Research Article

ANALYSIS OF CALCULATION OF COST OF PRODUCTION USING THE FULL COSTING METHOD

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ABSTRACT

The goal of the study is to investigate and demonstrate that, for Micro, Small, and Medium-Sized Businesses, applying the complete costing method for calculating manufacturing costs results in a more accurate computation. This study is crucial for entrepreneurs since it helps them determine the precise cost of manufacturing things and determines how much profit they should make. This study employs qualitative descriptive methods. The results of this study's comprehensive costing technique calculation of manufacturing costs for commodities are more accurate for use in micro, small, and medium-sized enterprises.

Keywords: Cost of Goods, Full Costing Method, Manufacture, MSMEs

Introduction

Due to the pandemic's consequences, business competition has become even more fierce. In order to survive, entrepreneurs need to develop a plan and become more effective. Online sales are one tactic that can boost revenue. It is sufficient for sellers to sell online through the marketplaces that are available to them in order to sustain their business. Undoubtedly, a business has objectives that need to be met in the best possible way in order for it to function properly. The achievement of a company's goals of generating profit and decreasing expenses is one way to gauge its success.

In the meanwhile, mistakes in pricing are just one of the many issues that micro, small, and medium-sized business owners encounter. This mistake might have resulted from an earlier computation of the production cost that was done incorrectly. Issues such as these will lead to deadly errors and entrepreneurial failure (Miftah, Fazli, 2016). Therefore, in order to increase sales, as a vendor, you need be able to set a price that would pique buyers' attention. It is crucial for manufacturing organizations to calculate their production costs since they have a direct impact on the cost of items sold. Production expenses have a big impact on firm revenues and how each entrepreneur makes decisions. It is intended that businesses can accurately determine the cost of production due to the significance of doing so.

MSMEs is a manufacturing business that works in the textile sector. Koko shirts, or men's Muslim clothes, are the product that is made. This company was founded in 2013. Even after nine (9) years of operation, this micro, small, and medium-sized business is still unable to grow quickly. Researchers believe that one of the reasons this firm is hard to grow is because production costs are not accurately calculated. Determining the cost of production plays a crucial role in establishing a product's selling price and significantly impacts the computation of the profit margin.
Literature Review

**Micro small and Medium Enterprises**

Grouping MSMEs is based on business capital or annual sales results, according to Government Regulation of the Republic of Indonesia Number 7 of 2021, which contains policy regulations on the aspects of convenience, protection, and empowerment of Cooperatives and Micro, Small, and Medium Enterprises in articles 35–36. The category of MSMEs that was recently formed following the implementation of the MSME Government Regulation is subject to business capital requirements. MSMEs that were in operation prior to the implementation of this government legislation are grouped based on yearly sales criteria.

Government Regulation No. 7 of 2021’s Article 35 paragraph (3) serves as the foundation for the MSME business capital requirements:

a. **Micro business**
   Possess business capital up to IDR 1,000,000,000.00 (one billion rupiah), excluding real estate and structures used as office space.

b. **Small business**
   Possess a minimum of IDR 5,000,000,000 (five billion rupiah) in business capital, not including the land and structures where the firm is located, and a maximum of IDR 1,000,000,000.00 (one billion rupiah).

c. **Medium Business**
   Possess a minimum of IDR 10,000,000,000.00 (ten billion rupiah) in business capital, not including the land and structures where the firm is located, and a maximum of IDR 5,000,000,000.00 (five billion rupiah).

**Cost of goods sold**

As to Witjaksono's (2006) assertion, the cost price represents the total worth of the asset. However, if the assets are utilized to generate money during the year, then the costs incurred to manufacture a thing or service can be identified as the cost of production.

According to this definition, the costs mentioned include those incurred throughout the production process, such as those related to labor and raw materials, as well as those that are not directly related to labor or raw materials, but are instead referred to as overhead.

**Production Cost Determination Method**

Mulyadi (2014:17) states that the process of figuring out the cost of manufacturing involves adding cost components to the total cost of production. The two techniques for figuring out production costs are full costing and variable costing.

a. **Full Costing**
   A method of calculating production costs called full costing includes the expenses of raw materials, direct labor, and both variable and fixed manufacturing overhead.

b. **Variable Costing**
   Raw materials, direct labor expenses, and variable factory overhead costs are the only production costs that are included in the calculation of production costs using the variable costing approach.

**Research Methods**

**Location and Type of Research**

The research site utilized in this study is MSMEs located in Gresik Regency, East Java. The study period ran from February to June. This study employs descriptive research techniques and is qualitative in nature.

**Data Types and Sources**

Two different types of data were employed in this study: primary and secondary data.

a. **Primary data**
   Primary data are those that are collected through interviews straight from the study object.

b. **Secondary Data**
   Data that is accessible to support study findings is known as secondary data. A report on production statistics and a report on the business's gross profit are two of the required data.

Based on their usage of information about issues linked to the research topic and their readiness to supply reliable information, informants were chosen as data sources for this study. Owners of MSME’s are the informants. Researchers need reports on production
statistics, gross corporate profit, and techniques for figuring out production costs.

**Data analysis technique**

According to Sugiyono (2007:15), qualitative data analysis typically consists of three lines of action, notably:

a. **Data reduction**

   The process of choosing, concentrating, streamlining, and handling data from field interviews and documentation is known as data reduction activities. Reducing data entails prioritizing and organizing the most crucial elements to facilitate data collection for researchers. Research data analysis steps include:
   1. Gather information for the manufacturing cost computation.
   2. Compile information about the company's gross earnings.

b. **Data Presentation**

   Presenting the outcomes of data reduction efforts in a way that makes sense by drawing conclusions from the original data source. The study's findings will talk about:
   1. A description of how MSMEs calculate their production costs and how the Full Costing approach calculates production costs.
   2. The results of a comparison study between the cost of production as determined by the company's technique and the cost of production as determined by the complete costing method are presented.

c. **Drawing Conclusions (Verification)**

   The process of coming to a conclusion involves summarizing the findings from the data analysis. In order for a conclusion to be justified, the researcher must confirm the available evidence before moving further with the conclusion-drawing process. Conclusions will be made by demonstrating which approach—conventional or comprehensive costing—is more effective.

**Analysis Results**

To determine the cost of manufacturing Micro, Small, and Medium-Sized Businesses tally the expenses of purchasing raw materials (fabric), production expenses (sewing, embroidery, ironing, and packaging), and other expenses (marketing). Costs are not categorized while determining production costs for MSMEs. In addition, marketing expenses are included in the cost of production. Seven percent of the entire cost of production and raw materials goes toward marketing expenses. Owners of businesses claim that the proportion of marketing expenses is high enough to offset unmanaged expenses.

Costs associated with production overhead are ignored by MSMEs. Therefore, expenses for phone calls, shipping, and machine maintenance will be included to marketing expenses. In addition, MSMEs fail to account for equipment depreciation, which results in an inaccurate assessment of the cost of production.

The basic cost of manufacturing short-sleeved koko shirts, as reported by MSMEs, is calculated. Production costs include IDR 56,250,000 for fabric procurement, IDR 21,240,000 for sewing, IDR 26,550,000 for embroidery, IDR 1,770,000 for ironing, and IDR 10,912,050 for packaging. With 1,770 items of clothing produced overall, the entire cost of production comes to IDR 116,912,050, or IDR 65,945 each piece of apparel.

In Micro, Small, and Medium-Sized Enterprises, the process of calculating production costs is quite straightforward and does not adhere to accounting protocols. Operational costs such as marketing should not be factored in when calculating production costs. Due to the fact that calculating the cost of manufacturing only takes into account expenses incurred during the production process.

For MSMEs, the gross business profit report is calculated as follows: the total sales of Rp. 184,800,000 for short-sleeved koko shirts, Rp. 4,616,126 for the initial inventory of finished products, IDR 116,722,050 for production expenditures, and IDR 121,338,176 for the product that is ready for sale. Since the final inventory of finished goods is IDR 5,935,019, MSMEs have made a gross profit of IDR 69,396,843.

**Discussion**

Insufficient expertise in estimating manufacturing costs will affect the revenue that is made. This issue also arises frequently or quite
frequently among MSMEs in Indonesia. Typically, MSME owners will figure out how much it will cost to accomplish their objectives. It will be challenging for the company to grow if the owner lacks experience in planning or estimating the cost of manufacturing. The selling price, production goals, and anticipated profits are all significantly impacted by the preparation function used in the cost of production calculation. The same is true of the circumstances found in MSMEs.

Just the costs of raw materials and manufacturing are computed while preparing the cost of production, which is applied to MSMEs. There is a disparity in the cost price because, when calculating raw material costs, there are a number of expenses that have not yet been included in the raw material cost group. These expenses include the cost of buying sewing thread, hard cloth, hangtags, and clothespins. Production that determines and impacts the profit margin for the company. Consequently, the profit realized differs from the estimates in the business profit report.

After looking over the cost of production calculations that MSMEs had to execute in order to create 1,770 short-sleeved koko shirts, it was discovered that the total manufacturing costs, including raw material costs, were IDR 116,722,050. Expenses associated with raw materials account for 58% of the overall cost of production, compared to 42% for production expenses. The percentage value of fixed raw material costs is larger.

The manufacturing procedure with the highest potential for faulty items is embroidery. Because if the first needle used in the embroidery process is not accurate, the sixth, seventh, and eighth needles will also be uneven, resulting in an uneven or slanted embroidery motif when the fabric is cut. Since the proprietor keeps up the caliber of his work, he does not sell the substandard manufacturing results. This results in higher production expenses.

The complete costing technique is a basic pricing strategy that accounts for all production costs without taking behavior into consideration. What is referred to as production costs are all costs associated with the production function, both direct and indirect, fixed and variable. This is because the full costing method bases the computation of the cost of production and the presentation of the profit and loss report on the cost function approach.

In reality, variable factory overhead costs are not included when computing the cost of production for MSMEs using the complete costing technique. In order for fixed factory overhead costs, direct labor costs, and raw material costs to be included in the cost of production preparation. The expenses incurred to buy the necessary materials used in the production process are included in the raw material costs. Expenses paid for the financing of sewing and embroidery services are included in direct labor costs. Conversely, fixed plant overhead costs include expenses like transportation, phone, machine depreciation, and maintenance that support the production process.

The full costing method has the advantage of calculating all costs associated with the production function, allowing for precise calculation of production costs incurred and production costs that are in line with production capacity. Additionally, costs associated with factory overhead are still included in the cost price. Business actors can benefit from the full costing method by preparing production costs that are in line with actual costs. Finding the right cost of production to generate high-quality profits is the goal of computing the cost of production using the full costing approach. In the hopes that the earnings will match the report on the company’s gross profit.

The production cost computation according to MSMEs and the production cost calculation utilizing the complete costing approach are contrasted in the following:
The aforementioned table illustrates that the cost of producing short-sleeved koko shirts using the MSME method is IDR 65,945 per piece of clothing, whereas the cost of production using the full costing method is Rp 70,654 per piece of clothing. This represents a difference in cost of production of Rp 4,709. Production expenses are reduced by using the approach that MSMEs employ for calculations as opposed to the complete costing method.

According to the data, the production cost calculated by MSMEs using their approach is less than the production cost calculated using the complete costing method. As a result, it will result in earnings that differ from those obtained from the real gross profit computation. The comparison between the gross profit report for MSMEs and the gross profit report using the full costing approach yielded the following findings:

The aforementioned table illustrates that the gross profit for short-sleeved koko shirts calculated using the approach used by MSMEs is IDR 69,396,843, whereas the gross profit calculated using the complete costing method is IDR 61,399,327, with a profit differential of IDR 7,997,516.

From the foregoing explanation, it is clear that an incorrect technique of calculation used to prepare the cost of production will have an impact on the gross profit calculation, resulting in an actual profit that differs from the report. An apparent profit is the gap between the profit shown in the gross profit computation and the profit that was really made.

The whole costing approach can be used to compute the cost of production, including some raw material expenses that were previously unaccounted for when utilizing the method used by MSMEs. This allows for a detailed understanding of all costs incurred. It is anticipated that this approach will guarantee that the gross profit report received will be in agreement with the actual profit, making the complete costing method more appropriate and profitable to utilize in estimating the cost of production in Micro, Small, and Medium Enterprises.
Conclusion

Based on the findings of a study analyzing how production costs are calculated in micro, small, and medium-sized enterprises using the full costing method, it can be said that:

1. Cost of Goods Production Calculation Using the Complete Costing Method
   a. The full costing method yields a higher cost of production than the method used by Micro, Small, and Medium-Sized Enterprises (MSMEs) when it comes to calculating the cost of production. This is the difference between the two methods of calculating the cost of production calculations. This is so because the total costs are factored in when calculating the production cost utilizing the full costing approach. However, this method, which is not used by Micro, Small, and Medium-Sized Enterprises (MSMEs), does not account for costs in their entirety and is imprecise when it comes to classifying costs into production cost components. This leads to imprecise cost assignments, whereby costs that belong in the production cost category are grouped into operational costs by MSMEs. Therefore, the techniques that Micro, Small, and Medium-Sized Businesses now use are inappropriate.
   b. In Micro, Small, and Medium-Sized Enterprises, choices on product selling prices and profit generation are impacted by inaccurate cost of production calculations. As a result, the quality of earnings does not match the gross business profit estimate.

2. The Complete Costing Approach is Better Suitable for Micro, Small, and Medium-Sized Businesses
   The full costing method is the best one to use in Micro, Small, and Medium-Sized Businesses because it accounts for all costs incurred during the production process, making the cost of production calculation more accurate and precise and yielding a gross profit report that matches actual profit.

Suggestion

The author can make the following recommendations based on the outcomes of the debate on the complete costing method and the standard method of calculating the cost of production:

a. For Companies
   1) The full costing approach is recommended for Micro, Small, and Medium-Sized Enterprises due to its ability to precisely identify costs, determine production costs, and establish competitive selling prices to maximize profitability.
   2) Micro, Small, and Medium-Sized Businesses should use an online marketplace to offer their goods in order to grow their clientele and boost revenue.
   3) To make employee tasks and responsibilities more specified, it would be preferable if the organizational structure included more specifics.
   4) It is necessary to compute equipment depreciation expenditures and charge the owner’s job activities to indirect labor costs.

b. For Further Researchers
   It is believed that it can be further enhanced by offering applications pertaining to precise and accurate computation of the cost of goods manufactured in various business domains.

References


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