

Determination of the Company's Cost of Production

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ABSTRACT

This study aims to test and analyze the determination of the cost of production at CV. N Furniture Makassar. Data collection uses primary data obtained from the 2018 financial report CV. N Furniture Makassar. The results of these financial statements have been processed using the Full Costing method in seeing the determination of the cost of production of cabinets and chairs. Based on the research results prove that the determination of the cost of production at CV. N Furniture still uses the traditional system. Accounting treatment of damaged products in CV. N Furniture uses a method that is not in accordance with the existing theory, namely CV. N Furniture does not take into account the cost of damaged products because according to the company, damaged products are failed products and production costs for damaged products are charged to the finished product which is good..



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1. Introduction

The cost of production is the cost of production that is absorbed into each unit of product produced by the company. In general, production costs are divided into three elements, namely raw materials, direct labor costs and other production costs (factory overhead costs). The collection of production costs is determined by the characteristics of the production process produced by the company. There are 2 methods of determining the cost of production. Related to the pattern of cost behavior, namely the full costing method and the variable costing method.

The determination of the cost of production and the system of determining the cost of production under study, needs to be done by exploring and knowing the description of the costs in the company carried out during the production process and information about the cost of production which is one of the absolute needs for the management, in addition to information other. This is quite reasonable because with the information regarding the cost of goods manufactured, it will assist in determining the cost of production to be carried out, the selling price of goods produced by the company. Understanding such conditions, it is said that the determination of the cost of production is very important for all business entities.

Determination of the cost of production in large-scale industries is more accurate than micro, small and medium enterprises (MSMEs), because generally they have professional human resources. Meanwhile, this is not the case for MSMEs. CV. N Furniture is a company that produces various furniture items such as cupboards and chairs. The company's location is on Jl. Antang Raya No.4, Antang, Manggala, Makassar City, South Sulawesi. Facts in the field show that the business run by CV. N Furniture still uses a full costing cost system in

determining the cost of production. Where the determination of the cost of production by collecting all the expenses that have been issued during the production process takes place then dividing it by the number of products produced. Even though the furniture company CV. N Furniture produces not only one type of furniture. While the full costing cost system is only used to calculate the cost of production whose products are homogeneous (Mulyadi, 2010).

Based on the above theory and facts in the field, it shows that there is a gap between theory and facts in the field, namely the full costing system should not be used to determine production prices accurately because the full costing system is not suitable for use for more than one type of product. Meanwhile, the disadvantages of this method are that it is difficult to separate costs into variable and fixed costs because a cost can rarely be adjusted, this method is considered incompatible with accounting principles because fluctuations in profit are associated with changes in sales, and because factory overhead costs in inventory and the cost of inventory cannot be taken into account, resulting in a lower inventory value. This will reduce the reported working capital for financial analysis purposes. Therefore, it raises the question of how much accurate cost of goods manufactured for the products produced by CV. N Furniture.

The motivation of the author to do this research is because there is no research on determining the cost of goods manufactured in CV. N Furniture to find out more about the application of determining the cost of production using the Full Costing Method. This research is a replication of other studies with different objects, so that it can be seen that the Full Costing Method application is very accurate or not in determining the cost of production. In the cost system based on Full Costing, calculations are obtained from direct materials, direct labor, and overhead costs, both fixed and variable. There are still many overhead costs that have not been charged in calculating the company's cost of production, including indirect labor costs, factory building depreciation costs, machinery depreciation, and factory building insurance. The company also allocates auxiliary costs to the cost of raw materials, whereas in cost accounting theory, auxiliary materials should be included in factory overhead.

From the results of this study is expected to provide the concept of the Full Costing Method to the furniture company CV. N Furniture in determining the cost of production that is accurate and efficient.

2. Literature Review

Definition of Accounting

Accounting can be defined as an information system that provides reports to parties who have an interest (stakeholders) on the results of the performance and financial condition of the company. Accounting is also often considered as the language of business, where business information is communicated to stakeholders through accounting reports. (Herry 2016). Accounting is a process that consists of identifying, measuring, and reporting economic information. Economic information generated by accounting is expected to be useful in making decisions regarding

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(Daljono, 2009) defines cost is a sacrifice of economic resources measured in units of money, to obtain goods or services that are expected to provide current or future benefits or benefits. (Hansen & Mowen, 2012) defines cost as cash or cash equivalent value sacrificed to obtain goods or services that are expected to provide current or future benefits for the organization.

The concept of cost is the value of cash or cash equivalents issued (charged) to obtain goods or services, which are expected to provide benefits to the organization now and in the future (Hery, 2016).

Factory Overhead Costs

(Carter & Usry, 2006) translated by Krista argues that: "Factory overhead is also called manufacturing overhead, manufacturing expense, or factory expense, consisting of all manufacturing costs that are not traced directly to certain outputs. Factory overhead includes all manufacturing costs except direct materials and direct labor.

Factory overhead costs are a collection of various types of costs incurred in addition to direct materials and direct labor costs. In general, factory overhead costs can be divided into three parts, namely: 1) Indirect materials; 2) Indirect labor costs (Indirect Labor), 3) Indirect factory costs (Other Material Factory Cost) ((Mulyadi, 2010).

Cost of Production

According to (Hansen & Mowen, 2012), "the cost of goods manufactured reflects the total manufacturing costs of direct materials, direct labor, overhead during the current period". The cost of production is the sum of the cost of raw materials, direct labor costs and factory overhead costs to make a product. Products that have been produced will proceed to the next process according to company procedures. According to (Bustami & Nurlela, 2010), the cost of production is a collection of production costs consisting of direct raw materials, direct labor, and factory overhead costs plus inventories of products in the initial process and less inventories of products in the final process.

3. Research Method and Materials

This research was conducted on Jl. Antang Raya No.4, Antang, Manggala, Makassar City, South Sulawesi. Data processing is carried out qualitatively and quantitatively. Qualitative data is carried out to describe the general condition of the company and describe starting from the procurement of raw materials to the production stage. Quantitative processing will be carried out to analyze the Full Costing Method with the structure of raw material costs, direct labor costs, direct production costs and overhead costs. This processing is carried out to determine the cost of production at CV. N Furniture. The data is then calculated in the period of January 2019 using the excel program.

4. Results and Discussion

Production process

CV. N Furniture production process is carried out as follows: 1) Cutting wood. The wood raw material that has been selected by the consumer is then cut to the size desired by the consumer; 2) Sequencing. For this process the workers assemble the wood that has been cut according to the model or design desired by the consumer; 3) Finishing. In the finishing process there are several stages that must be carried out

Production Machinery and Equipment

There are several machines and equipment used by CV. N Furniture for producing goods. Table 1 shows the machines and production equipment used by the CV company. N Furniture to produce frames, doors, shutters, cupboards, tables and chairs. Machines and

production tools needed such as splitting machines, shaving machines, profiles, sanding machines, bending machines, drills, saws, hammers, elbows, axes, pencils.

Cost of auxiliary materials on CV. N Furniture consists of nails, sandpaper/scouring paper, nuts/bolts, polish, paint and water used by CV. N Furniture in the production process. The costs of these auxiliary materials are used in line with the number of units produced. The proper basis for loading is the number of units produced. Energy costs are costs used to pay the cost of using factory electricity within a year, both for lighting and for the production process. Costs are consumed by each unit produced because the machines used for the production process all use electricity. The basis for charging electricity costs is the number of KWH. Machine maintenance is a cost that directly requires cash outlay to repair and maintain machines and other equipment that supports the production process. Machine maintenance costs are based on the number of inspection hours. Building maintenance costs are costs that directly require cash expenditures to repair and maintain buildings that support the production process. The amount of building maintenance costs is based on the area of the factory consumed.

the average price is Rp. 950,000 for ordinary products and Rp. 1,050,000 for carving products.

Calculation of Cost of Production

Based on the results of the author's observations and interviews with the owner of the company who is also the leader of the company at CV. N Furniture, generally CV. N Furniture has not implemented a bookkeeping system regarding the calculation of the cost of production in accordance with generally accepted SAK. However, with the results of interviews with owners that the cost accounting system in CV. N Furniture relates to the method used by the company in determining the cost of production, namely using the traditional method of

calculating the cost of production in CV. N Furniture still uses the calculation of the cost of production based on the traditional system, namely by adding up all production costs including transportation costs.

The results of the calculation of the cost of production per unit with the traditional system applied in CV. N Furniture in 2018 obtained the cost of production for ordinary products is Rp. 1,593,807.00 and the calculation results for carving products are Rp. 1,928,808.00

Accounting Treatment for Damaged Products

Based on the production data in the table above, it is known that the number of damaged products each month is not large enough, with an average of 4.4% for ordinary products and 5.5% for engraved products. However, with this percentage, do not ever think that this damaged product will not have a significant effect on the amount of profit that will be obtained by the company. Because of this damaged product, there is already a production cost of the same amount as a good product or in accordance with the company's quality.

Based on the results of observations in the field, the authors conclude that the product is damaged that occurs in the cupboard at CV. N Furniture occurs because of employee negligence, such as errors in the refining and painting of the product and the lack of thoroughness in the finishing section. So with that the product is damaged in the cupboard at CV. N Furniture including normal damaged products. In theory, normal damaged products are damaged products that occur because of internal company parties such as employees (Mulyadi, 2010).

Damaged product on CV. N Furniture is not completely a damaged product, meaning that the product is damaged in CV. N Furniture still has a fairly high selling value or economic value. Based on the report data on the sales of damaged products in CV. N Furniture, it has been proven that the damaged wardrobe product still has a fairly high economic value for the company. So with this the company can recognize revenue from the sale of the damaged product in accordance with company policy. In the theory put forward by (Mursyidi, 2008), stating that damaged products that are normal and sellable, the company can recognize the income on:

- a. Other income
- b. Reduction of overhead costs
- c. Reduction of each element of production costs
- d. Reduction of the cost of finished production.

Meanwhile, normal damaged products that are not sold can be charged to the cost of finished products, so that automatically the cost of production will be higher. Company policy CV. N Furniture does not take into account damaged products that occur in physical units, because damaged products are considered as failed products and the overall production cost is charged only to good finished products.

It is known that the total cost of production in CV. N Furniture is greater than the calculation of the cost of production from the results of the author's calculations, this happens because of the influence of company policies that do not charge the cost of production costs on damaged products in the calculation of the cost of production. In fact, each damaged unit has absorbed various cost elements that occurred during the production process.

According to the theory quoted from (Mulyadi, 2010) which states that if a damaged product occurs due to the difficulty of working on a particular order or other extraordinary factors, then the cost of the damaged product is charged as an additional cost of the good product in the order concerned. If the damaged product is still sold, then the sales proceeds are treated as a deduction from the production cost of the order that resulted in the damaged product. increase the amount of production costs on good products. Furthermore, the author will provide a comparative picture of the impact taken by the company with the calculations carried out by the author based on existing theories. The author's calculations include the calculation of the physical unit of the product. Where the selling price of the author's product is based on data from the company, namely Rp. 950.00.00 for ordinary damaged products and Rp. 1.050.000.000,00 for damaged engraving products. The difference in the cost per unit that exists by including damaged or not products in the calculation of the cost of production. The difference in comparison is very large, namely for ordinary products, it is Rp. 1,736,762 compared to Rp. 1,593,807, while for carving products, it is Rp. 2,176,197 compared to Rp. 1,928,807. with a large enough difference between the costs applied in the CV. N Furniture at the cost of the author's calculations. So this difference can have an impact on determining the selling price of cabinet products on CV. N Furniture. In fact, one of the goals of a manufacturing company is to provide better quality than its competitors without having to increase the selling price of the product.

From the presentation of the Profit/Loss report above, if we pay attention to the profits obtained by the company, there is no difference, namely CV. N Furniture earns quite a large profit from both ordinary wardrobe products and carving cupboards, namely Rp.123,865,989 and Rp.132,813,111. However, from the presentation of the profit/loss statement above, there are quite clear differences, namely in the recognition of the amount of sales and the recognition of the cost of goods sold. Where this can be useful for interested stockholders. In the presentation made by the company, the income and costs incurred or obtained from

damaged products have not been separated. So indirectly, the readers of financial statements will not understand if a product is damaged in the production process. And this will also have an impact on CV's cash flow statement. N Furniture.

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