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Cost Management Accounting in Korean Direct Investment Enterprises in Vietnam

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Abstract

Cost management accounting provides information for the process of controlling production costs compared to standard costs, cost estimates... to point out differences and evaluate the implementation of cost plans. Through studying the current status of applying cost management accounting in Korean enterprises directly investing in Vietnam, specifically a typical enterprise is Samsung Electronics Vietnam. The group of authors proposes appropriate solutions related to cost management accounting, helping foreign direct investment enterprises to perform management work more effectively.

Keywords: Cost management accounting, Foreign direct investment

1. Introduction

Today, the concept of management accounting is no longer strange to business managers around the world. Accordingly, management accounting is understood as the collection, processing, analysis and provision of economic information to serve managers in planning, operating, organizing and implementing plans and managing economic and financial activities within the enterprise. At present, the term management accounting has only been officially recognized in the Accounting Law issued on June 17, 2003, then with the issuance of Circular 53/2006/TT-BTC on June 12, 2006, it initially mentioned, guided and applied management accounting in enterprises. However, due to the sketchy regulations, the application and organization of management accounting in practice still faces many difficulties.

Cost management accounting is a basic content of management accounting in enterprises, it plays a very important role in providing cost information to managers such as:

Cost management accounting provides information for cost planning, cost estimates and from there analyzes costs for each type of product, each order.

Cost management accounting provides information for the process of organizing and operating activities. Management accounting organizes recording, processing input information and systematizing detailed data to provide information for different situations with different methods so that managers can review and make the most correct decisions.

Cost management accounting provides information for the process of controlling production costs compared to standard costs, cost estimates, etc. to identify differences and evaluate the implementation of cost plans.

Cost management accounting provides information for decision making, business managers make decisions to choose this option or that option, this price or that price, etc. all based on the collected information.

Management accounting in general and cost management accounting in particular are of particular importance in establishing an information system and providing and communicating information in the most detailed, meticulous and timely manner to serve the management and operation within the unit as well as within the group. However, the theory of cost management accounting is not yet widely available in Vietnam, leading to difficulties for businesses in implementation.

From the above reality, from the perspective of foreign enterprises investing directly in Vietnam, how do they perform cost management accounting? Do they perform management accounting or not? These are the questions that I want to find out through a typical enterprise from Korea that is investing directly in Vietnam.

2. Current Status of Cost Management Accounting of Korean Enterprises Investing Directly in Vietnam

According to statistics, FDI enterprises currently contribute about 23.5% of the total investment of the whole society (nearly 20% of GDP), accounting for over 70% of export turnover...Foreign direct investment (FDI) in Vietnam has increased sharply since Vietnam joined the World Trade Organization (WTO) in 2007. Especially after Vietnam signed and participated in a series of free trade agreements (FTAs), becoming an economy with great openness (reaching more than 200% of GDP in 2022). After more than 30 years of opening, integration and reform of the business environment, Vietnam has become an attractive destination for foreign investors. FDI into Vietnam has increased sharply, the amount of registered capital and the amount of realized capital have improved compared to the same period last year.

To effectively manage FDI capital, almost all large companies worldwide have utilized activity-based cost management, and Samsung Electronics Vietnam has also adopted this model since its establishment in 2014. The cost center has 3 main purposes: the center records costs when economic activities arise, records the results of product production at which stage, and is the place to allocate human resources (managed by the human resources department). The cost center has 211 large and small departments divided into 4 levels. The cost center is the company (Company), the cost center is a large group of centers (Team), the cost center is a small group of centers (Group) and the cost center (part) and all call the center a cost center (Cost center). Cost centers contain complete information such as: Financial accounting department, purchasing, sales, production planning, transportation, etc. The head of each center, how many employees each center has, is the center a production center or a sales center, is the center a mobile phone production center or a vacuum cleaner production center, is the cost center a place to record production or non-production costs, sales costs or business management costs, costs are divided into smaller parts such as direct production costs or indirect production costs.

Specifically, costs are accounted for as follows:

+ *For direct costs*: Samsung produces according to a plan, a detailed production plan for each product sold to which market, color, weight, product type. Each type of product is arranged for production in a separate line, called individual cost centers (cost center). When costs directly related to products arise, cost centers have the function of recording information and allocating to each product, the allocation criteria are based on the number of products completed on the line, the costs include: direct material costs (calculated based on the total amount of raw materials supplied directly to the line, including the cost of main raw materials and a part of the error cost), direct labor costs (each line will have 1 sensor installed at the end of the line, recording the time to complete the product and the number of completed products), general production costs.

+ *For Activity-Based Costs: Costs are allocated to products through two steps, as outlined in Table 1.*

Table 1. Process for Allocating Activity-Based Costs

Steps	**System**	**Sender**	**Receiver**	**Allocation Basis (Cost Driver)**
Step 1	Cost center allocation (CCA cycle)	Indirect production cost	Direct cost centers	Costs incurred at direct cost centers
Bước 2	Profit allocation (PA cycle)	All direct cost centers	Product allocation	Standard time (ST), production output, production value

Details:

Direct Material Cost Accounting

Regarding accounting documents:

- *For Domestic Invoices:*

When purchasing materials from domestic suppliers, accounting uses red invoices, lists, purchase orders from the buyer, and purchase approval lists from department heads. The invoices must contain complete information, including the invoice date, the name of the purchasing entity, address, tax code, and the currency used, which is Vietnamese dong (VND) (except for export invoices and some companies allowed to use foreign currency for payment), the seller's seal, and the full signature and name of both the seller and the buyer.

- *For foreign invoices:*

When purchasing materials from foreign suppliers, accounting uses the customs declaration, invoice, and purchase order (PO). These documents must include full information, such as the buyer's and seller's names, the country of origin, delivery terms, the place of delivery, net weight, the date of the declaration, material type, size, moisture content, and, most importantly, the currency used, the quantity, and the value of the goods. A purchase order may be used for multiple transactions, with each transaction represented by a separate invoice. Therefore, the value of the purchase order (PO) is always greater than or equal to the value stated on the invoice and customs declaration.

- *Warehouse receipts, issue slips, and other invoice documents:*

When the goods arrive at the warehouse, the warehouse accountant inspects them, and if they meet the required specifications and quality, the accountant issues a warehouse receipt. When there is a directive to withdraw goods for production, the warehouse accountant issues a goods issuing cum internal transport document. The content of warehouse receipts and goods issuing document includes detailed information about the type of material, quantity, date of receipt, warehouse location, and must be approved by the department head.

Regarding accounting accounts: The company uses the following accounts to aggregate costs:

Account 621: Direct material costs

Account 154: Work-in-progress (WIP) at the end of the period

These accounts are detailed by production stage, workshop, and specific product, as follows:

Account 621: Direct material costs

Account 62110100: Direct material input costs (At the company)

Account 62110103: Direct material cost variance

Account 62118100: Direct material costs for semi-finished products

Materials are recorded according to the product code. As mentioned above, each finished product has a detailed Bill of Materials (BOM), outlining each type of material, semi-finished product, and work-in-progress. Therefore, accounts are detailed by production stage, workshop, and specific product.

For direct materials, cost standards are established from the sales planning stage. Therefore, when purchasing, the cost is recorded for each material code, and at the end of the period, the costs are directly allocated to the product that incorporates those materials. This means the cost is allocated directly to the product without requiring any additional allocation method. For example, to produce the Galaxy S7, according to the specifications provided by the Research and Development (R&D) department, the Bill of Materials (BOM) is as follows: GT-I9700RWDXEO Galaxy.

Table 2. Material Specifications for Galaxy S7 Production

Code	Material Name	Production Department	Account Used
6001-001530	SCREW-MACHINE;PH,+,M1.4,L2.5,ZPC	Main	62110100
GH02-00901B	TAPE ETC-RF HOLE;GT-I9300,PC	Main	62110100
GH59-12159B	MODULE-GT_I9300 SPK+INT+EARJACK WHT	LCD	62110100
GH63-01201A	PROTECTOR VINYL-OCTA PACKING_EU;GT-I9300	INJ	62110100
GH64-00489B	KEY-POWER_V2;GT-I9300,PC,1.84X10.14,Whit	Main	62110100
GH68-37033T	LABEL(R)-GT-I9300 MAIN-EU-SAM;GT-I9300,B	Main	62110100
GH90-11414A	PAA OPTION-GT_I9300RWDXEO;GT-I9300,XEO	Kitting	62110100
GH90-12135A	PAA MAIN-GT_I9300(GH68-01335D_EU_WHT);GT	Kitting	62110100
GH97-13441B	MEA FRONT-OCTA LCD (OPEN/RW);GT-I9300,EU	Main	62110100
GH98-23341B	ASSY CASE-REAR; GT-I9300,EU,WHIT	Sub	62110100
GH63-01204A	PROTECTOR VINYL-BATT COVEREU; GT-I9300,H	Injection	62110100
GH98-23340B	ASSY COVER-BATT;GT-I9300,EU,WHIT	Sub	62110100
GH94-06500A	ASSY SMD-GT_I9300/M16;GT-I9300,EU,XEF,GH	SMD	62110100
GH96-05593A	ASSY CAMERA-8M 1/3.2 LSI(GT_I9300); GT-I9	CAM	62110100

Source: compiled by the author

Based on the company's material standards and sales plan, the purchasing department calculates the quantity of materials required for production. The quantity of materials delivered to the warehouse is detailed according to each customer, color, type, production stage, and workshop.

When purchasing materials directly for production:

After receiving confirmation from the customer about the quantity of goods to be purchased in the future, the production planning department allocates production based on the company's production capacity.

Classifying costs is the first and most important task that the cost management accounting system must perform. To be able to forecast, control, and evaluate cost efficiency, a prerequisite is a deep understanding of the company's costs. Therefore, in addition to classifying costs by purpose and function, as is done in financial accounting, the company must classify costs based on the following criteria.

Cost classification based on the relationship with activity level:

The activity level of a company that produces mobile phones and electronic devices is reflected in the volume of electronic devices produced. However, the variability or fixed nature of costs does not solely depend on the production volume of products within the company but also on various other factors. According to this classification, company costs are divided into variable costs, fixed costs, and mixed costs.

Table 3. Classification of costs of phone manufacturing enterprises according to the relationship with the level of activity

Factor	Changed	Fixed	Mixed	Note
I. MANUFACTURING DEPARTMENT				
1. Materials (IC, capacitor, plastic, circuit board, chip...)	x			
2. Salaries of production workers in the workshops	x			
3. Deductions from the salaries of workers in the workshops		x		
4. Indirect labor costs (salaries & salary-related deductions of the production workshop management department)		x		
5. Tool and equipment costs for production workshops (tape, product trays, packaging materials, etc.)	x	x		
6. Depreciation costs of fixed assets (machinery, production equipment, and factory buildings)		x		
7. Electricity and water costs in the production workshop			x	
8. Maintenance costs of machinery and equipment			x	
9. Other costs (telephone, etc.) (if any)			x	
II. PRODUCTION SUPPORT DEPARTMENT				
1. Labor costs (salaries & salary-related deductions of the administrative management department)		x		
2. Material and office supply costs (stationery, furniture, etc.)		x		
3. Depreciation costs of fixed assets (office buildings and management equipment, company cars)		x		
4. Electricity and water costs in the management office		x		
5. Telephone costs			x	
6. Meeting and hospitality expenses		x		
7. Other costs (travel expenses, etc.)		x		

Source: Author's compilation

Based on this classification, business managers will be able to determine which costs can be changed and which cannot during the production and business process, and thus make appropriate decisions.

Mixed costs are costs that include both variable and fixed components. At a basic level of activity, mixed costs usually appear as fixed costs. When exceeding the basic level, mixed costs include both fixed and variable components. In cases of mixed costs, it is important to determine whether the cost has exceeded the basic level of activity. If it exceeds, the mixed cost will be in the form of:

$$Y = a + bx$$

where:

Y: Mixed cost

a: Fixed cost

b: Variable cost per level of activity

x: Level of activity

At this point, the company's management accounting can use one of the following methods:

"maximum-minimum, scatter diagram method, least squares method to separate mixed costs into variable and fixed costs". The company should currently apply the maximum-minimum method to separate mixed costs into variable and fixed costs due to its ease of implementation with the diverse types of costs present today. However, the maximum-minimum method only focuses on two levels of costs: the maximum cost level and the minimum cost level, while neglecting all other cost levels in the analysis of mixed costs within the unit. Therefore, the authors propose several appropriate solutions aimed at improving the cost management accounting system in Korean enterprises.

3. Solutions to Improve Cost Management Accounting in a Typical Korean Company Investing in Vietnam

Currently, the company has prepared cost budgets for the next year, the next six months, and the current month. However, the challenge with budgeting is the coordination among many departments. For instance, revenue requires good coordination from the sales department. With revenue data, it's possible to estimate royalty expenses (royalties calculated based on direct sales revenue). Expenses require good coordination across all departments, such as logistics costs, insurance costs, mold costs, office supplies, and especially raw material costs, which account for up to 85% of the company's gross revenue. Forecasting variable costs also depends on actual expenses from previous periods, so management accounting needs to carefully consider their decisions.

Companies need to distinguish between variable and fixed costs based on the production volume and sales plan for the period, to calculate the company's final inventory levels. Budget data from lower levels are presented to senior management for review and decision-making to prevent cases of overly low or high budgets that could lead to ineffective operations and waste.

The company's leadership, based on the detailed budget data from lower levels, will create well-founded and highly consistent budgets. By applying this budgeting process, the company will benefit in several ways:

(i) All management levels, from low to high, contribute to the budgeting process.

(ii) Budgets prepared at the lower level are more reliable and accurate, as they involve participation in the budgeting process and self-imposed targets, leading to more proactive, "comfortable" and achievable planning at the operational level.

Based on the consumption budget for the coming year, accounting should prepare specific budgets for raw materials and operating expenses for the company as follows:

(i) Raw Material Cost Budget: Accounting should base estimates on "current purchase prices and market price fluctuations over the year to predict future trends in raw material prices." The quantity of raw materials should be provided by the Research and Development department based on the consumption rate per product produced.

(ii) Direct Labor Cost Budget: Accounting should base estimates on the expected sales volume for the coming year and plan for recruitment and salary-related deductions.

Additionally, use the consumer price index to determine future salary levels.

***(iii) General Production Cost Budget*:** The company should establish a self-budgeting process by department. Each department will prepare its own cost budget based on the future sales plan. When executing, use the usage norms to make reasonable management decisions.

(iv) Sales and Administrative Expense Budget:

- *Sales Expenses: T*hese are costs related to the consumption of products, services, and goods, aimed at accelerating the process of getting products and goods to consumers.
- *Administrative Expenses:* These are costs related to administrative and office operations within the company.

After identifying the budget tables, compare actual results with the budgeted (forecast) figures for business factors to analyze and evaluate how price and quantity factors have caused variations in business costs.

Factors causing cost variations may include subjective and objective factors, which could be related to the company's business process or external factors. However, if management identifies the specific causes, they can take timely corrective measures to minimize business risks and enhance positive aspects to benefit the company in its operations.

Competing interests

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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No additional data are available.

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