishing cost classification criteria according to cost factors on financial statements.

**Classify costs according to cost behavior (according to the relationship between costs and activity level):** Fixed costs are costs that do not change with the level of activity of the business. Fixed costs have the characteristic that within the range of appropriate scale of operations, total fixed costs do not change, but fixed costs charged per unit of product change inversely with the level of activity, so the Administrators need to exploit the maximum capacity of the resources that create fixed costs. Limiting the appropriate scale of operations is the limit of the enterprise's minimum and maximum production capacity in the

short term. There are two basic types of fixed costs: departmental fixed costs and general fixed costs. Departmental fixed costs: often associated with the emergence and existence of departments in a business. When that department does not exist, that fixed cost also does not exist. General fixed costs are fixed costs related to the infrastructure of a business, so when a department in the organization does not exist, general fixed costs still arise. Fixed costs are also divided into mandatory fixed costs and optional fixed costs. Compulsory fixed costs: are fixed costs related to long-term assets of the enterprise or related to the salary of the administrator, associated with the organizational structure of production and business management of an enterprise. They are long-lasting and cannot be completely reduced in a short time. Mandatory fixed costs involve long-term planning and affect costs over many years. Optional fixed costs: are fixed costs arising from annual decisions of the administrator and the administrator can increase, decrease or completely eliminate them in a short time. Mandatory fixed costs relate to short-term planning and affect the annual cost flow of the business. *Variable costs*: These are costs whose total changes when changing the level of activity, such as changing the number of units of product produced or consumed or changing the number of working hours. Machine operating... Variable costs have the characteristic that total variable costs change with the level of activity but unit variable costs do not change with the level of activity. If the business does not operate, the variable costs are zero. Variable costs include rate variable costs and level variable costs. Proportional variable costs are variable costs that are completely proportional to production results or scale of operations. Level variable costs are variable costs that only change when the scale of the scope of activities changes. *Mixed costs*: These are costs that include both variable and fixed cost elements. Normally, at the basic level of activity, mixed costs are shown as fixed costs. When they exceed the basic level of activity, mixed costs include variable cost elements. At a certain level of activity, mixed costs have the characteristics of fixed costs, when the level of activity increases, mixed costs have the characteristics of variable costs, the fixed cost part of costs. Mixed costs are the basic cost parts to maintain activities at a minimum level, while variable costs are the cost parts that will arise in proportion to the increased level of activities.

Classifying costs according to activity level is a very important method in management accounting for selecting options and making decisions, especially in short-term decisions. This is also the classification that serves as the basis for analyzing the cost-volume-profit relationship, determining contributed profit targets, determining break-even points, helping to control costs for administrators to make decisions. Measures to improve cost efficiency and bring high profits to businesses.

**Classify costs according to the relationship between costs and cost collection objects.** The cost structure according to this classification criteria includes: *Direct costs*: are types of costs that can be directly accounted for to the cost object. *Indirect costs*: are costs that cannot be directly accounted for by cost objects, because they involve many cost objects, so they need to be collected and allocated to cost objects according to the following methods: appropriate allocation criteria. Classifying costs into direct costs and indirect costs

helps accountants collect and process appropriate cost information. With direct costs, the accountant organizes direct and complete accounting for the object bearing those costs; for indirect costs, accountants need to organize a common collection for cost objects and then choose appropriate allocation criteria to allocate indirect costs to each cost object. Whether or not the allocation of indirect costs to cost objects is reasonable depends greatly on determining reasonable allocation criteria. The selected allocation criteria must be criteria related to the occurrence and in the same direction as the occurrence of costs. At the same time, this cost classification is also the basis for evaluating the effectiveness of business departments in an enterprise to determine the performance and profit of each department.

There are also many ways to classify costs such as classifying costs based on the level of control of the administrator, costs are divided into controllable costs which are costs arising within the scope of control of the administrator. The administrator and uncontrollable costs are costs that arise beyond the scope of the administrator's control. So, Costs need to be considered from many different angles for different purposes. With each cost classification method, costs are divided into different types of costs, with different structures and uses. Administrators base on the purpose of using cost information to classify costs appropriately in order to effectively use cost information to enhance cost management in the enterprise.

## 2. Research Methods

**Data collection method:** The article is collected from secondary data sources such as articles, textbooks and documents of animal feed processing companies about their operations and classification of service costs. Cost management service. With primary data, the article conducts surveys on the current status of cost classification for cost management in animal feed processing enterprises. The study uses descriptive statistical data analysis and comparison and synthesis methods to evaluate the current situation of cost classification in animal feed processing enterprises.

## 3. Actual Situation

At current animal feed processing enterprises, attention has been paid to classifying costs to serve cost management. The cost classification methods used in businesses are:

**Classify costs according to purpose and use.** According to survey data, 100% of animal feed processing businesses classify costs according to the purpose and use of costs, including product production costs, sales costs, and business management costs. Product manufacturing costs include the following items: direct material costs, direct labor costs and general manufacturing costs.

- **Direct material costs:** Includes the value of raw materials, refined materials, and semi-finished products purchased from outside used to produce products.
- **Direct labor costs:** Includes all costs of wages, salary bonuses, social insurance deductions, health insurance, union fees, and unemployment insurance of workers. Directly participate in the product manufacturing process. In animal feed processing enterprises, direct workers are those who directly participate in all stages of the product production technology process, from raw

material loading to the final stage of packaging and transportation. move into warehouse.

- **General production costs:** Are all remaining production costs except direct material costs and direct labor costs. General production costs include many types of costs, including electricity and gasoline costs, depreciation costs, salary costs and deductions based on the salaries of factory employees, and equipment repair costs.

According to the survey, 35/52 animal feed processing enterprises (accounting for 67.3%) classified general production costs according to cost factors, and 17/52 enterprises (accounting for 32.7%) were surveyed. The classification of general production costs according to cost factors has not been carried out.

**Table 1:** Enterprises classify costs according to cost factors

		Quantity	Ratio %	Percentage of value	Cumulative percentage
Value	Yes	35	67.3	67.3	
	No	17	32.7	32.7	100.0
	<b>Total:</b>	52	100.0	100.0	

**Classify costs according to cost behavior.** Of the 52 businesses surveyed, only 18/52 businesses, accounting for 34.6% of the businesses surveyed, classified general production costs according to variable and fixed costs. Also, according to the survey results, only 9/52 businesses (accounting for 17.3%) separate mixed costs into fixed costs and variable costs, with 2 businesses using the maximum-minimum method, 3 Enterprises use the least squares method and 4 enterprises use the multiple regression method, while no enterprise uses the scatter plot method.

**Table 2:** Enterprises separate mixed costs into variable costs and fixed costs

		Quantity	Ratio %	Percentage of value	Cumulative percentage
Value	Yes	9	17.3	17.3	17.3
	No	43	82.7	82.7	100.0
	<b>Total:</b>	52	100.0	100.0	

If looking at the size of businesses, it shows that medium-sized and large-sized businesses have a proportion of businesses separating general production costs, sales costs and business management costs into fixed costs. And variable costs are greater than small-sized businesses. Medium-sized enterprises have a higher rate of separating these types of costs than small-sized and large-sized enterprises. As for separating business management costs (642) into fixed costs and variable costs, 7/38 businesses are small-sized (accounting for 18.4%), 3/4 of businesses are medium-sized (accounting for 75%) and 4/10 large-scale

enterprises (accounting for 40%) separate business management costs into fixed costs and variable costs.

Thus, the classification of costs into fixed costs and variable costs, along with other cost classifications, plays an important role in dealing with costs and making management and control decisions. Cost control, but most animal feed processing enterprises only classify costs according to the requirements of financial accounting, which is to classify costs according to the use of costs, and there are other ways to classify costs. Other services that serve managers to make decisions are not yet of interest to businesses.

#### 4. Solution

Animal feed processing businesses need to identify costs according to cost classifications to meet planning, cost control and business decision-making requirements. Costs in animal feed processing businesses include many cost items and cost factors. Cost awareness will influence the use of cost information for decision making.

**Regarding cost classification according to purpose and use.** This cost classification method is well implemented in animal feed processing enterprises. However, some cost items have not been included in the correct cost items according to regulations and the cost level needs to be determined to suit actual use. Inventories such as raw materials, fuel, packaging... are only included in expenses during the period based on actual usage, not based on purchasing levels during the period. When exporting packaging, coal. To use, animal feed processing enterprises should use warehouse delivery notes to reflect the value of raw materials in costs during the period, the unused raw materials are ending inventory. This solution meets the goal of accurately reflecting the value of a business's existing inventory, accurately reflecting expenses, thereby accurately reflecting the cost price, cost price and profit of the business, at the same time. Ensuring strict material management, helping to save costs.

**Classify costs according to cost behavior.** How to classify costs according to cost behavior plays an important role in providing information for the decision-making process. Fixed and variable cost information is used in many short-term decisions of businesses, and is also used for the process of setting norms, cost estimates, and budget estimates. Therefore, costs in animal feed processing enterprises need to be classified according to cost behavior. Costs in animal feed processing enterprises, if divided by cost items, include production costs and non-production costs. Within each cost item there can be fixed costs, variable costs and mixed costs.

**Table 3:** Classification of costs according to cost behavior in animal feed processing enterprises

Expense	Variable fee	Fixed fees	Mixed costs
<b>1. Production costs</b>			
<b>a. The cost of materials directly</b>	<b>x</b>		
<b>b. Direct labor costs</b>			
- Direct worker salary costs	X		X
- Deductions for social insurance, health insurance, union fees, unemployment insurance		X	
<b>c. General production costs</b>			
- Petroleum			X
- Coal			X
- Testing costs			X
- Electricity			X
- Garbage transportation costs		X	
- Recharge air conditioner			X
- Cost of exchanging oxygen cylinders			X
- Transportation costs			X
- Cost of pumping antiseptic and disinfectant		X	
- Warehouse receipt	X		
-Pocket money	X		
- Fees for warehouse security services		X	
- Salary of shift leader		X	
-Extract social insurance, health insurance, union funds, unemployment insurance from the shift leader.		X	
- Stationery			X
- Cost of changing engine oil			X
- Cost of air compressor pump and compressed air filter cup			X
- Fixed asset depreciation costs		X	
- Outsourced service costs: repair and replacement costs for electricity and water, generator rental costs, electricity and water costs			X
- Tool costs: bamboo brooms, rice brooms, foam, insulating canvas, drill bits, drilling machine.			X
<b>2. Non-production costs</b>			
<b>a. Selling expenses</b>			
- Gasoline money			X
- Tolls			X
- Cost of work			X
- Expenses for car washing, car repair, and tire making			X
- Salary of the sales department			X
- Deductions for social insurance, health insurance, trade union fees, unemployment insurance of the business department		X	
- Depreciation of fixed assets		X	
- Sales commission expenses	X		
- Promotion and advertising costs			X
<b>b. Enterprise Cost Management</b>			
- Transfer fee			X
- Telecommunication service fee			X
- Guest cost			X
- Fly's ticket cost			X
- Office water bill			X
- ADSL fee			X
- Telephone charges			X
- Gasoline costs			X
- Vehicle oil filter costs			X
- Guest cost			X
- Expenses for buying gloss conditioner, cleaning the interior, and washing the car			X
- Registration fees			X
- Depreciation costs of fixed assets			X
- Salary costs of departments (including testing department)		X	
- Social insurance, health insurance, union fees, unemployment insurance deductions of the enterprise management department		X	

**Classify costs according to the relationship between costs and cost collection objects.** According to this classification, costs are divided into direct costs and indirect costs. Direct costs are costs that can be directly accounted for by the cost object. Indirect costs are costs that cannot be directly accounted for by cost objects and involve many cost objects, so they need to be collected and allocated to cost objects according to criteria. Appropriate allocation. Depending on

each cost object, that cost is classified as a direct cost or an indirect cost. In animal feed processing enterprises, if cost collection objects are classified from low to high level, there will be cost collection objects as:

- For product batch level: cost collection object is each product batch
- For product level: cost collection object is each type of product

- For customer level: cost collection object is each customer

For costs that are only related to each cost collection object, they are collected directly for that object; for costs related to many cost collection objects, different methods need to be selected to classify them. Allocate indirect costs to each cost object. The article recommends classifying direct costs and indirect costs for each cost object in animal feed processing enterprises as follows:

- If the cost collection object is each batch of products:
  - + Direct costs: includes direct material costs, direct labor costs to produce batches of products, and testing costs of batches of products
  - + Indirect costs: are general production costs, selling costs and remaining business management costs.
- If the cost collection object is each type of product:
  - + Direct costs: includes direct material costs, direct labor costs, testing costs, product research and development costs, product trademark registration costs, commission costs Sales... of each product.
  - + Indirect costs: are general production costs, selling costs and remaining business management costs.
- If the cost collection object is each customer:
  - + Direct costs: are the cost price of the product consumed for each customer, the cost of sales commissions for each customer, the cost of staff in charge of customers, the costs of management, monitoring and care. Individually for each customer.
  - + Indirect costs are general sales costs and general business management costs of the entire enterprise.
- If the cost collection object is each branch:
  - + Direct costs: are the cost price of products consumed for each branch, sales commission costs for each branch, costs of directors and employees of the branch and management costs incurred separately by the branch. Each branch.
  - + Indirect costs are general sales costs and general business management costs for the entire enterprise, not specific to any branch.

## 5. Conclusion

Thus, with the same cost, but with different classification methods, costs are divided into different categories and have different values in calculating costs and managing costs of the enterprise. For one cost, it is possible for this cost object to be a direct cost, and for another cost collection object to be an indirect cost. Therefore, whether a cost is a direct cost or an indirect cost depends on the relationship of the cost to the cost object and depends on the method of tracking and recording costs of each business. For direct costs that the enterprise cannot separately track for each cost object, those costs are still considered indirect costs and the enterprise must use appropriate allocation criteria to allocate to the different costs. The cost collection object and cost allocation will affect the accuracy of cost collection for the cost collection object. Thus, cost classification plays an important role in cost management and determining bar prices in businesses. Enterprises that perform cost classification well will perform more effectively with cost management.

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