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APPLICATION OF ACTIVITY BASED COSTING TO INCREASE COMPANY PROFITABILITY

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Abstract: *This study aims to determine the application of Activity Based Costing in increasing the company's profitability. In this study using data collection methods with document data or archives carried out by examining documents related to research interests, namely. library research. The results of this study indicate that the traditional approach to the Activity Based Costing approach is able to increase the company's profitability. The difference that occurs is due to the imposition of overhead costs on each product. In the traditional method, the overhead costs for each product are only charged to one cost driver, namely the number of production units. In the Activity based costing system, overhead costs for each product are charged to several cost drivers so that the activity based costing system is able to allocate activity costs to each product appropriately based on the consumption of each activity.*

Keywords: Activity, Costing, Profitabilitas

Introduction

Every industry must make the necessary strategies in competition, be it from small industries to large industries. The purpose of continuing business operations is to achieve company goals by maximizing company profits. Activity-based costing systems use costs and activity factors to more accurately determine production costs (BPP). This method is suitable for companies with many functions. Given the importance of calculating production costs, it is necessary to use the right production costing tools to obtain accurate information and avoid errors. It is important for managers to plan, control and also determine the cost of the products to be produced. It is important for managers to plan, control and also determine the cost of products to be produced to determine the cost of goods manufactured.

Therefore, a new method for calculating production costs was born, which is called activity-based costing (ABC). 3-task based costing is a traditional system improvement method. Activity-based costing is a costing method that can provide a more accurate and meaningful distribution of factory overhead costs. In this method, all indirect costs are grouped according to their activities, then each cost pool is associated with each activity and allocated based on each activity. The allocation base used is the number of activities in each cost group. This method uses more cost factors to more accurately measure the resources used by the product.

Calculating production costs is an integral part of the cost problem because costs are a combination of raw material costs, direct labor costs, and factory overhead, all of which must be accounted for with usage. products to create cost efficient production. Production costs can be said to be efficient and effective if the output obtained with constant quantity and quality is proportional to the appropriate price. In this case, the resulting cost can be considered effective and contains no signs of wastage. Thus, management must evaluate various production cost factors to create efficiency and reduce standard costs, which naturally affects the company's profitability.

Profit is the end result of some of the guidelines and decisions of Brigham and Houston (2006). Profitability can provide a useful indicator when evaluating the efficiency of a company's operations, so that the profitability ratio shows the effect of liquidity, assets and liabilities on business performance. Profitability shows the balance of income and the company's ability to generate profits at various levels of operations so that this ratio reflects the efficiency and success of all management.

Companies that can grow their profits have the opportunity to grow. Expansion is an active activity to expand and expand a business. Firm size has an impact on increasing firm profitability and firm value (Hansen and Juniarti, 201). Agreeing with this argument, Niresh and Velnampy (201) were able to show that firm size has a significant positive effect on profitability. Larger companies are relatively stable and able to generate profits. Sunarto and Budi (201) show that there is a significant positive relationship between firm size and firm value, meaning that increasing firm size makes it easier. company to obtain financing which can then be used by management to increase the value of the company. In contrast to Wiyono (2012) which shows that firm value is negatively affected by firm size.

Target costing is a cost method based on planning the selling price of the product and the desired performance, after which planning and production processes are carried out, which achieves the goal of increasing business by reducing production costs. In contrast, activity-based costing is a method of calculating costs based on assigning costs to each production activity of each product. Based on this definition, companies can use target costing and activity-based costing methods to manage production costs.

Literature Review

Cost

In accounting terms, cost is the flow of financial or other resources calculated in monetary units that are issued to purchase or pay for supplies, services, labor, products, equipment, and other goods used for business purposes or to produce goods or services.

So, costs are sacrifices or expenses made by companies or individuals that aim to provide more benefits or benefits from the activities carried out by the company or individual.

Mulyadi (2007:10) explains that the notion of cost is the sacrifice of funds calculated in monetary units that has occurred or is likely to occur to achieve certain goals. The term burden or cost can be expressed as money or financial resources that are sacrificed to obtain goods and services that are expected to be useful now or in the future.

Hansen and Mowen (2006:0) state that cost is money or monetary equivalent value sacrificed to obtain goods or services that are expected to provide current or future benefits for the organization. The financial sacrifices of companies that produce goods or services can also be called costs, where these costs are expressed in money (Rangkuti, 2009: 56).

Krismiaji (2011:17) states that costs or expenses are money or financial resources that are sacrificed to buy goods or services that are expected to benefit the business now or in the future.

Types of Fees

• Fixed Costs: fixed costs are costs whose total amount remains constant, not affected by changes in the volume of activities or activities to a certain level.

• Variable Costs: variable costs are costs whose total amount changes in proportion to changes in the volume of activity.

Production Cost

Production costs are costs that must be incurred in a business in producing a product and service. Production costs include everything that is incurred from the beginning until the goods are ready for sale. There are 3 elements of production costs, including:

1. Raw Material Cost

Direct production costs incurred to make a product or ensure a service can be delivered properly into the hands of consumers. For example, for a makeup company, the allocation of the cost of raw materials needed is the raw material for making lipstick, powder, eyeshadow, and others. In addition, makeup packaging must also be included in the count.

2. Labor Cost

Compensation in the form of salary, given to workers involved in the production process. Not only salary, benefits and insurance (if any) also need to be included in this parameter.

3. Factory Overhead Costs

Production costs in addition to the cost of labor and raw materials, but are needed to make a product that is profitable for the company. Examples of indirect overhead costs are electricity, paper, and other things that are difficult to track in the production process. In addition, there are also indirect overhead costs such as warehouse security officers, couriers, and factory supervisors. Other overhead costs are building rent, decline or damage to machinery, and don't forget insurance.

Factory Overhead Classification:

According to Muljad (2007: 193), factory overhead can be classified in three ways:

a) Classification of Factory Overhead According to Its Nature

In a company, factory overhead is production. costs other than the cost of raw materials and labor costs. Direct labor Production costs included in factory overhead costs are grouped into the following categories:

(1) Cost of Auxiliary Materials

The costs of auxiliary materials are materials that are not part of the finished goods or materials that are part of the finished goods, but their value is relatively small compared to the cost of production.

(2) Repair and Maintenance Costs

Repair and maintenance costs in the form of spare parts (spare parts), costs of consumables (factory accessories) and service costs for non-company investment objects for repair and maintenance needs and real estate of other manufacturing assets.

(3) Indirect Labor Costs

Indirect labor costs are factory workers whose wages cannot be calculated directly for a particular product or order.

(4) Fixed Value Fee

Fixed value costs, such as depreciation costs for factory objects, factory buildings, machinery and equipment and other fixed assets.

(5) Cost Due To the Passage of Time

Expenses due to the passage of time such as construction and investment insurance, machinery and equipment insurance, vehicle insurance, accident insurance. and amortization of losses for test operations.

(6) Other Production Costs

Other production costs that require direct cash costs, for example, repair costs billed to external parties, Polish zloty electricity costs, etc.

b) Grouping Factory Overhead According to Its Behavior

In relation to changes in the amount of production, factory overhead according to its behavior in relation to changes in the quantity of production can be divided into three groups, namely:

(1) Factory Fixed Overhead

Fixed factory overhead is factory overhead that does not change a particular function in the area of change in volume.

(2) Variable Factory Overhead

Variable Factory Overhead is factory overhead that changes in proportion to changes in operating volume.

(3) Semi Variable Factory Overhead

Semi-variable factory overhead is Variable factory overhead that is not proportional to changes in operating volume.

To determine factory overhead costs and control costs, semi-variable factory overhead is divided into two parts:

(a) Fixed costs.

(b) Variable costs.

(c) Classification of factory overhead based on its relationship to the department.

In relation to the factory department, factory overhead can be classified into two parts, namely:

(1) direct departmental overhead.

(2) departmental indirect factory overhead.

(3) indirect departmental overhead.

Cost Trigger

According to Mulyadi (2003:0), the cost factor is referred to as a performance influencer. Cost Manager to Operations Manager. "Activity managers are the basis for assigning costs to a single product, customer, or other final cost object (final cost object)" (Carter, 2009:529).

Definition of production cost

Production costs are costs expressed in money for the production of goods or services. The sum of all expenses required to purchase and prepare goods for sale is called the cost of goods sold.

Cost of Production Function

The cost of production has several functions, namely:

1. Cost of goods sold to determine the selling price.
2. Cost of goods as the basis for determining profit.
3. Cost of goods as a basis for evaluating efficiency.
4. The price of goods as the basis for various administrative decisions.

Method of Determining Cost of Production

In calculating production costs, usually using the traditional method, the components of the cost of goods or services consist of direct material costs, direct labor costs, and overhead costs, both fixed and variable costs.

Traditional Methods of Cost Accounting

The traditional method is to calculate costs based on the number of units produced. According to the traditional method, the total cost is made according to the units produced, and the unit price of the product is calculated by adding up all the costs incurred and then dividing by the number of product units (Dewi, 201).

Product cost accounting with this traditional method only focuses on costs that are directly related to the production process, while non-production costs or costs that are not directly related to the production process are ignored. This causes several weaknesses in the traditional method of cost of goods manufactured, including the traditional method that emphasizes the cost of goods sold and the target cost of goods sold, so that the system only provides relatively little information to achieve global competition of enterprises. In addition, traditional methods classify direct and indirect costs as well as fixed and variable costs based on one factor, production volume, where management tends to increase production volumes to reduce unit costs.

To overcome the weakness of traditional production cost accounting methods, production costs are calculated using more accurate methods, one of which is the activity-based costing (ABC) method. ABC is an activity-stressed costing method that uses multiple costing tools to more accurately measure the resources used by the product and help management improve the quality of business decision-making. ABC does not only focus on accurate calculation of production costs but is used to control costs by providing information about cost generation activities (Wijayanti, 2011).

Activity Based Costing

An Activity Based Costing (ABC) system is a cost information system that is changing the way management does business. Compared to traditional costing systems, where overhead costs are allocated to products based on direct labor hours, activity-based costing systems (ABC systems) use multiple allocation bases.

Activity Based Costing Method

The activity-based costing method (ABC) Mulyadi (2007) is an activity-based cost information system that aims to motivate staff to reduce costs in the long term through activity management. The ABC method is used to improve the accuracy of cost accounting, but also to provide information about the costs of various activities so that management can focus on activities that offer cost-saving opportunities.

In the ABC method, products are defined as goods or services sold by the company. The products sold by the company include handicrafts, insurance, consulting services, books, clothing, etc. All these products are manufactured by company operations. This activity consumes resources. Costs that are not directly assigned to products are assigned to activities that generate costs. The cost of each activity is then assigned to that product.

ABC is recognized as a cost management system that replaces the old, traditional costing system. This is because ABC has several advantages. Supriyono (1999) mentions several advantages of ABC, namely more accurate determination of production costs, better quality of decision making, better strategic planning, and greater ability to control (continue to improve) operations. The ABC method makes it easy to identify costs that are less important than traditional systems. Transparent ABC makes it possible to identify and eliminate the sources of these costs. In addition, the ABC method supports continuous improvement through operational analysis. The ABC method allows corrective action for activities that do not add value or are less effective. This is closely related to the problem of company productivity.

With advanced cost analysis, management can make more accurate product volume analyzes needed to achieve profitability for low volume products. Although the weakness of this system is that it is not easy to allocate production costs, for example, products are charged with manufacturing security costs based on the number of hours worked (this assignment is arbitrary) assuming the longer the production process. require increased security costs.

Applying the ABC method is expected to be a more accurate method in calculating production costs and an alternative to traditional overhead costs. This concept arises because the traditional cost concept is not suitable for allocating production costs based on direct materials only, direct labor or units of production only. The ABC method stipulates that the distribution of overhead is also based on a relative percentage of costs, products, or other activities for the production of goods, taking into account the trigger elements where these costs (cost drivers) are not products.

so that if this concept is applied, the decisions taken will be more appropriate and it is hoped that the company will not suffer losses.

No	Difference	Activity based costing method.	Traditional method and cost.
1	Cost Driver	Based on activity.	Based on production volume.
2	Loading	Assigning overhead costs first to new activity costs then products.	Asigns the first overhead to the departement and the second production.
3	Focus	Process and activity management and problem solving.	Fincional departement costmanagemen.

Criteria for the application of a costing system based on activities in the company.

According to Harnton (2003:8), "The application of activity-based costing has several criteria that must be met in determining the cost of goods sold, assuming three things:
1) the company has high diversity.
2) high industry competition.
3) low measurement cost.

Benefits of Activity Based Costing

The advantages of an activity-based costing (ABC) system for enterprise management are:
1) All major indirect costs are allocated using only one or two cost pools.
2) All or most of the indirect costs are defined as single-level production costs (a fraction of the indirect costs are described as multi-tier costs, product support costs, or facility support costs).
3) Products require different resource requests due to differences in volume, batch size, or complexity of processing steps.
4) Products produced and marketed by low-profit companies, while products that do not sell as much as high-profit companies.
5) Operations personnel have sharp differences of opinion with accounting personnel regarding the costs of production and marketing of products and services (Hongren, 2002: 182).

The Value of the Company

Firm value is the value in the amount of money that buyers are willing to pay when the company is sold (Husnan, 2004).

Capital structure is a comparison between debt and equity, capital structure is an important issue in spending decisions (Yasa, 2013).

Profitability

Profitability is the ability of a company to generate profits on total assets, sales and long-term debt in the period (Chen, 2004).

Effect of Capital Structure on Profitability

Effect of Capital Structure on Profitability Conditions where economic profitability is greater than the interest rate will encourage a greater increase in own capital profitability than if there is no financial leverage, so that the use of debt in this condition will be profitable, because the use of debt generates income greater than the interest expense incurred. arising from the use of the debt and this condition will be beneficial for shareholders (Harahap, 2003).

The research of Velnampy and Niresh (2012) states that the greater the use of debt in the capital structure, the greater the return on equity in the profitability of a company, this study is in line with the research of Chisti et al. (2013).

Hasibun (2007) explains that profitability is a bank's ability to earn a profit in percentage terms. The performance obtained in banking is a benchmark for evaluating the economic results of a bank, where the bank's ability to earn a profit is determined by the amount of profit achieved. The higher the score, the more said the bank has a good score. The good development of the bank also shows the health of the bank. The soundness of a good bank can affect the owners of capital, so that the healthier the bank, the more profitable the owners of capital. Profits for shareholders can be in the form of net return on equity owned by the company, which is calculated based on return on equity (ROE).

Previous Research

Moniaga (2013) with the research name Capital structure, profitability and cost structure on the value of ceramic, porcelain and glass industry companies in 2007-2011. The purpose of this study was to determine whether the capital structure, profitability and cost structure affect the firm value of Moniaga (2013) with the research title Capital Structure, Profitability and Cost Structure on the Value of Ceramic, Porcelain and Glass Firms. Industry 2007 -2011. The purpose of this study is to determine whether capital structure, profit and cost structure affect the value of ceramic, porcelain and glass companies in the Indonesian stock market with a sample of ceramic, porcelain and glass companies operating. Indonesia Stock Exchange from 2007 to 2011 and published financial statements during the reporting period. Companies were investigated using purposive sampling method. The analytical method used is multiple linear regression analysis using the SPSS program. The results showed that capital structure, profitability and cost structure had no effect on firm value, capital structure had no effect on firm value, while profitability and cost structure had no effect on firm value. The sample consists of the ceramic, porcelain and glass industries operating on the Indonesia Stock Exchange in 2007-2011, and financial reports published during the reporting period. 6 companies were investigated using purposive sampling method. The analytical method used is multiple linear regression analysis using the SPSS program. The results showed that capital structure, profitability and cost structure had no effect on firm value, capital structure had no effect on firm value, while profitability and cost structure had no effect on firm value.

Research by Prasetia, Tommy and Saerang (201) entitled Capital Structure, Firm Size and Risk. Companies Against the Value of Automotive Companies Listed on the IDX. The purpose of this study was to determine the effect of capital structure (DER), firm size (total assets), firm risk (beta) on firm value (PBV) simultaneously or partially. The sample of this research is automotive companies listed on the Indonesia Stock Exchange between 2009 and 2012, and as many as 10 companies using purposive sampling method as much as classical assumption and hypothesis testing and multiple linear analysis are used as analytical methods. The results showed that simultaneously all independent variables in this study had a significant effect on firm value. Capital structure has no significant positive effect on firm value, firm size has a significant positive effect on firm value, firm risk has no significant positive effect on firm value.

Study of Prasetia, Tommy and Saerang (20), Capital Structure, Firm Size and Risk. Company vs. Value of Car Companies Listed on the IDX. The purpose of this study was to determine the effect of capital structure (DER), firm size (total assets), firm risk (beta) on firm value (PBV) simultaneously or partially. The sample of this research is in the period 2009-2012, there are automotive companies listed on the Indonesia Stock Exchange, as many as 10 companies using purposive sampling method. Classical assumption and hypothesis test and multiple linear analysis were used as analytical methods. The results showed that at the same time all the independent variables of the study had a significant effect on firm value. Capital structure has no significant positive effect on firm value, firm size has a significant positive effect on firm value, firm risk has no significant positive effect on firm value.

Method

According to the type of data this research is secondary data, the method of data collection is research documentation or archives, which is done by researching and examining documents related to research interests, namely. library research. method of collecting data by conducting a literature study of various scientific literatures, magazines and theoretical books related to the topics discussed. The information used in this research is data.

Result and Discussion

As the production environment changes to computer-integrated manufacturing and the resulting product varies, traditional costing systems can reflect a highly distorted production cost. Discuss solutions to this problem. Activity-based costing, pioneered and popularized by Robin Cooper and Robert S. Kaplan, can address this unusual problem. Asset-based costing

(ABC) is defined as "a set of financial and operational results that track a company's critical activities from cost to product." Discuss ABC system design and ABC implementation. The five stages of designing an ABC system are: integrating activities into activities; report operating expenses; identify activity centers; select the first stage cost factor; and select a cost factor for the second step. The implementation plan consists of seven phases: ABC workshop; design seminars; design and data collection; successful meeting; management seminars; executive meeting; and interpretation meetings.

In today's advanced manufacturing and competitive environment, accurate cost information is critical for all types of businesses, including manufacturing, trading, and service businesses. Asset-based costing (ABC) is said to be superior to traditional volume-based costing systems and is receiving attention from practitioners and researchers as one of the strategic tools to help managers make better decisions. The benefits of the ABC system and its impact on company performance have prompted many empirical studies of the ABC system and it is considered one of the most researched areas of management accounting in developed countries. In the past, ABC studies have addressed issues related to ABC implementation, such as ABC adoption rates in different countries, reasons for implementing ABC, issues related to ABC, and critical success factors affecting ABC. This article reviews studies on ABC conducted over the past decade, from 1995 to 2008, and identifies gaps in reviewing the studies. In particular, this article examines the selection of factors that influence the success of ABC implementation, the variables used in previous research, as well as the definition and implementation of variables. The review revealed that prior research has focused primarily on behavioral, organizational and technical variables as the most important determinants of ABC success, but very little research has been conducted to investigate the role of culture and organizational structure. Based on the identified research gaps, a research framework is proposed for further research.

In recent years there has been much discussion about the extent to which the nature of management accounting has changed. Johnson and Kaplan (1987) argue that management accounting has not changed much since the early 20th century. However, they also noted that the environment in which management accounting was practiced changed significantly over the same period: different organizational structures, significant advances in information technology, more competitive markets and new management practices (Baines and Langfield-Smith, 2003). Since Johnson and Kaplan's publication in 1987, several innovative management accounting techniques have emerged, such as activity-based costing (ABC), balanced scorecard (BSC), and benchmarking (Askarany, 2006). ABC has been described as a better method for allocating overhead costs, evaluating product profitability and managing operating costs (Baird et al., 2007) and perhaps one of the most written about and discussed innovations in management accounting since 1985 (Brown et al., 2004). However, this new innovation technique was not as widely adopted as its proponents hoped, and several other studies have shown that ABC is used in only 20-30% of firms (Innes and Mitchell, 1995; Innes et al., 2000).

This leads to the question, why has the adoption of such management accounting innovations been slow despite the rapidly changing organizational and technological environment of the last two decades? Several recent studies have examined the level of implementation of ABC, the rationale for implementing it, the problems associated with ABC, and the critical success factors related to its successful implementation. However, the empirical evidence for ABC research is problematic. First, the level of adoption varies widely among developed countries, with some countries reporting increased use of ABC and others vice versa. In some cases, researchers from the same country report very different results (Baird et al., 2007; Brown et al., 2004). Second, the reasons for implementing ABC, barriers to implementation, and critical success factors appear to be quite diverse. (Brown et al., 2004), and comparing implementation success is problematic because different researchers measure success differently (Cohen et al., 2005; Swenson, 1995). Al-Khadash and Feridun (2006). indicates that because of the ambiguity of the previous findings, the same needs further investigation.

Conclusion

Production costs included in factory overhead costs are grouped Into the following categories:

Cost of auxiliary materials The cost of auxiliary materials is materials that are not part of finished goods or materials that are part of finished goods, but the value is relatively small compared to the cost of goods production.

Method of Determining Cost of Production In calculating production costs, usually using the traditional method, the components of the cost of goods or services consist of direct material costs, direct labor costs, and overhead costs, both fixed and variable costs.

Product cost accounting with this traditional method only focuses on costs that are directly related to the production process, while non-production costs or costs that are not directly related to the production process are ignored.

Compared to traditional costing systems, where overhead costs are allocated to products based on direct labor hours, the activity-based costing system (ABC System) uses multiple allocation bases Activity Based Costing Method Activity-based costing (ABC) method Mulyadi (2007) is a system activity-based cost information aimed at motivating staff to reduce costs in the long run through activity management.

All or most of the indirect costs are defined as single-level production costs (a fraction of the indirect costs are described as multi-tier costs, product support costs, or facility support costs).

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