IJATB Vol. 4, No. 2, 2022

**International Journal of Accounting, Taxation, and Business**

https://journal.unsika.ac.id/index.php/IJATB

# DIFFERENCES IN METHOD IMPLEMENTATION *VARIABLE COSTING* AND *FULL COSTING* ON THE CALCULATION OF COST OF PRODUCTION IN DETERMINING PROFIT OF UMKM CIRENG HIKMAH KARAWANG

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# Article Information

*History of article:* Accepted Approved PublishedAbstract

This study aims to understand the differences in the implementation of the method variable *costing* and full *costing* on the calculation of the

 cost of production in determining profits at Cireng Hikmah UMKM. The method we use is the Quantitative Method. This research is based on primary data. We obtained primary data from an interview with Mr. Asep as the owner of the UMKM Cireng Hikmah. The results of this study are; if using method variable *costing* the production cost per unit cireng Hikmah is Rp. 1,723/pcs, whereas if using full *costing* Rp. 1,818/pcs. Pak Asep sells cireng for Rp. 2,500/pcs, the profit you get if you use the method variable *costing* is Rp. 777/pcs and Rp. 682/pcs if using full *costing*. Cireng Hikmah sells 400 pcs a day, so the total profit in a day is Rp. 310,800 for method variable *costing* and Rp. 272,800 for method full *costing*. Profit generated method variable *costing* greater than full *costing*. Method Variable *costing is* more effective in the short term because it only takes into account variable costs, while it is more effective in the long term full *costing* Because

takes into account all costs attached to the product both variable costs and fixed costs.

***Keywords: Cost of Production, Cost of Production, Profit, Variable Costing, Full Costing, Method Implementation Full Costing and Variable Costing***

# Introduction

Micro, Small and Medium Enterprises (MSMEs) have a crucial role for Indonesia's economic life. Even though MSMEs look like a scale with small entities, if they are collectively MSMEs can make a significant contribution to economic growth. Around 99% of companies are SMEs from all registered. MSMEs also play an important role in driving the economy in remote rural areas, which will help reduce economic and development disparities between rural and urban areas.

MSMEs have a huge influence on economic growth in Indonesia. Create jobs, collect investment, form and contribute to Indonesia's gross domestic product. The large number of MSMEs in Indonesia encourages very tight competition between similar MSMEs. This competition forces MSMEs to think creatively and ensure that their business activities are effective and efficient.

Indonesia has many MSMEs, there are also many problems faced by MSMEs. One of them is the problem regarding the calculation of Cost Accounting. Lack of knowledge about Cost Accounting makes MSMEs usually use Traditional Cost Accounting which does not reflect overall costs.

Mr Asep's Cireng Hikmah is one of the many MSMEs in the food sector. Cireng Hikmah is located across from Campus I, Universitas Singaperbangsa Karawang. Mr. Asep sells from

morning to evening. In a day he sells 400 pcs of cireng at a price of Rp. 2,500/pcs. Cireng Hikmah is popular with various groups, the majority of whom are students.

Despite his success, Mr. Asep does not understand how to determine the cost of production using this method*Variable costing* or*Full costing* and the impact on the profits he gets.*Variable costing* is a method of determining production costs that only takes into account variable behavior production costs, consisting of raw material costs, direct labor costs, and variable factory overhead costs (Mulyadi, 2002). Full *costing* is a production costing method that calculates all production costs, such as raw material costs, direct labor costs, and factory overhead costs, both variable and fixed (Mulyadi, 2002).

This research has the aim of helping Mr. Asep as a business actor in implementing the method variable *costing* and full *costing* to the cost of goods sold so that it can calculate profits correctly. Cireng Hikmah has never applied cost accounting for the cost of production of the two methods, so with this research business owners can see the difference in the amount of profit generated when using the two methods in a day.

# Research methods Types of research

This type of research is quantitative research. The definition of quantitative research is that the research approach has the characteristic of using a lot of numbers starting with collecting and interpreting the data obtained, up to the presentation of the results (Arikunto, 2006). The research method that we apply is the descriptive method with the aim of collecting, compiling, presenting, and analyzing data which then obtains clear results regarding the object.

# Object of research

The object of research is Cireng Hikmah UMKM, which is on Jl. H.S. Ronggowaluyo Telukjambe Timur, Karawang.

# Data Types and Sources

The data source applied in this study is primary data. The definition of primary data is data that is directly obtained by researchers from the business actor, namely Mr. Asep by means of interviews. The data analysis technique that we use is to collect Cireng Hikmah production cost

data, then classify it into fixed costs and variable costs, then calculate the cost of production based on the Variable Costing and Full Costing methods and determine the good profit from both methods.

# Results and discussion

**Universal Picture of the Object Under Study**

Cireng Hikmah is an UMKM in the food sector in the form of cireng, having its address at Jl.

H.S. Ronggowaluyo Telukjambe Timur, Karawang. This business was founded in 2017 and is managed by Mr. Asep.

This business was founded by Mr. Asep who did not have a job, due to the pressing needs of his family he then looked for a business that he could run. It so happened that in front of Campus I, Singaperbangsa University, there were many food entrepreneurs. Because no one was selling cireng yet, he decided to open this Cireng Hikmah business.

Mr. Asep makes and sells his own products assisted by his wife. He sells from morning to evening or until he runs out of 400 cireng. Sometimes he sells accompanied by his wife and toddler. His business is now quite successful and able to support the needs of his family.

Mr. Asep every morning pushes the cart from his house to the front of the Singaperbangsa University Campus I himself so that he does not need transportation costs. He also only rationed Rp. 30,000 for consumption per day. The Cireng Hikmah business does not require many employees because it has a fairly simple production process with not too much production, so Mr. Asep decided to manage everything himself.

# The resulting product

Cireng Hikmah's product is cireng. The author's reason for choosing this product is because this product is popular with all groups, the cireng taste is delicious, and it is classified as a small business that can develop one day.

With a total raw material cost of Rp. 600,000, Mr. Asep is able to produce 400 pcs of cireng every day.

# Activities in Obtaining Raw Materials

Raw materials are primary materials used in the production process. The raw materials for making cireng are tapioca flour, garlic, flavorings, cooking oil and water. Mr. Asep usually buys raw materials for cireng at his regular shop in the market once a week.

# Fuel Procurement

Fuel is a supporting material in production. LPG gas size 3 kg is the fuel used to fry cireng. One gas cylinder can run out in 5 days.

# Production process

For the process of making cireng which is carried out at Mr. Asep's house, there are the following details:

1. Bring water to a boil, add a quarter of the tapioca flour and stir until smooth. After thickening, turn off the stove.
2. Then mix with ¾ of the other tapioca flour, flavoring and garlic, knead until mixed.
3. Form the dough into a flat, let it stand for 10 minutes, then put it in the fridge.

The process of frying cireng which is carried out at the selling location (in front of the Singaperbangsa University Karawang Campus)

1. Heat the frying oil.
2. After the cooking oil is hot, add the cireng according to the customer's order.
3. Turn the cireng occasionally, making sure it doesn't burn.
4. After the cireng is cooked and brownish yellow, remove and drain.

# Marketing

Marketing is the process of selling manufactured products to earn income. Cireng Hikmah was marketed directly by Mr. Asep in Karawang, to be precise in front of Campus I, Singaperbangsa University, Karawang. He fried his cireng when a customer bought cireng.

# Fixed Asset List

Cireng Hikmah has tools to support his daily activities. Below is a description of Mr.

Asep's fixed assets, obtained by researchers from interviews and observations.

**Table 1.** Asset list

|  |  |  |
| --- | --- | --- |
| ***Name of goods*** | ***Quantity*** | ***Price*** |
| Wheelbarrow and Tools | 1 | Rp. 3,000,000,- |
| Stove | 1 | Rp. 150.000,- |
| **TOTAL** |  | **Rp. 3.150.000,-** |

# Cost Classification

Classification of costs, namely grouping budgets based on certain characteristics, in this study costs are grouped into variable costs and fixed costs to support the calculation method of variable *costing* and full *costing*. Variable costs are costs whose amount changes in proportion to changes in the volume of activity (Mulyadi, 2002). Fixed Costs are budgets that are fixed in the amount of certain activities (Mulyadi, 2002). The following are fixed costs and variable costs obtained by researchers based on interviews with Cireng Hikmah owners.

**Table 2.** Classification of Variable Costs and Fixed Costs Variable Cost

|  |  |  |
| --- | --- | --- |
| **Direct Raw Materials** | **Quantity** | **Cost/Day** |
| Cireng ready to sell | 400 | Rp. 600.000,- |
| Oil | 4 | Rp. 64.000,- |
| Gas | 0,2 | Rp. 5.000,- |
| Plastic wrap | 2 | Rp. 20.000,- |
| **TOTAL** |  | **Rp. 689.000,-** |

Fixed cost

|  |  |  |
| --- | --- | --- |
| **Direct Raw Materials** | **Quantity** | **Cost/Day** |
| Consumption | 2 | Rp. 30.000,- |
| Rent | 0,035 | Rp. 8,000,- |
| **TOTAL** |  | **Rp. 38.000,-** |

# 4. Conclusion, implications, and recommendation for future research Implementation of Cost of Production Method *Variable Costing*

According to the above cost classification, then we try to calculate the cost of production according to the method variable *costing* and here are the results in tabular form:

**Table 3.** Implementation of Cost of Production Method *Variable Costing*

|  |  |  |
| --- | --- | --- |
| **Direct Raw Materials** | **Quantity** | **Cost/day** |
| Basic Materials | 400 | Rp. 600.000,- |
| Oil | 4 | Rp. 64.000,- |
| **Direct Labor** |  |  |
| - | - | - |
| **Indirect Labor** |  |  |
| - | - | - |
| **Variable BOPs** |  |  |
| Gas | 0.2 | Rp. 5,000.- |
| Plastic wrap | 2 | Rp. 20.000,- |
| **Total Cost Production** |  | **Rp. 689.000,-** |
| **Total Production** |  | **400 pcs** |
| **Perbugkus Production****HP** |  | **Rp. 1.723,-** |

Based on the calculation sheet for the cost of goods produced by the method *Variable costing* above, it is obtained that the price of goods produced by Cireng Hikmah is Rp. 1,723/pcs. The costs above are obtained from all costs incurred and are variable when producing cireng.

**Calculation of Cost of Production Method *Full Costing***

Based on the cost classification that has been made, the researchers calculated the cost of production according to the method full *costing* and presented in table form as follows:

**Table 4.** Calculation of Cost of Production Method *Full Costing*

|  |  |  |
| --- | --- | --- |
| **Direct Raw Materials** | **Quantity** | **Cost/Day** |
| **BOP Variable** |  |  |
| Cireng ready to sell | 400 | Rp. 600.000,- |
| gasses/day | 0.2 | Rp. 5.000,- |
| Oil | 4 | Rp. 64.000,- |
| Plastic wrap | 2 | Rp. 20.000,- |
| **Fixed BOPs** |  |  |
| Consumption | 2 | Rp. 30.000,- |
| Rent/Day | 0,035 | Rp. 8,000 |
| **Total Cost of Production** |  | **Rp. 727.000,-** |
| **Production Amount** |  | **400 pcs** |
| **Cost of Production Per****Pack** |  | **Rp. 1.818,-** |

Based on the implementation table above with the method*Full costing*, obtained HPP Cireng Hikmah of Rp. 1,818/pcs.

**Differences in Cost of Production Methods *Variable Costing* and *Full Costing***

From the two implementation tables above, it can be concluded that the PHP method variable *costing is lower* than HPP *full costing,* due to method variable *costing* does not take into account the total costs attached to the product, but only takes into account variable costs. The difference in the cost of production per unit of the two methods above is Rp. 95.

Method Variable *costing is more* suitable for use in the short term because fixed costs are not directly linked to the product, such as the determination of short-term provisions. then for full *costing* suitable for use in the long run because it takes into account all costs related to production, such as evaluating overall business profits.

**Table 5.** Profit-Loss Calculation Method *Variable Costing*

Method *Variable Costing*

Cireng Wisdom Profit and Loss Report

Sale 400pcs @2.500 Cost of goods sold: Variable Cost

Net Profit

Rp. 1.000.000

(Rp. 689.000)

Rp. 311.000

Based on the profit calculation table method variable *costing* above generated that profit for one day by applying the method variable *costing* Rp. 311,000.

**Calculation of Profit Method *Full Costing***

The following table shows the profit generated by Cireng Hikmah for one day using the method full *costing.*

**Table 6.** Profit-Loss Calculation Method *Full Costing*

Method *Full Costing*

Cireng Wisdom Profit and Loss Report

Sale 400pcs @2.500

Rp. 1.000.000

Cost of goods sold :

Variable Cost

Fixed Costs Laba Neto

(Rp. 689.000)

(Rp. 38.000)

Rp. 273.000

Based on the profit calculation table method full *costing* above generated that profit for one day by applying the method full *costing* Rp. 273,000.

**Difference in Profit Methods *Variable Costing* and *Full Costing***

Based on the profit calculation using the two methods above, it can be seen that the profit method variable *costing* greater than Rp. 38,000 from profit*full costing*. In method variable *costing,* profit per unit may fluctuate depending on sales volume. While in method full *costing*, profit per unit tends to be more stable because fixed costs are distributed to each unit of product, regardless of fluctuations volume sale.

Method Variable *costing* used for short terms such as the determination of profit contribution products and methods full *costing* used for long term such as long term planning.

# Conclusion

According to the results of research conducted on Cireng Hikmah about the differences in PHP method variable *costing* and full *costing.* In its application, if Cireng Hikmah uses the method variable *costing*, then will find the HPP result of Rp. 1.723/pcs and when using full *costing,* it will produce a HPP of Rp. 1,818/pcs. For the profit generated in the method variable *costing* Rp. 311,000 and Rp. 273,000 for the method full *costing.* There is a difference in Rp. 38,000 between the calculation of the profit of the two methods, the greater the profit of the method variable *costing*. From these results it can be concluded that a more effective application for the short term is to use the method variable *costing.* Cause in method variable *costing* The calculation does not include fixed costs. However, this method has several drawbacks, one of which is that it is rare to find goods with variable prices. Then based on the method full *costing* there is a higher value of HPP per pack, due to the fixed costs listed. Metode Full *costing is more* effective if implemented in the long term and can also show very clear BOP because there are two costs, namely fixed BOP and variable BOP. The two methods above have their own advantages and disadvantages, so in their use they must be able to adjust to the production activities carried out.

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