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Cost accounting Practices: Survey at Vietnamese Small-medium Enterprises

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Abstract

In the market economy, the role of cost management accounting information is increasingly expanding and affirming its development position. 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. The article surveys 130 small and medium-sized enterprises in Vietnam, to evaluate the level of cost

accounting practices in enterprises. Survey results show that small and medium-sized enterprises in Vietnam are most interested in process costing methods, complexity in production is the biggest difficulty that businesses encounter when determining product costs, the most commonly used basis for allocating overhead costs is production output, pricing decisions are the decisions that use cost information the most, and reducing profits is the biggest reason why managers care about cost information.

Keywords: Cost Accounting, Practice, Small and Medium Enterprises

1. Introduction

In the market economy, the role of cost management accounting information is increasingly expanding and affirming its development position. 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 Decree No. 80/2021/ND-CP dated August 26, 2021, it is stipulated that small and medium enterprises in Vietnam are enterprises with capital of less than 100 billion VND and no more than 200 employees participating in insurance (Government, 2021). According to the World Bank's statistical results in 2019, in Vietnam, small and medium enterprises account for 97.5% and are contributing about 40% of GDP and creating nearly 60% of jobs. SMEs create opportunities across many sectors and geographies through employment and economic value, providing opportunities to develop skills, drive innovation, and contribute directly to comprehensive growth. However, the operations of small and medium-sized enterprises face many difficulties in the global competitive environment, small and medium-sized enterprises have a lot of competition, uncertainty about total product demand, problems with cash flow, lack of standardized business methods, and unskilled staff. Good cost control is one of the requirements that small and medium-sized enterprises need to pay attention to in order to increase their competitiveness in the market.

From the above reasons, the article aims to learn about the current status of cost accounting applications in small and medium enterprises in Vietnam, and thereby provide recommendations to help improve the efficiency of using cost information in businesses.

2. Literature Review

According to Hansen and Mowen (2006) [5], 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 on 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. Lanen and colleagues (2010) approached cost accounting in terms of providing cost information to manage the value chain of businesses. According to these authors, cost accounting helps administrators maximize value for the organization. Cost accounting measures the effects of decisions on the decision-making value chain in terms of a specific business environment with a defined strategy.

According to Drury (2018) [2], cost accounting produces information to meet the following requirements: "Allocation of costs between cost of goods sold and inventory for internal and external profit reporting", "Providing relevant information to help managers make better decisions", and "Provide relevant information for planning, control and performance measurement". The second and third requirements according to Drury are to provide cost information to serve corporate governance needs. According to the author, this is the role of cost management accounting. Requirement "Provide relevant information to help managers make better decisions" related to decision making. According to Drury (2018) [2]: "The information needed to identify potentially profitable products requires particularly detailed research." Variable costs are easily observed, and how they influence decision making can be clearly measured. The difficulty is assessing how fixed costs influence decision making, because they are not easily observable. In the past, there was a tendency to assume that sunk or fixed costs did not change over a range of output, making them irrelevant for decision making. However, in many organizations, these costs have increased so dramatically over the years that they cannot be considered irrelevant information for decision making. Therefore, costing methods need to provide cost reporting by cost type and divided into fixed and variable elements. According to Drury (2018) [2], a good cost method requires costs to be determined for necessary cost objects (such as products or services, departments, distribution channels, etc.), and allocated appropriate type. Accurate cost information is essential for decision making because inaccurate costs can lead to wrong decisions such as continuing to produce unprofitable products. Inaccurate information may be enough to measure profits for a business because costs are allocated between inventory and cost of goods sold at an aggregate level rather than specific products. The third requirement is in line with Langfield-Smith, Thorne & Hilton, (2009) [3] "Cost accounting is designed to provide information to managers about decisions related to planning and control". Cost management accounting information is a planning tool and cost data is the basis for strategic decision making, which includes pricing policies, product structure, Procurement of machinery and equipment, eliminating activities that do not create added value.

3. Research Method

Quantitative research to evaluate the level of use of digital tools in production and business activities of Vietnamese enterprises, carried out through the following 3 steps:

Step 1: We build a questionnaire on Google Forms, send it to accountants and business managers via email using a convenient sampling method, and send it to friends, relatives, and partners.

Step 2: The number of survey questionnaires distributed was 140, sent to 140 enterprises, and the number of votes collected was 130 from 130 enterprises, reaching 92.9%. All receipts meet the required information requirements.

Step 3: We analyze the data on SPSS 22 software with the following tools: Frequency statistics, average statistics.

The questions in the survey apply Apply the 5-point Likert scale: 1- Strongly disagree; 2 - Disagree, 3 - Normal, 4 - Agree, 5- Strongly Agree.

4. Results

Enterprise scale

The author sent 140 votes to 140 businesses, and received information from 130 businesses with a total of 130 votes.

Table 1: Characteristics of surveyed enterprises

Characteristics		N = 130	Percentage (%)
Type	Joint Stock Company	70	54%
	Limited liability company	60	46%
Business sectors	Manufacture	60	46%
	Commerce	10	8%
	Service	25	19%
	Construction	20	15%
	Other	15	12%
Operating time	< 5 years	70	54%
	5 years – 10 years	40	31%
	> 10 years	20	15%

According to survey results, of the 130 responding businesses, 54% were joint stock companies and 46% were limited liability companies.

Regarding the results of the field of operation, the survey was conducted in the industries of manufacturing, trade, service, and construction. Of which, enterprises in the manufacturing sector account for the largest proportion of 46% (60 enterprises), enterprises in the commercial sector are 8%, enterprises in the service sector are 19%, enterprises in the service sector are 19%, onstruction sector is 15%, enterprises in other sectors are 12%.

Regarding the operating time of businesses, there are 70 businesses (accounting for 54%) operating for less than 5 years, 40 businesses operating for 5 - 10 years, and 20 businesses operating for more than 10 years.

The method for calculating the price of products

Survey results on cost calculation methods show that small and medium-sized enterprises in Vietnam pay a lot of attention to the process cost determination method (mean is 4.02), followed by the cost determination method by job (mean is 3.83), the activity-based costing method is applied by very few small and medium-sized enterprises in their businesses. This is quite suitable for small and medium enterprises in Vietnam, as these are enterprises that mass produce products and bring them to the consumer market, the products produced between periods are the same. And with modern cost determination methods, administrators of these businesses do not have much access, and moreover, the cost of building and maintaining a modern cost determination system is quite expensive, so businesses small and medium enterprises are not ready to implement.

Table 2: Method of calculating product cost

Method	Mean
Job costing method	3.83
Process costing method	4.02
Activity-based costing method	2.45
Combine multiple methods	3.90

Difficulty in calculating cost

Survey respondents were also asked to indicate the difficulties they encountered when calculating product costs. Most managers believe that the complexity of the

production process is the biggest difficulty when calculating product costs (mean is 4.13). Meanwhile, lack of necessary software is the difficulty that businesses rarely encounter when determining product costs.

Table 3: Difficulty in calculating cost

Difficulty	Mean
Production complexity	4.13
Lack of necessary cost information	3.77
Lack of necessary software	3.05

General cost allocation basis

Table 4 shows the general cost allocation bases that small and medium-sized enterprises in Vietnam are applying. Allocating general costs on the basis of production output is the criterion most applied by many small and medium enterprises with a mean of 4.05. Next are the factors, direct labor costs, direct labor hours, machine hours. Direct materials cost is the least used criterion. Comparing the level of use of common cost allocation bases in Vietnamese small and medium enterprises, there are differences compared to other studies in different countries. For research in the United States, Australia, Japan... direct labor hours are the criteria most used by businesses.

Table 4: Basis for general cost allocation

Criteria	Mean
Direct labor hours	3.83
Direct labor costs	3.97
Machine time	3.65
In term of production	4.05
The cost of materials directly	3.04
Other	3.20

Use cost information

In the next part of the survey, the author evaluates the level of cost information application in small and medium enterprises in Vietnam. The author evaluates the purposes of using cost information for the following: Pricing decisions, assessing customer profitability, measuring performance, analyzing operations, deciding on product structure, and deciding decide to add or remove products. Survey results show that administrators use cost information the most for pricing decisions and operational analysis with average values of 4.23 and 4.05, respectively. Meanwhile, the decision to add or remove a product is the decision that uses the least cost information. The results of this survey are similar to the survey results of Triest *et al.* (2007)^[6].

Table 5: Use cost information

Use cost information	Mean
Decide on price	4.23
Evaluate customer profitability	3.99
Performance measurement	3.95
Activity analysis	4.05
Decide on product structure	3.55
Decide whether to add or remove products	3.46

Increased interest in cost information

In this study, the author evaluates the reasons why managers of small and medium-sized enterprises in Vietnam increase their level of interest in cost information. A list of three reasons was provided to respondents on a 5-point Likert scale. Survey results show that the possibility of reducing

profits in the future is the biggest reason why managers must pay more attention to cost information (mean is 4.59). Other reasons were also highly appreciated and valued by respondents. Specifically, the reason for increased costs has an average value of 4.45, and increased domestic competition has an average value of 4.30. The average value of all three reasons is high, thus showing that administrators are very interested in cost information in the enterprise's production and business activities.

Table 6: Reasons for increased interest in cost information

Reasons	Mean
Reduce profits	4.59
Increased costs	4.45
Increasing domestic and global competition	4.30

5. Conclusion

Through research results, the author finds that small and medium-sized enterprises in Vietnam are most interested in the method of determining process costs, complexity in production is the biggest difficulty that businesses encounter when determining product costs, the most commonly used basis for allocating overhead costs is production output, pricing decisions are decisions that make the most use of cost information, and reduced profits are the biggest reasons why managers care about cost information.

According to the Vietnam Association of Small and Medium Enterprises, the country has about 800,000 businesses, of which small and medium enterprises account for over 98%. In recent years, the small and medium-sized enterprise sector has been affirming its role as an important driving force for local economic development. The development of small and medium-sized enterprises has created jobs and improved people's lives, ensuring social security, contributing increasingly to the socio-economic development of localities in particular and the country in general. Every year, small and medium-sized enterprises contribute about 40% of GDP, pay 30% to the state budget, contribute 33% of industrial output value, 30% of export value and attract nearly 60% of workers. However, in a globally competitive business environment, small and medium-sized enterprises face many difficulties. Cost control is an urgent requirement for every business to create a position in the domestic and international market. The need for managers of small and medium-sized enterprises in Vietnam to use cost information has become even more urgent. Cost accounting needs to provide the cost information that management needs to make business decisions. However, to what extent cost information is used and what needs are served depends on each business administrator.

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