

CHAPTER I

INTRODUCTION

1.1 Background

A company has the aim of maintaining the survival of the company, making growth and increasing profitability from time to time. The rapid flow of technology and information requires every company to be able to maintain the company's survival in global competition. The development of advanced technology in the field of information has had a very complex impact on a company. The company can take efforts to control factors within the company, such as reducing or controlling expenses, without reducing the quality or quantity of products that have been determined. Cost control will be more effective when costs are classified and allocated appropriately. The calculation of the cost of goods manufactured is one of the important factors as the basis for setting the selling price, as a tool to measure the efficiency of the production process implementation and as a basis for decision making for company management (Almeida and Cunha, 2017).

Inaccurate calculation of the cost of goods manufactured have an adverse impact on the company. Thus the company must be really serious in handling the cost of goods manufactured. However, many companies still use the traditional system to calculate product costs and determine the cost of goods manufactured. Traditional cost accounting is applied in stable technology and mass production with standardized or homogeneous products. Because of the company produces standard or homogeneous products, the calculation of the cost of its products is relatively easy (Gunasekaran and Sarhadi, 1998).

Riwayadi (2019) defines traditional cost accounting is used in a labor-intensive or labor-intensive operational setting. In this case, direct labor costs have a significant composition in the production cost structure, while factory overhead costs have a small composition. Based on this reason, production costs are classified into three components: direct material costs, direct labor costs, and factory overhead costs. Traditional cost accounting only assigns production costs to products, while other costs related to products, such as research and development expenses, marketing expenses, distribution expenses, and customer

service expenses are not charged to the cost of products. Traditional cost accounting is thus insufficient for strategic cost management.

A more accurate determination of product cost can be done by using the right method. An ABC system is one such way. Horngren *et al.*, (2010) stated that ABC system is a system that forms cost groups based on activities in a structured manner with an allocation basis that forms cost groups based on certain activities, which are the cost drivers for these cost groups. This system will produce a more accurate calculation of activity costs. So that the allocation of costs to products by calculating the cost allocation basis for each activity used by different products will result in a more accurate product cost calculation as well.

The activity level category used as the basis for implementing ABC varies greatly from company to company. Determination of the level of activity in the application of ABC has a significant influence on the accuracy of the cost assignment that will be used in managerial decision making. In the application of the ABC system it can be applied in manufacturing companies, service companies and small and medium enterprise and this application also shows the benefits of providing relevant cost information in determining product costs, can improve cost control and reduce costs, can allocate indirect costs accurately, and can identify activity costs well and increase operational efficiency (Gunasekaran, McNeil and Singh, 2000).

The level of activity other than the volume of final output has been recognized as a significant determinant of overhead in contemporary business, especially manufacturing companies. Company overhead costs will be increasingly affected by the diversity and complexity in the output produced and the need to ensure a high quality and level of service to customers in an increasingly competitive marketplace (Ozbayrak, Akgun and Turker, 2004). In the study of discusses Jurek *et al* (2012) the ABC model developed by analyzing and predicting energy use in the manufacturing industry. This study concludes that the predictive energy model using the ABC method can provide a competitive advantage for the manufacturing industry. Fei dan Isa (2010) stated when manufacturing technology advances, changes in the cost structure of production occur potentially leading to a move from traditional volume-based costs to ABC

systems.

A.A Catering has been recognized with the QMS ISO 9001: 2008 and Management Information System certifications under the name PT Anugerah Agung Citratama. A.A Catering has proven the best quality and service achievements in managing the catering business, in accordance with its vision to be the best catering industry in Indonesia. A.A Catering has long been trusted by the best Indonesian airlines, Garuda Indonesia Airways and Batik Air Airways to serve meals for airplane passengers. A.A catering also has a branch in Pekanbaru. A.A. Catering can produce 100 kg of rendang and 100 kg of dendeng in a month. And, the product distributed for catering orders or online (Haluan, 2018).

A.A. Catering offers a variety of processed food items. Two of them is Rendang A.A and Dendeng A.A. In carrying out its activities, the company carries out production activities to meet market demand. In its operations to serve types of products, AA catering goes through various stages in its completion, giving rise to various costs other than direct material costs and direct labor costs that support the completion of these products. This requires an accurate allocation of costs to products based on the resources consumed as a result of various activities which will ultimately result in the calculation of the cost of the product. As a result, it requires accuracy and precision to calculate and assign cost it to the product according to the amount consumed by product manufacturing activities. Calculation of production costs is very important because it relates to calculate the cost of goods manufactured and calculate the selling price of products and can affect the company's profitability. Furthermore, traditional systems have the potential to cause cost distortions. Distortion occurs in the form of assign higher cost (overcosted) for products with large volumes and assign lower cost (undercosted) for products with small volumes. Cost distortion results in errors in costing, decision making, planning, and control (Supriyono, 1999).

Currently, the calculation of the cost of goods manufactured by A.A Catering still use the traditional cost system. In the traditional cost system, all indirect costs will be collected in one cost pool ,then all the total costs are allocated on a single basis of allocation to a cost object. The allocation base used in the traditional cost system is in the form of direct labor hours, direct labor costs,

raw material costs, number of machine hours, or the number of units produced. All of these allocation bases are cost drivers that relate only to the volume or level of production used to allocate factory overhead costs. If a company charges factory overhead costs using an allocation base of a measure related to volume, the calculation of the cost of goods manufactured will be inaccurate and will affect the determination of the selling price of its product (Hansen, Mowen and Guan, 2009). If the company sets a selling price that is too high it will make consumers switch to other similar companies and if the company sets a selling price that is too low, the company will suffer losses because it does not achieve the maximum profit.

Because the allocation of factory overhead costs in ABC is based on the activities carried out in connection with the manufacture of the product, the ABC system is expected to improve the accuracy of product costing by calculating resource consumption more carefully into product costing. Based on the description above, the intense competition to maintain the company's existence in AA Catering on the system of determining the cost of goods manufactured. For above reasons, the researchers interest to examine the "Implementation of Activity-Based Costing system to determine cost of goods manufactured" (a case study at A.A Catering Padang).

1.2 Problem Statement

Based on the background of the problem, the problem can be formulated as follows:

1. How to calculate the correct cost of goods manufactured based on traditional cost system in A.A Catering ?
2. How to calculate the correct cost of goods manufactured based on the ABC system in A.A Catering ?
3. How is the comparison of the cost of goods manufactured in A.A Catering comparebetween using traditional cost system and using ABC system ?

1.3 Research Purpose

The purpose of this research are:

1. To find out how to determine the correct cost of goods manufactured based on

the traditional cost system in A.A Catering.

2. To find out how to determine the correct cost of goods manufactured based on the ABC system in A.A Catering.

3. To find out the the comparison of the cost of goods manufactured in A.A Catering compare between using traditional cost system and using Activity-Based Costing system.

1.4 Research Benefits

Through this research, it is expected to provide following:

1.4.1 Theoretical Benefits

This research is expected to be used as a reference in the development of future research, and it will be valuable to readers in determining the cost of goods manufactured using the ABC system method in manufacturing companies regarding cost allocation.

1.4.2 Practically Benefits

For A.A Catering as a source of input and source of information about the benefits of implementing the ABC system in determining the cost of goods manufactured, it is hoped that the company will be more effective and efficient in spending its production costs.

1.5 Writing System

In writing this thesis, it is made using a systematic discussion so that the reader can more easily understand the contents of the writing with a clear systematic, and present sequences that are interrelated between one chapter and another.

CHAPTER I INTRODUCTION

This chapter consists of the background, Problem statement, Research purpose, Research benefits, Writing system.

CHAPTER II LITERATURE REVIEW

This chapter describes the theoretical basis for the guidelines in the discussion of thesis writing in the form of concepts and theories related to the formulated problems.

CHAPTER III RESEARCH METHODOLOGY

This chapter describes research method, research object and subject, source of data, data collection method, and data analysis technique.

CHAPTER IV RESULT AND DISCUSSION

This chapter describes the type of research, research variables, types and sources of data, data collection methods and data analysis methods.

CHAPTER V CONCLUSION AND RECOMMENDATION

This chapter describes the conclusion and recommendation for future research based on the result analysis.



