

Determination of Production Cost for MSMEs Using the Full Costing Method

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ABSTRACT

Production costs are the expenses incurred in processing raw materials into finished products ready for sale. Production costs include, among others, raw material costs, direct labor costs, and factory overhead costs. The purpose of determining the cost of production is because many MSME actors still do not understand the importance of determining the cost of production and the correct method of calculating the cost of production. The research was conducted on cassava chip SMEs located in Telagasari Village, Kelumpang Hilir District, Kotabaru Regency, South Kalimantan Province. This research uses a quantitative research method where the data obtained is generated from interviews with MSME actors, in addition to data obtained from books, journals, the internet, and other media that support this research. It is hoped that this research can provide an accurate determination of the cost of production so that MSME actors can compete with other similar MSME actors while still achieving optimal profits.

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Introduction

The diverse MSME actors in Indonesia contribute to strengthening the Indonesian economy, but many local MSME actors face challenges in accurately calculating production costs, especially those who are just starting their businesses. An inaccurate calculation of production costs will become an obstacle for MSME actors to develop their businesses. These obstacles include products that cannot compete with similar products in the market due to MSME actors setting selling prices too high, or MSME actors who incur losses because they calculate selling prices below the cost of production.

This research was conducted in Telagasari village, which is located in the Kelumpang Hilir District, Kotabaru Regency, South Kalimantan Province. This research aims to determine the cost of production calculated using the full costing method. The hope with this research is that MSMEs will not set selling prices too high or below the production cost, so that MSME actors can develop their businesses better and can grow and compete with other MSME actors. This research focuses on calculating the cost of production for cassava chips, where the cost of production includes raw material costs, direct labor costs, and factory overhead costs.

According to Mulyadi (as cited in Iryanie, E. & Handayani, M, 2019), "cost accounting is the process of identifying, recording, calculating, summarizing, evaluating, and reporting the basic costs of a product, whether goods or services, using certain methods and systems so that the company's management can make business decisions effectively and efficiently." Cost accounting has several objectives, including:

1. Determining COGS: recording, classifying, and summarizing the costs of product manufacturing.
2. Providing cost information for management purposes: cost as a measure of efficiency.
3. Planning tools: business planning is certainly related to income and costs, cost planning will facilitate cost control.
4. Cost control: comparing the costs that should have been incurred to produce one unit of product with the actual costs that occurred.
5. Introducing various methods: various methods in cost accounting can be chosen according to the necessary interests with the most effective and efficient results.
6. Special decision-making: as a management tool in overseeing and recording cost transactions systematically and presenting cost information in the form of cost reports.
7. Calculating the company's profit for a certain period: to determine profit, the costs incurred are needed, as costs are one of the components of profit.
8. Calculating and analyzing the occurrence of ineffectiveness and inefficiency: discussing the maximum limits that must be considered in setting the cost of a product, analyzing and determining the best solution if there is a difference between the maximum limits and what actually occurs.
 - a) The functions of cost accounting include the following:
Conducting calculations and reporting the cost (price) of a product.
 - b) Detailing the cost (price) of the product on all its components.
 - c) Providing basic information for cost and expense planning
 - d) Providing data for the budget preparation process
 - e) Providing cost information for management to be used in management control.

Brahim, M. N. E, (2021) stated that there are two definitions of cost, namely cost in financial accounting and cost in management accounting. Costs in financial accounting are sacrifices made to obtain goods or services. Costs in management accounting are cash or cash equivalents sacrificed (paid) to obtain a certain amount of inputs (factors of production) used to produce a product.

The definition of production cost is all the expenses incurred by the producer related to the activities of producing a product (production), which include components or elements of cost, whether direct or indirect, such as raw material costs, direct labor costs, and factory overhead costs, among others (Brahim, M. N. E, 2021, p. 3).

The method of determining production costs is a way to calculate the cost components into production costs. To calculate the cost components into production costs, there are two approaches: the full costing method and the variable costing method. However, on this occasion, the discussion will focus on the full costing method. According to Mulyadi, 2016 (as cited in Sahla, W. A, 2020), the method of determining costs using the full costing method is as follows:

Full costing is a method of determining production costs that takes into account all elements of production costs into the production cost, which consists of raw material costs, direct labor costs, and factory overhead costs, both variable and fixed. Thus, production costs according to the full costing method consist of the following production cost elements:

raw material costs	xxx
direct labor cost	xxx
variable factory overhead cost	xxx
<u>fixed factory overhead costs</u>	<u>xxx</u>
Production cost	xxx

- 1) The cost of raw materials is the acquisition cost of all materials that will eventually become part of the cost object (work in process and then finished goods) and can be traced to the cost object in an economical manner (Sofia Prima Dewi, 2014, as cited in Sahla, W. A, 2020, p.6).
- 2) Direct labor costs or direct labor wages are the wages paid to direct labor involved directly during the process of converting raw materials into finished goods (Sofia Prima Dewi, 2014, as cited in Sahla, W. A, 2020, p.6).
- 3) Factory overhead costs (indirect production costs) are all manufacturing costs related to the cost object but cannot be traced to the cost object in an economical manner. Examples of factory overhead costs include indirect labor costs, auxiliary material costs, and repair and

maintenance costs of factory machinery (Sofia Prima Dewi, 2014, as cited in Sahla, W. A, 2020, p.6).

Meanwhile, according to Iryanie, E. & Handayani, M, 2019, full costing is a method of determining the cost of a product by including all components of production costs as part of the cost of goods sold, which includes raw material costs, direct labor costs, variable factory overhead costs, and fixed factory overhead costs. In the full costing method, both variable and fixed factory overhead costs are allocated to the products produced based on a predetermined rate at normal capacity or based on the actual factory overhead costs.

Method

The research was conducted on MSMEs located in Telagasari Village, Kelumpang Hilir District, Kotabaru Regency, South Kalimantan. The selection of MSME actors was done deliberately because the cassava chips produced by these MSME actors are highly favored by the local community, and the determination of production costs by these MSME actors is based solely on estimates. This research applies a quantitative descriptive research method and literature study, where the data obtained from interviews is then processed based on data from books and various other sources, allowing for accurate and precise calculation of production costs and helping MSME actors determine production costs accurately.

Result and Discussion

This cassava chip processing business is a home-based venture run by Mrs. Chusnul Khotimah and her husband, which they have been engaged in since 2021. The raw material, cassava, is purchased from the market or directly from farmers at a price of Rp. 150,000 per sack. From one sack of cassava, approximately 10 kg of cassava chips can be produced, which are sold at a price of Rp. 65,000 per kilogram. In determining the production cost, Mrs. Chusnul only estimates it without calculating in detail the raw material costs, direct labor costs, and overhead costs.

Table 1. Comparison of COGS based on SMEs and based on the full costing method (Rp)

	Based on MSMEs	Full costing method	difference
Total COGS	350.000	384.867	34.867
COGS per Kg	35.000	38.487	3.487

Source: Processed Data.

Based on the table above, it can be seen that there is a difference between the HPP calculation conducted by MSME actors and the HPP calculation based on the full costing method. For the production cost of 1 sack of cassava, the MSME actors calculated it to be Rp. 350,000, while the full costing method calculated it to be Rp. 384,867. Thus, it can be concluded that there is a difference of Rp. 34,867 in the determination of the production cost between the MSME

calculation and the full costing method. Meanwhile, the production cost of cassava chips per kilogram is Rp. 3,487.

Table 2. comparison of product selling prices based on MSMEs using the full costing method (Rp)

	Based on MSMEs	Full costing method	difference
Selling price per Kg	65.000	57.730,5	7.269,5

Source: Processed Data.

Based on Table 2 above, it can be seen that the selling price of cassava chips based on MSME calculations is Rp. 65,000/kg, whereas based on the full costing method with a profit margin of 50% of the total production cost, the selling price is Rp. 57,730.5/kg, resulting in a larger price difference between the selling price based on MSME calculations and the selling price using the full costing method.

Conclusion

Based on the explanation provided in the results and discussion section, the following conclusions can be drawn:

1. The MSME actors producing cassava chips located in Telagasari Village, Kelumpang Hilir District, Kotabaru Regency, South Kalimantan Province, since starting their business in 2021, have determined the production cost price solely based on estimates.
2. The comparison between the calculation of the cost of production of cassava chips conducted by the MSME actors and the calculation based on the full costing method shows a lower cost of production difference of Rp. 3,487/kg.
3. Meanwhile, the comparison of the selling price of cassava chips set by MSME actors and the selling price determined using the full costing method with a profit margin of 50% of the production cost resulted in a higher difference of Rp. 7,269.5/kg.

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