

## **Design of Costing System In Service Operations**

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### **Extensive Summary**

Service industry can be defined as the industry where any useful work and activity apart from tangible goods, is produced. Looking at the definitions given in literature, we see some basic properties about the service industry. These are abstractness, heterogeneity, intolerance and inseparableness of production and consumption. With the growing importance of the service industry and the growing share of the industry in economies of the countries, service industry has gained significance in economy and has become an important tool for the assessment of development level. Proper costing has also gained importance for service companies. Both service companies and production companies would like to know about their costs as the natural result of offering any good or service to customers. A complete and proper costing process begins with pre-production activities of a product or service and is finalized with its delivery to the final consumer. This process forms the value chain analysis. Changes happening in this value chain analysis process will certainly influence the costs of the product in a positive or negative way. Company management will tend to minimize the costs by applying necessary control over the activity in this process. Processes and cost contents of service companies and production companies are different. Service industry is an intense labor-oriented industry, which suggests that services are heterogeneous. In other words, heterogeneity of services shows that; the influence of the human factor on the formation of most services is greater compared to the production industry. The significance of the human factor in service industry further suggests that; labor costs has an important share in among the cost items. Besides; unlike the production industry, the services produced

in service industry cannot be stored in warehouses. The nature of the service industry is different from production industry and this leads to difficulties in costing. This research is carried out theoretically by overviewing literature in order to discuss the cost system design of service companies.

In this parallel, answers are sought to the following questions:

1. What are the differences between production companies and service companies (structural, value chain, cost items etc.)?
2. What are the activities forming the value chain of service companies?
3. What are the cost-related properties of service companies (fixed costs, variable costs, labor costs etc.)?
4. What are the stages of the foundation of the cost system in service companies?
5. How are the process, order and hybrid costing methodology selected in service companies?

The purpose of this research is to reveal out under which conditions the order and process costing methods given in production industry cost accounting literature are applied, for which service companies they can be applied and how? Although service industry makes a significant contribution to economy, the number of academic researches about the costs of service industries is rather limited in literature. This research aims to review literature studies to make a classification according to the cost structure of service companies. The first part of the research tries to explain the cost structure of service companies and discusses the differences between the nature of service companies and production industry. The second part of the research focuses on the value chain analysis which covers all necessary activities including the design and production stages, delivery to final consumers, usage and disposal. The value chain analysis in service companies defines the value processes of these service companies. Properly defined value processes are a good start point for designing and analyzing a reliable and valid costs system in service companies. This research intends to design the pre-, in- and post- processes in service companies through the value chain analysis. The third part of the research focuses on the cost properties of service companies. Costs of service companies have the same basic elements as production companies: labor, material and general service costs. Literature studies emphasize the need for a more comprehensive classification of cost items for service companies and different classifications are made, accordingly. In service costing context, costs are classified within the scope of labor, material, technology, capacity and other service costs.

The following part of the research discusses the service production environment and cost system installation processes. Although the cost systems of production companies and service companies are similar, there are differences in processes. The fifth part of the research is about the selection of a cost system that suits the type of service. Classification, which is made based on the intensity of labor and the level communication with customers, is used when determining the appropriate costs system in service companies. Unlike the production industry, the service industry is classified as the main and sub industries. Main service industries are; health services, financial services, telecommunication services, education services, tourism services etc. The health industry among these main industries is divided into sub-industries like state-private; tourism industry is divided into sub-industries like hotels, restaurants and travel

agencies; financial services are divided into sub-industries like banking and insurance. The final part of the research explains the costs methods for service companies in three classifications as process, order and hybrid costing. This research emphasizes the necessity to determine the sub-group the service company belongs to and to select the cost method of the service company in the following stage. It is rather difficult to make an exact calculation of the service quality and costs. Considering the costs, it can be said that; it is significant to make a proper value chain analysis and to select the cost method based on the type of service for determining the service costs in a sound manner. This research aims to classify the cost structure of service companies. In order to achieve accurate and reliable results in costing processes of service companies, it is necessary to determine to which sub-group the company belongs to. This research is a contribution to the rather limited number of studies on service costing available in literature and to guide the researchers and practitioners who are interested in costing processes in service industry.