

IMPLEMENTATION OF THE TARGET COSTING METHOD IN AN EFFORT TO REDUCE COSTS

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Abstract: *The costing method is a method that is appropriate and in line with the increase and competition in achieving the company's goals for cost reduction. The purpose of this study is to find out that the target costing approach can be used as a tool in efforts to reduce production costs to increase gross or gross profit. Target costing is a method of reducing production costs based on the selling price and expected profit. The type of research used is descriptive quantitative. Data collection methods used in this study were observation and interviews. The results show that the target costing method is very efficient to be applied in calculating production costs because it is based on a comparison of production costs and gross profit obtained using target costing and without target costing.*

Keyword: *Target Costing, Traditional Method, Activity Based Costing, Selling Price*

Introduction

The development of an increasingly rapid era affects the competition in the company. Besides, the company is emphasized to be able to follow the competition in developing and advancing its business. The company must be able to fix aspects within the company, including the calculation of the company's cost of production. Determination of the cost of production is important for the company, the calculation includes the cost of raw materials, direct labor costs and factory overhead costs. Cost calculations will be more effective if these costs can be classified correctly so as not to cause the product to be burdened by costs that are less or more than it should be because improper calculations can cause cost distortion. In this case, many companies still use traditional methods in determining the cost of goods manufactured, although they often give inaccurate results.

Activity based costing is an effective and appropriate method in determining the cost of production because the costing is based on the activities performed and uses more than one cost driver.

Literature Review

1. Literature Review: is the identification, classification and reporting of useful information for internal users in planning, controlling and making decisions. (Hansen and Mowen 2018:9)

2. Cost of Production

Is a collection of production costs consisting of BBB, BTKL and factory overhead costs (Bustami and Nurlala 2013:48)

3. Traditional Cost Method

Assigning direct materials and direct labor costs to products using direct tracing (Hansen and Mowen 2018:162)

4. Method Based Costing

Is a process of calculating the cost of objects in the form of products/customers. It will first charge resource costs to organizational activities and then the costs of these activities are charged to products, customers, and services to create a demand for activities (Kamarudin, 2013:13)

Method

The data collection method used in this research is the Library Study Method. According to Sugiyono (2012) literature study is a theoretical study, references and other scientific literature related to culture, values and norms that develop in the social situations studied. The data sources that are the material for this research are in the form of books and journals related to the topic that has been selected.

Result and Discussion

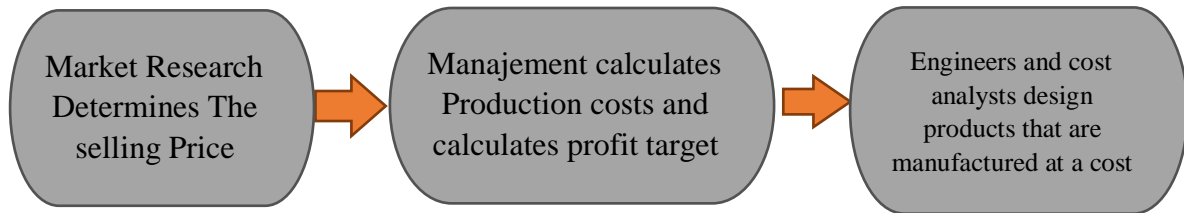
Target cost is a method of paying for the cost of the product or service that is the destination at a price (target price) that is expected to be acceptable to consumers. (Mulyadi2007:421).

Target costing is a method of calculating product costs in which the way The calculation is backwards, starting from determining the selling price used to determine the cost of a product. By using targets costing company can determine the desired cost, which is obtained from the prevailing market price minus the desired profit and is often referred to with price-driven costing.

If the target cost is below the product cost, then Management must plan a fee collection program to reduce cost currently consumed to produce the product at the target cost. That progress Achieved from the cost reduction program is measured by measuring cost actually with a target cost. The accounting cost system for target costing is suitable forexplain and explain information for management to be able to deal with management progress made in reducing product costs towards target costing has been established. The main benefit of Target Costing is setting the cost of the product as a basis for pricing so that the desired profit target will be achieved and effective.

According to Witjaksono (2006: 159) the process of implementing target costing adheres to the principles principles: Price determines costs (price led costing), Focus on customers, Focus

on product design and process design, Cross Functional Team, Involving the value chain and Product life cycle orientation.



Activity Based Costing System Islahuzzaman (2011: 39), in Rumampuk (2013), defines activity based costing as an accounting system that focuses on activities carried out to produce products or services. Calculation of activity-based costs increases the accuracy of cost allocation, namely by first tracing the costs of various activities, then products or customers who use these various activities Hansen and Mowen (2013). Activity based costing provides information about activities and the resources needed to carry out these activities. The activity based costing method is a technique of accumulating costs for a certain cost object, which is the total and actual economic resources required or consumed by the object. Activity-Based Costing The method produces information that can limit the distortions and cross-subsidies caused by adopting traditional cost accounting methods. Cost savings can be made by limiting non-value added activities.

Example of target costing: Suppose a repair shop wants to launch a new product, namely leather motorcycle seats, which uses target costing to determine the standard selling price. The cost of making a leather motorbike seat is Rp. 20,000 Based on market analysis, the most affordable price for leather motorbike seats on the market is IDR 25,000 per piece. In this regard, the company sets a target price of IDR 28,000. So, the profit margin from a leather motorbike seat is 15% of the market price, or if converted it is IDR 3000 from the estimated nominal selling price.

Target Costing formula = Selling price - Profit margin

$$\text{IDR } 28,000 - \text{IDR } 3,000 = \text{IDR } 25,000$$

According to Ariefiansyah and Utami (2012: 38) the cost of production is all costs incurred by the company in producing goods. Halim, et al (2013: 47) in Kapojos et al stated that the determination of the conventional cost of production is to charge all elements of production costs (raw material costs, labor costs and factory overhead costs) both fixed and variable to products or services. Cost of Production includes all direct materials, direct labor and factory overhead spent to produce goods or services. (HPP) consists of three main components (Salindeho: 2015), namely: a) Direct raw materials which include: material purchase costs, purchase discounts, purchase freight costs, storage costs, and others. b) Direct labor which includes all wage costs of employees who are directly involved in the process of making raw materials into finished goods or goods ready for sale. c) Factory overhead costs include all costs other than the acquisition cost of direct material costs and direct wages.

Conclusion

Stage of determining target costing: 1. Target costing is determined by selling prices for new products, as well as estimated output from market analysis, along with profit targets. 2. Determining the cost target, namely reducing profits from the selling price. 3. The company carries out the functional cost analysis stage 4. The company determines the estimated cost of the product. 5. Make comparisons between cost estimates and target costs. 6. If the estimated cost is greater than the target, then the company repeats the cost analysis again, with the aim of reducing the estimated cost. 7. Conduct product introduction, after cost estimates are on target. 8. Carry out cost management when production is carried out.

Application of Activity Based Costing to increase company profits from activity costs regarding the basis of imposition of costs on objects such as goods and services. Activity Based Costing develops policies on traditional systems which the authors view are still ineffective in minimizing costs, where overhead costs do not accurately reflect the increasing complexity of products, services, processes, in organizations and are also ineffective in storing useful and relevant information in the operating environment.

The Benefits of target costing in efforts to reduce costs for writers are very effective, namely by planning finances, analyzing market trends and conducting research on potential customer interests which help minimize the company's production costs. The target costing method is very helpful and profitable for the company because prospective buyers can maximize the function of production planning, so the company can adjust the standard selling price according to the ability of prospective buyers while maintaining quality.

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