



EXPERIENCE IN PRODUCTION COST ACCOUNTING AND LESSONS LEARNED FOR MANUFACTURING ENTERPRISES IN TUYEN QUANG

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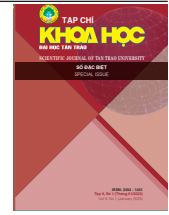
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Abstract:

Cost is an important indicator in the system of economic indicators for business management, and at the same time, it also has a close relationship with revenue and production and business results. Therefore, production cost accounting has a very important role in saving production costs, reducing product costs, thereby increasing competitive advantages for enterprises. This study generalizes some theoretical basis issues on production cost accounting, discuss production cost accounting in some typical enterprises, assesses and proposes some recommendations for the implementation production cost accounting in manufacturing enterprises in Tuyen Quang province.



KINH NGHIỆM KẾ TOÁN CHI PHÍ SẢN XUẤT VÀ BÀI HỌC RÚT RA CHO CÁC DOANH NGHIỆP SẢN XUẤT TẠI TUYÊN QUANG

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Thông tin bài viết	Tóm tắt
<p>Ngày nhận bài: 20/9/2022 Ngày sửa bài: 14/10/2022 Ngày duyệt đăng: 30/12/2022</p> <p>Từ khóa: <i>chi phí sản xuất, kế toán chi phí sản xuất, doanh nghiệp sản xuất.</i></p>	<p>Chi phí là một chỉ tiêu quan trọng trong hệ thống các chỉ tiêu kinh tế phục vụ cho công tác quản lý doanh nghiệp, đồng thời, nó cũng có mối quan hệ mật thiết với doanh thu và kết quả hoạt động sản xuất kinh doanh. Do đó, kế toán chi phí sản xuất có vai trò rất quan trọng trong việc tiết kiệm chi phí sản xuất, hạ thấp giá thành sản phẩm, từ đó, tăng lợi thế cạnh tranh cho doanh nghiệp. Nghiên cứu khái quát một số vấn đề cơ sở lý luận về kế toán chi phí sản xuất, thảo luận về kế toán chi phí sản xuất tại một số doanh nghiệp điển hình, đánh giá và đề xuất một số khuyến nghị cho việc thực hiện kế toán chi phí sản xuất trong các doanh nghiệp sản xuất trên địa bàn tỉnh Tuyên Quang.</p>

1. INTRODUCTION

Production cost accounting and product price play an increasingly important role in determining subjects in charge of production cost accounting and product costing by applying cost aggregation and allocation methods to calculate product price based on the production characteristics and technological process of enterprises. The determination and effective management of the system of cost and price in production will bring success to the business.

According Cesaro & SoniaMarongiu, The production process to create a product of an enterprise requires the combination and use of inputs. The entire source that enterprises use for this process is the production cost [1]. For survival and development in the market economy, the production and business activities of enterprises

must at least cover production costs. According to Anh, especially in the current trend of regional and world integration, Vietnamese enterprises encounter many difficulties, which requires product quality improvement and a decrease in product prices in order to enhance competitiveness and take a large market share, thereby increasing revenue of every enterprises [2].

Therefore, cost accounting is very important in the production and business of enterprises, and good input cost accounting will assist enterprises in taking measures to reduce production costs optimally. Accurate production cost accounting also helps enterprises to take proactive actions in controlling production costs and effectively calculating product prices.

The article focuses on overviewing the theoretical basis of production cost accounting and learning the

production cost accounting experience of enterprises as a basis to draw lessons learned for manufacturing enterprises in Tuyen Quang province.

2. RESEARCH METHOD

This is an overview study. On the basis of domestic and international published documents, the article synthesizes and develops the theoretical and practical basis of production cost accounting in enterprises. The information used in this article includes published secondary data collected from books, newspapers, magazines, and the internet. The key analysis method used is a review of academic literature through the interpretation of concepts, roles and description of production cost accounting practices in some manufacturing enterprises in Vietnam, thereby giving lessons learned for manufacturing enterprises in Tuyen Quang province.

3. RESEARCH RESULT

3.1. *A number of theoretical issues about production cost accounting in enterprises*

3.1.1. *Concept of production cost accounting*

According to VAS01 “Costs are factors that reduce the economic benefits of enterprises during the period through cash outlays, reduction of assets, or generation of liabilities leading to a decrease in equity, except for distributions to shareholders or owners” [3]. Accordingly, costs are items in the financial statements and are assessed in each accounting period, then costs are recognized and reflected based on certain principles. The concept of cost according to VAS 01 is suitable from the perspective of users of financial accounting information, who are mainly outside enterprises. Thus, enterprises that want to carry out production and business activities need to mobilize and use resources including materials, labor, capital, etc. to create products. The total cost that an enterprise spends to carry out the production and completion of product is called the production cost.

According to Loan, the resources that enterprises have used in the production process related to living labor and materialized labor in a certain period in the form of money is the production cost of enterprises. [4]

Therefore, production cost covers all costs associated with the production of products arising in the course of production. All these costs are included in the product price. Only costs used for production

activities are considered production costs and play an essential role in the production and business costs of enterprises. In general, production costs include the following items: direct material costs, direct labor costs, and manufacturing overhead.

3.1.2. *Production cost accounting*

Datar and Rajan supposed that production cost accounting is a technique or method for determining the production cost of a project, a process, or a product... This cost is determined by direct measurement, closing entry or distribution on a systematic and reasonable basis. [5]

According to Kinney and Raiborn, production cost accounting includes a part of financial accounting and management accounting, thereby providing information in service of the needs of users inside and outside enterprises. [6]

The above points of view indicate that production cost accounting is a part and a module of the accounting system. However, this study only considers production cost accounting from the perspective of financial accounting. Accordingly, the production cost accountant collects, processes and provides information on production costs arising in the production process of enterprises in accordance with the recognized accounting principles and regimes in order to provide information for internal and external users.

3.2. *Experience in production cost accounting of some enterprises and lessons learned for manufacturing enterprises in Tuyen Quang*

3.2.1. *Experience in production cost accounting of some enterprises*

3.2.1.1. Experience in production cost accounting of steel manufacturing enterprises in the central provinces

Production cost accounting has great significance for production and business activities as long as it is implemented correctly, scientifically, and reasonably in operational planning and management of production costs, and product prices, and at the same time, it also gives the competitiveness advantage for enterprises. On that basis, steel manufacturing enterprises in the central provinces are gradually completing production cost accounting to meet the requirements of accounting, tracking and management in practice. In particular, it cannot help but mention the success of detailed tracking of direct labor costs in production.

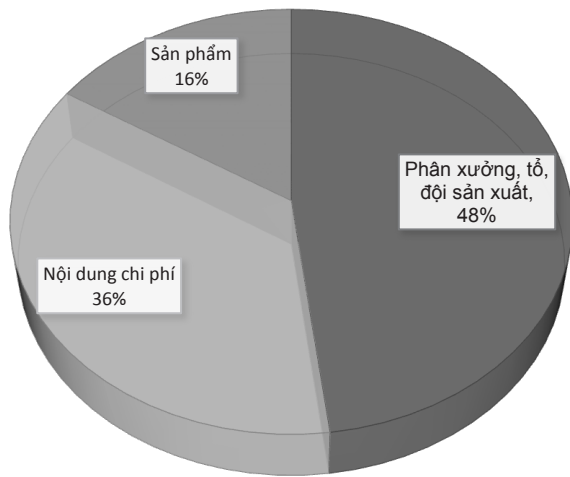


Figure 3.1. Tracking of direct labor costs by objects at steel manufacturing enterprises in the central provinces

Source: Duong Thi My Hoang [7]

The analysis results show that steel manufacturing enterprises in the central provinces all carry out tracking and accounting of direct labor costs through detailed accounts of Account 622 – Direct labor costs. All enterprises open detailed accounts at various levels for this account depending on the management requirements of enterprises, namely:

- There are 48% of enterprises opening details of account 622 by each workshop, group, production team, all workshop-related labor costs, and team to be merged directly into that workshop, group, or team such as Dana Steel Manufacturing JSC - Italy (Account 6221 – DLC of Refinery Workshop, Account 6222 – Oxy Workshop, Account 6223 – Electromechanical Workshop, Account 6224 – Rolling Workshop), etc.

- There are 36% of enterprises opening this account by each cost content. Each cost content related to DLC is tracked on a detailed account such as Viet My Steel Production JSC, Dana Steel Manufacturing JSC – Australia, etc. which open account 622 to level-3 account as follows: (Account 6221 is detailed as Account 62211 basic salary, Account 62212 - night shift allowance, Account 62213 – Bonus). Some other enterprises open details of account 622 to level 4. At the end of the month, these enterprises will allocate for each product type according to the appropriate criteria, and the allocation criteria commonly used by enterprises is the total volume of finished products manufactured in a period:

- There are 16% of enterprises opening this account details by product for the purpose of gathering direct

labor costs for each product type such as Dana Steel Manufacturing JSC - Australia (Account 6221 - DLC of main product, Account 6222 - DLC of by-product). These enterprises then assign a code to track cost related to level 2 accounts more detailed.

In addition, production cost aggregation also gets the great interest of enterprises with 53% of enterprises collecting costs by workshops, groups, and production teams (1) and 47% of enterprises doing by product categories and product groups (2). Correspondingly, enterprises that aggregate production costs by objects (1) will collect production costs directly for objects (1), while those aggregating production costs by objects (2) will collect production costs directly for objects (2). Indirect costs related to a variety of different workshops, teams, and products will be collected separately and then distributed to each object.

Content about the production costs of enterprises is mainly presented in 2 reports including income statements and notes to financial statements. The production cost information has been analyzed with the main focus on contents such as capital structure, short-term debt structure, solvency, profit ratio, capital turnover, etc.

3.2.1.2. Experience in production cost accounting of Minh Trung Co., Ltd

The company has done a good job of gathering costs and calculating product prices as a basis to have a correct perspective about the current situation of the production process, and provide accurate and timely information for the leadership apparatus to make optimal decisions and measures in order to save production costs, improve product quality, increase profits and also make enterprises be more proactive and creative in their production and business activities. The production costs in the company are reasonably structured with the largest proportion of raw materials because this is a food production company.

In the last 3 years, thanks to a reasonable cost structure, the company's production and business activities are stable, reflected by a slight increase in the proportion of direct material cost and direct labor costs, which means that the production scale of the company's production is increasingly expanding, leading to an increasing demand for materials and labor for the production.

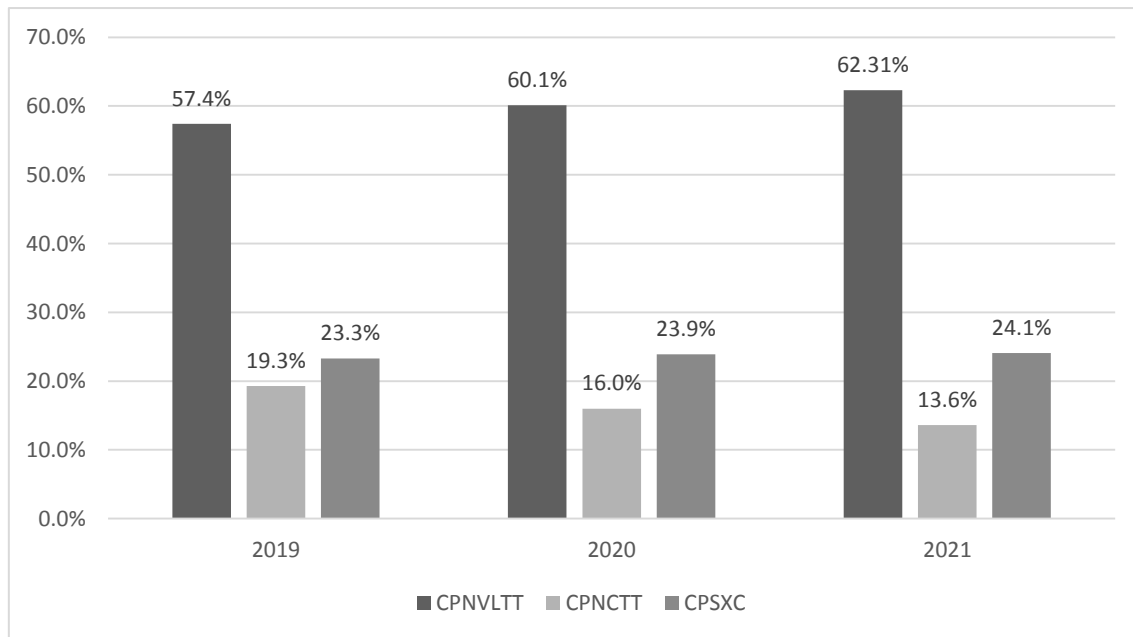


Figure 3.1. Production cost structure of Minh Trung Co., Ltd

Source: Nguyen Thi Dung [8]

In addition, the production cost accounting for items is implemented by the company on a clear and scientific basis, namely:

- The direct material cost includes all costs of materials used for direct production in the period. The company conducts accounting for inventory using periodic inventory count with Account 621 “Direct material costs” to track and reflect. The release of materials is based on the demand for the volume of products manufactured in a month as planned and according to the bill of materials for a product unit as prescribed by the technical department with approval of the director. Based on the material release request, the warehouses will make an inventory delivery voucher for warehouse keepers to conduct goods issue and note them on the warehouse card. At the end of the month, the accountant will use software to calculate the unit price of each material according to the average cost method.

- Direct labor cost accounting

Direct labor costs include the main salary and allowances (position allowances, responsibility allowances, and other allowances) of employees directly involved in the production activities at workshops without deductions from the salary of direct production employees. Because the price calculation at the company is divided into 2 steps, corresponding to 2 processing stages, the calculation of salaries for

employees in the packing team is also separate from those of office staff, warehouse and production teams. After allocation of both general salary and separate salary of packing employees, the accountant will get the product payroll of the whole factory.

- General operation costs include all costs related to service, and production management within the production workshops and divisions in the Company. Because salary of workshop managers and the technical department staff are not included in the general operation cost, but in the direct labor cost, the general operation cost includes tool cost, depreciation of fixed assets, outside purchasing services cost (electricity for production, processing and repair costs, etc.) and other costs for production. As a food manufacturing enterprise, the company’s tool cost (CCDC) for the production plant is very high, including costs of empty cans, packages, etc., which are collected together with the depreciation of fixed assets, while tool cost to make semi-finished products become finished products including carton boxes, pp bags, lids, spoons, adhesive tapes, etc. are included in the second-stage processing cost of the product price. Both types of cost are included in the general operation cost, as a result, it has the second largest proportion in the total production cost of the enterprise. For collection and closing entry

of general operation cost, accountants use account 627 “General operation cost”. Account 627 is opened in detail according to cost content.

3.2.1.3. Experience in production cost accounting of Ngoc Ha Shoes Joint Stock Company

In order to facilitate management and accounting, the company pays great attention to classifying production costs towards high efficiency in controlling the use of production and business costs.

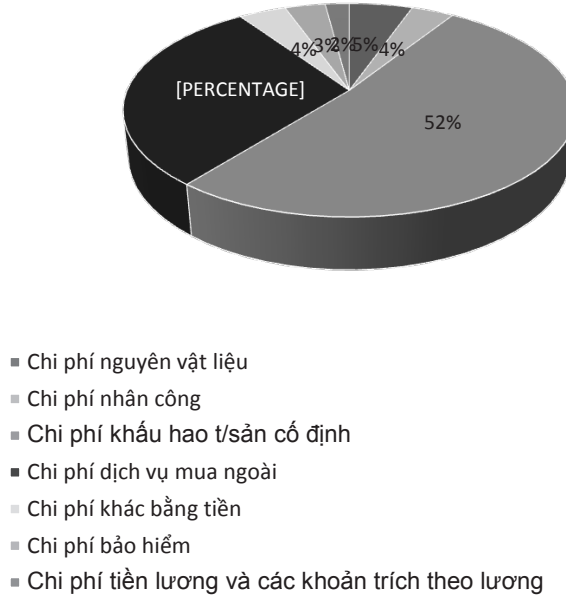


Figure 3.2. Proportion of production costs by factor of Ngoc Ha Shoes Joint Stock Company

Source: Dinh Thi Thu Hien [9]

In fact, there are only 3 cost factors including cost of living labor, cost of labor objects, and cost of labor materials. However, in order to obtain more specific cost information for cost calculation and management, the mentioned-above cost factors can be detailed according to their specific content, including:

- + Material cost
- + Insurance cost
- + Cost for salary and deductions of salary
- + Labor cost
- + Depreciation of fixed assets
- + Outside purchasing service cost
- + Other cost

The table of analysis above shows that, in the total cost of the enterprise, the depreciation of fixed assets and outside purchasing services cost account for a large proportion (52% and 30%), and other costs account for a small proportion of the total production cost. The above cost proportion also corresponds to the business characteristics of a shoe manufacturing company with a large volume of machinery and equipment, many

production lines, and automatic operation, which demands a low cost of materials and labor. The analysis results also show that the detailed cost tracking helps the Company to monitor and control the proportion of each cost in the total production cost in order to have a good assessment about the change of each cost factor.

Moreover, detailed cost tracking also significantly supports the calculation of product prices. The company has collected costs for each production team in the month and calculated costs for each type of product for easier production cost accounting and product price calculation. The Company can compare the price of each product type between periods as well as the Company’s operations and production efficiency using the calculation method above. The good job of production cost accounting and product price calculation will help the company take cost-saving measures and have more practical cost management methods.

3.2.2. Lessons learned on production cost accounting for manufacturing enterprises in Tuyen Quang province

In fact, all enterprises apply regulations on financial accounting, but each enterprise has its own adjustments based on its production and business characteristics. Learning production cost accounting experience in some typical enterprises provides us with some experience and orientation on the application of production cost accounting for manufacturing enterprises in Tuyen Quang province as follows:

+ Regarding tracking and cost accounting:

- The classification of costs by production cost factors has many advantages for enterprises to separate each cost factor for easier analysis, tracking, and effective assessment of management without missing any cost in the production and business process. Enterprises can also conduct the classification of costs by purpose and use of production costs so that accountants can set up accounts and calculate product prices easier, thereby making management decisions for cost-saving and product price reduction. However, for a comprehensive assessment of cost items, it is recommended that enterprises should combine both types of cost classification in management accounting in order to help managers make more accurate decisions.

- Regarding objects for cost collection and price calculation: Depending on the characteristics of each cost type, the manufacturing enterprises in Tuyen Quang province should determine the different objects. The selection of objects for cost collection and price calculation facilitates the use of accounting software in closing entry, allocation, and product cost calculation by a step-by-step method.

+ Regarding accounting of cost items

- Regarding the accounting account system: The accounting account system in use needs to be detailed to each management level for items in need of detailed management towards compactness, economy and efficiency.

- Regarding general operation costs: Currently, the general operation costs at manufacturing enterprises in Tuyen Quang province are being collected and allocated using the criterion of production output, which can cause inaccuracy in product price calculation, because it is a fact that high production output is proportional to higher general operation cost. Enterprises should use other allocation criteria or classify costs into fixed and variable costs for higher accuracy.

+ Regarding the accounting book system: In order to provide appropriate and useful information, the existing accounting books should be designed compactly with full of necessary and appropriate indicators as instructed by enterprise accounting regime.

+ Regarding the accounting reporting system: In order to have a basis for effective cost information analysis, product cost calculation, and business performance report for each product by each order, manufacturing enterprises in Tuyen Quang province should make price reports according to work items and production process in order to capture and determine the cause of fluctuations, and take timely management measures.

In addition, enterprises in Tuyen Quang province need to adjust their accounting systems to be compact and suitable to the characteristics of each enterprise, and at the same time, provide accurate and necessary information for users. Production cost accounting is to collect, process, analyze and provide information on the production costs of enterprises in a general way so that users of enterprises' information can track and check information easily. Enterprises use appropriate accounts, books, and accounting reports to transparently and publicly provide information for internal management so this information is regularly kept confidential so that enterprises and administrators make the right business decisions.

4. CONCLUSION

Production cost accounting is one of the core functions of financial accounting and has a close relation to the performance of production and business activities of enterprises, etc. On the basis of production cost accounting practice in some domestic manufacturing enterprises, for effective production cost accounting, manufacturing enterprises in Tuyen Quang province should apply production cost accounting appropriately according to the situation and field of production and business. In addition, accountants need to accurately track data and collect necessary information for managers to capture the operation situation of enterprises.

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