

DECLINE OF THE USEFULNESS OF COST ACCOUNTING IN VIETNAMESE ENTERPRISES AND ASPECTS TO CHANGE

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Cost accounting is an important accounting form in enterprise accounting system. Cost accounting affects economic and financial decisions in all activities of enterprises. Today, with rapid advances in science, technique, technology, and in management administration as well as with fierce and widespread competition in all fields of corporate activities, there has arisen an urgent need for innovation in cost accounting in order to insure and improve the usefulness of the information on costs in financial and managerial reports.

Studies of cost accounting systems in enterprises all over the world show that there have been different orientations, contents, and working processes of cost accounting.

In periods when simple technologies prevailed, production system witnessed no changes, and life cycle of products was long, the cost accounting only aims at providing information about production cost and overheads of each piece linked with each stage of production or department needed for measuring, evaluating, and controlling production cost. In these periods, the cost accounting is based on the following formula (formula 1):

Formula 1: Traditional method of accounting cost price of product

$$\text{Actual cost price of a product unit} = \frac{\text{Actual costs of inputs}}{\text{Quantity of product}}$$

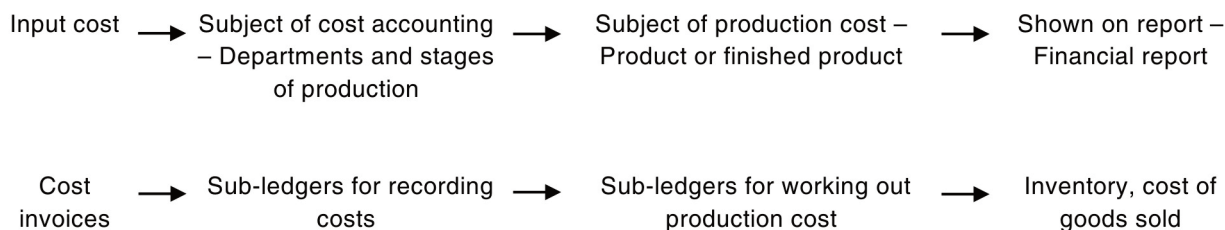
In term of operation process, the cost accounting is carried out according to the following process (Diagram 1)

When production is conducted with rapid advances in science, technique, and technology, automation in production is highly improved, production system witnessed sea changes, and the life cycle of a product is shorter, there are demands and pressures to improve the cost accounting.

In this period, cost accounting should not only meet the demand for information for the measurement, evaluation, and checking of financial problems relating to production activities but also supply the more timely financial information needed for innovation and re-orientation of production. That demand has forced the cost accounting in enterprises to change in order to maintain and improve its usefulness. There have been im-

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Figure 1: Operation process of traditional cost accounting



improvements in cost accounting and now it is able to provide information about production cost and overheads more timely and quickly. Now cost accounting could account cost price based on actual cost and estimated cost as well as on standard cost. These cost accounting models, though still record costs of production and calculate total cost in a simple way as shown in formula 1, have created an improvement in the speed of providing better information about costs needed for management and orientation of production; and included analyses and handling of differences between actual costs and estimated costs arising in each phase of production.

In recent years, especially after the 1980s, the very rapid advances in sciences and technologies, especially the informatics, and widespread application of automation in production gave birth to the streamline production process, increased rapidly the productivity, shortened the life cycle of the product, made business management based on value chain come into being, and made competition at global level increasingly fiercer and widespread. Traditional cost accounting has gradually fallen into a stalemate resulting in its serious decline and even in completely disappearance. From then on, a series of improvements in cost accounting have taken place to deal with the decline of usefulness of accounting and cost accounting in view of maintaining and meeting the demand of information about cost for the sake of managers and for the renewal of production orientation in the new business climate. Activity-based accounting, target-costing accounting, and Kaizen cost accounting model (Kaizen costing) all have appeared due to the results of the improvements of cost accounting in this period. The change in the climate of production and business and the improvements and developments in cost accounting in worldwide enterprises show the new trend of renovating cost

accounting.

Firstly, the cost accounting information gradually moves from the focus on assessment, control, and evaluation for the planning, presentation, and disclosure of expense and cost price of the product on financial reports to the focus on information for production operation management carried out by managers inside the enterprise. This aims at controlling expenses right after they arise in order to set up timely production orientation in the ever-progressing climate of science, technique, and technology. Management science has never ceased renovating while association and co-operation are more and more expanding because competition is more and more severe and fiercer on a wider scale.

Secondly, together with the trend of changing focus, cost information widens its scope from production cost to non-production cost, outside-enterprise cost, and to cost of cooperation between enterprises and suppliers and customers as well as from real cost to future and potential cost. Thus, the composition of cost price consists of not only production cost with actual expenses on such items as materials, direct labor, and overheads but also all expenses relating to all production activities with costs based on arising causes, and effectiveness of actual and future costs. As a result, the process of cost accounting is no longer limited, narrowed, and tied by the general accounting policy that consists of documents, detailed ledgers, general ledgers, and cost price reports. This process is conducted in an open direction and in a more flexible way in order to link the accounting process with estimation of costs, analyses, and evaluation of changes in costs on a long-term and strategic perspective.

Cost accounting in Vietnamese enterprises is mostly a traditional one that records expenses and

production cost according to actual expenses (Table 1).

Table 1: Application of cost accounting system in Vietnamese enterprises

Indicator	%
1. Working out expenses and production cost based on actual expenses	87%
2. Working out expenses and production cost based on actual expenses and estimated costs	3%
3. Working out expenses and production cost based on actual expenses standard expenses	9%
4. Working out expenses based on operations	0%
5. Working out costs based on targets	1%
6. Others	0%

Source: Survey of 400 Vietnamese enterprises in South Vietnam- 2008

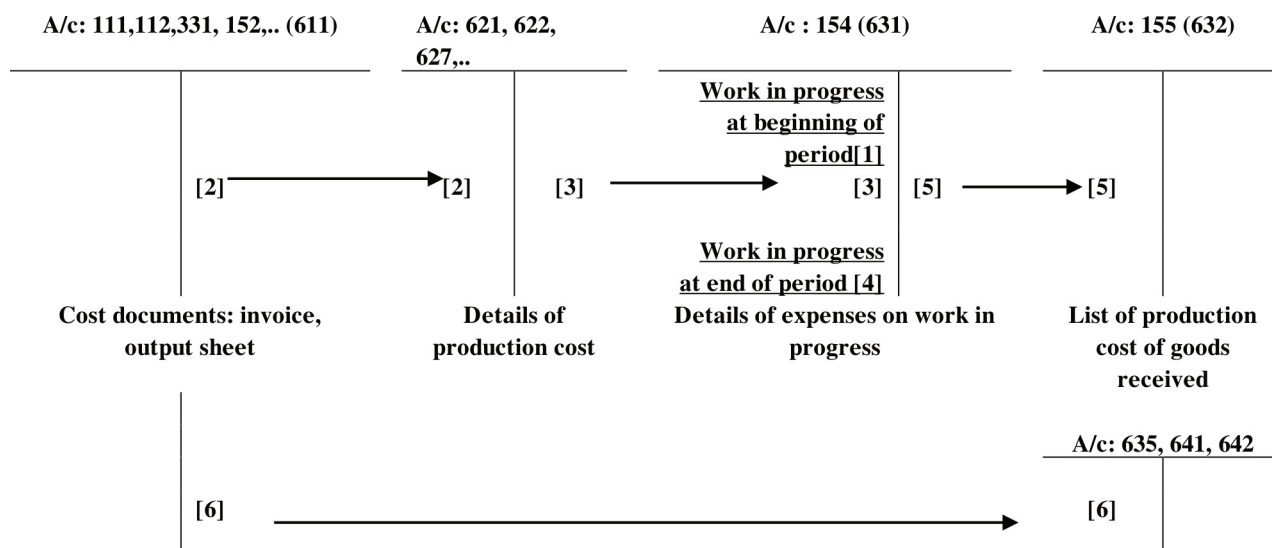
The process of cost accounting in Vietnamese enterprises is shown as follows (Diagram 2)

Cost accounting now in Vietnamese enterprises shows the following :

Firstly, cost accounting in Vietnamese enterprises could only provide information needed for identifying actual costs of a product for the sake of controlling, and evaluating production cost and process while it should provide information needed for controlling arising expenses and directing production process and operations. Thus, cost accounting in Vietnamese enterprises, in reality, is financial accounting whose main function is to write, present, and disclose financial reports. Therefore, cost accounting in Vietnamese enterprises is falling into a serious decline of usefulness and it reflects only costs spent in a short period and in certain stages of production.

Secondly, based on the focus on information and on its current situation, technically cost accounting in Vietnamese enterprises works out total cost in a rather obsolete way. Cost accounting process is a self-contained one and it does not link with other accounting processes. It is obsolete, partial, and especially in Vietnam, cost ac-

Figure 2: Process of accounting expenses and production costs in Vietnamese enterprises



Notes :

- (1) Production cost of work in progress at beginning of period ;
- (2) Total of actual production cost arisen ;
- (3) Cost addition and distribution for cost calculation;
- (4) Expenses on work in progress at end of period ;
- (5) Cost price of products in stock or for sale
- (6) Total of non-production costs (sale, management, finance),

counting is controlled and tied completely and complicatedly by the general accounting policy in terms of content, document, record, and report. This situation makes the cost accounting fall into a too complicated way of doing business (evaluation of work in progress, working out the total cost and unit price with many different methods but is not appropriate to general accounting principles). This cost accounting is not flexible (enterprises of different scales apply the same operation process with the same accounting procedures) and it could hardly change or link with modern accounting models (where economic effect and structure of total cost are based on various expenses, and an arbitrary and complicated link between financial accounting and administrative accounting is required).

The above-mentioned analyses have proven that usefulness of cost accounting in Vietnamese enterprises is gradually falling into serious decline due to the lack of management information (sometimes no management information at all), and some orientation of development of management accounting - an urgent demand and also a trend of development of cost accounting in the present business climate.

Therefore, in our opinion, it is necessary to timely innovate the cost accounting both in its views and contents.

Speaking of views, it is necessary to recognize cost accounting and its focus more reasonably. Cost accounting should aim at supplying informa-

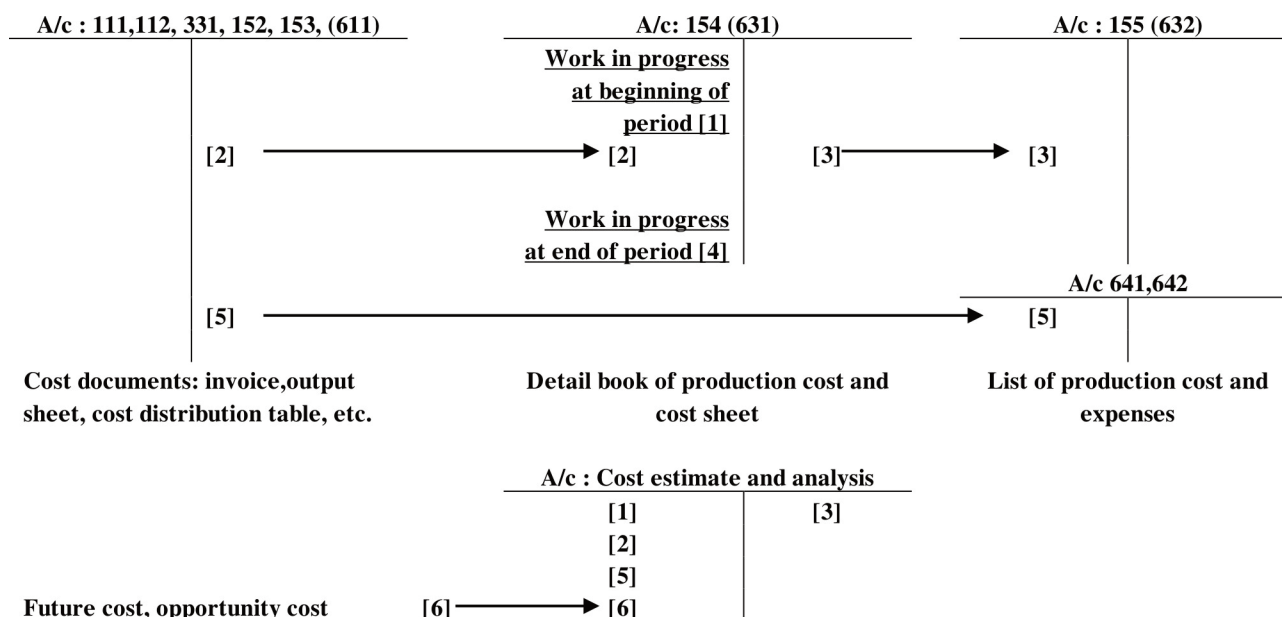
tion needed for controlling costs and working out orientation for operations. Its regulations based on general accounting policy should be more flexible so as to avoid tying cost accounting down to an only purpose of supplying financial information, thereby overcoming the current limit and at helping enterprises set up, apply, and develop the cost accounting.

About content and operation process, cost accounting should be improved in such a way that the general accounting policy and focus of cost accounting could be ensured. Cost accounting, then, would be able to cover more costs -production cost and non-production cost- as well as to flexibly measure other sorts of costs, current and future ones. It should also be more flexible in accounting operation process. Based on the present procedure of accounting in Vietnamese enterprises (Figure 2), at first it is necessary to improve cost accounting operation process via open model (Figure 3). On this Figure, the total cost and production cost based on journal entries [1], [2], [3], and [5] of the accounts or the details entries of accounts 154 (631), 155 (632), 641, and 642 are the orientation for tasks of providing information and presenting costs on financial reports. This cost accounting process can be applied to all kinds of enterprises. Ways of collection and analysis of cost on estimated accounts, cost analysis, and orientation for management information are determined by enterprises based on their needs.

Improvement in cost accounting is an urgent



Figure 3 : Cost accounting process and cost price of product



Note:

- (1) Production cost of work in progress at beginning of period
- (2) Total of actual production cost arisen
- (3) Cost of product made
- (4) Production cost of work in progress at end of period
- (5) Total of non-production costs
- (6) Estimate of future cost and opportunity cost relating to operation.

need but it should be carried out in the long run. In this paper, we hope to give the readers some opinions about the orientation for development of cost accounting as well as about the model of improved cost accounting for Vietnamese enterprises. We also hope to give the readers a better picture of expenses for enterprises to actively control cost, to orient production and trading in the market economy, and in the trend of international integration of Vietnam■

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