



International Conference on Economy, Management, and Business (IC-EMBus)

VOL 1, 2023 p. 677–684

<https://journal.trunojoyo.ac.id/icembus>

Implementation of Relevant Costs in Tactical Decision Making: A Case Study of Accepting or Rejecting Special Orders at UD Ika Bakery

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INFO ARTIKEL

Abstract

Keywords:

Relevant Costs, Special
Orders, Tactical Decision
Making

Management is often faced with several alternative short-term decisions related to business continuity, which can be referred to as tactical decisions. Increasingly competitive competition also requires management to make the best decisions that can benefit the company. UD Ika Bakery, as a business engaged in the food industry, is also faced with making tactical decisions in the form of accepting or rejecting special orders. This study aims to determine the application of relevant costs in making tactical decisions at UD Ika Bakery. The method used in this research is descriptive-qualitative, with primary data obtained by conducting direct interviews with the owner of UD Ika Bakery. Based on the results of the data processing obtained, UD Ika Bakery still does not apply relevant cost calculations to tactical decision-making. However, UD Ika Bakery has decided to accept special orders from consumers because it can increase the profit by up to 48% based on the relevant cost method. The decision is also supported by the existence of idle capacity in the bread production process at UD Ika Bakery.

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E-ISSN: 3026-0965

DOI :

Introduction

The development of an increasingly competitive business world makes competition between entrepreneurs even tighter. Companies are competing to make every effort to maintain their existence in the business world. Expanding the market share, which is also balanced with optimal production capacity, in order to gain maximum profit is a must that companies do to face this competition. This condition makes management often faced with several alternative decisions, such

as short-term decisions commonly referred to as tactical decisions. Therefore, a management role is needed in making tactical decisions for the company.

Management has four main roles, such as planning, organizing, directing or leading, and controlling. These four roles will later help the company in making decisions (Hariyani, 2018). In order to make decisions, management needs information from various sources, one of which is accounting. Accounting is a system that processes operating data and financial data to produce information that is useful for certain parties, one of which is management (Firmansyah, et al., 2020). Therefore, the term management accounting emerged. Management accounting is an activity that identifies, measures, accumulates, prepares, analyzes, interprets, and communicates economic activities carried out by the company to management, which will be useful for decision-making. One of these decisions is tactical decisions (Firmansyah, et al., 2020).

Tactical decisions are decisions based on management awareness of the changes needed by the company (Maryati, et al., 2020). Tactical decisions are based on several alternative decisions with immediate or limited results. Tactical decisions are short-term decisions and take the form of small actions that can have long-term consequences (Budiyanti, et al., 2017). The tactical decision must be chosen as a decision that can later cause consequences, such as disadvantaging or benefiting the company. Before making tactical decisions, management must first learn information about the decisions to be made. The information learned can help management predict profits and losses that will occur in the future. One example of a decision that is crucial for the company and must be learned well is cost. One example of such costs is relevant costs for short-term decision-making.

Relevant costs are costs that will occur in the future and are different for each alternative (Budiyanti, et al., 2017). Relevant cost is a cost that will occur in the future and will be different for each alternative decision (Mowen, et al., 2017). The difference is caused by different production levels. Based on this explanation, it can be concluded that in relevant costs or alternative costs, both are alternative costs caused by production levels.

Relevant costs are defined as costs that companies use in making a decision, which can also affect the decision (Alfaried, et al., 2023). In the business world, it is very important to consider relevant costs when making decisions so that the decisions taken can provide optimal benefits for the company. Relevant costs have many benefits in helping management make decisions. Ahmad (2013) explains the types of decisions in business that can be influenced by relevant costs, which are:

1. Decision to buy or make components.
2. The decision to continue or stop production of a particular product.
3. The decision to accept or reject a special order.
4. The decision to sell or to further process a product.

Several studies have shown that relevant costs can help management in making a decision. Anggriawan & Setiawan's (2018) research states that relevant costs are very influential in company decision making. Relevant costs have also been proven to help companies decide to buy or make their own components (Rumopa, et al., 2016). Relevant costs can also help companies maintain or stop a particular product in a newspaper printing company (Maryati, et al., 2020).

Relevant costs also help make decisions that are often faced by companies, such as accepting or rejecting special orders. Special orders can help companies increase sales and streamline production in a highly competitive environment. However, because special orders can have an impact on the profitability and operational effectiveness of the company, the acceptance of special orders can only be decided after conducting a thorough cost-benefit analysis (Alfaried, et al., 2023).

UD Ika Bakery as one of the Small and Medium Enterprises (SME) engaged in the culinary sector, is also faced with making tactical decisions. As an SME that produces bread as its main product, UD Ika Bakery is certainly faced with quite competitive competition. Its non-strategic location and lack of marketing make UD Ika Bakery unable to compete with similar competitors in Bangkalan City, as evidenced by the small amount of production each month. If it only produces bread every day without accepting special orders, UD Ika Bakery will be unable to compete with similar businesses in the surrounding area. Seeing these problems, this research will discuss the implementation of relevant costs in tactical decision-making with a case study of accepting or rejecting special orders at UD Ika Bakery.

RESEARCH METHODS

The method used in this research is the qualitative method. The qualitative research method is a method based on a principle to examine a scientific condition (Sugiyono, 2017). This method collects data directly at the location where the problem to be studied occurs. Data is obtained by talking directly to someone who acts as a source and acts in the context that they are the main actors of a qualitative study (Creswell & Guetterman, 2019). The type of data is qualitative, with data sources obtained directly at UD Ika Bakery. The data collection technique uses field research techniques, where researchers conduct research directly into the field, which in this study is UD Ika Bakery. The data analysis technique used is descriptive-qualitative, which explains the results of the data obtained descriptively.

RESULT

UD Ika Bakery is a Small and Medium Enterprise (SME or UMKM in Indonesian) engaged in the culinary field, with bread as its main product. UD Ika Bakery is located on Jl. Maritim Bargan Socah, Bangkalan, which is not a strategic location for a bakery. This problem is evidenced by UD Ika Bakery's sales data from January - October 2023.

Table 1. UD Ika Bakery Total Production Period January–October 2023

No	Month	Total Production
1	January	1125
2	February	1000
3	March	1225
4	April	900
5	May	1250
6	June	1100
7	July	900
8	August	905
9	September	895

No	Month	Total Production
10	October	915
	Total	10,215

Source: data processing

The table above shows a relatively small amount of production each month. The location is not strategic and supported by a lack of promotion, UD Ika Bakery is only able to produce a small amount of bread when compared to other bakeries. This causes the profit earned to be small and causes an idol capacity due to the small total production. To support its operational activities, UD Ika Bakery also accepts special orders from consumers. The following table shows the special order data received by UD Ika Bakery from January to October 2023.

Table 2. UD Ika Bakery's Total of Special Order Period January-October 2023

No	Month	Total of Special Order
1	January	1900
2	February	1520
3	March	1750
4	April	2001
5	May	1140
6	June	1275
7	July	1120
8	August	2150
9	September	4270
10	October	2080
	Total	19,206

Source: data processing

Special orders are orders outside of the daily production activities usually carried out by UD Ika Bakery. From the table above, it can be seen that there is a very large difference between the number of UD Ika Bakery special orders and the total production usually carried out by UD Ika Bakery. However, the prices given on special orders are also usually relatively cheaper because consumers order in large quantities. Therefore, UD Ika Bakery needs to compare the costs that will be incurred if it receives a special order.

UD Ika Bakery will face changes in costs if they accept special orders. The costs are different between rejecting and accepting special orders. The following table is a detailed breakdown of the cost per unit if rejecting a special order. Table 3. Cost per Unit Details of Rejecting a Special Order.

Table 3. Comparison of Costs and Benefits of Accepting or Rejecting a Special Order

Description	Accepting Special Orders	Rejecting Special Orders
Cost	Additional costs for labor, raw materials, and packaging.	No additional labor, raw materials, and packaging costs.
Benefits	Get an increase in profit.	No increase in profit.

Source: data processing

After identifying the comparisons above, the next step is to apply relevant costs to tactical decision-making, namely accepting or rejecting orders. Tactical decision-making calculations consist of cost of goods sold (COGS) calculations and calculations using the relevant cost method.

Table 4. COGS Calculation without Accepting Special Orders

Name of Cost	Cost per Unit	Total
Raw material costs	2944	30,072,960
Labor costs	240	2,451,600
Overhead costs	456	4,658,040
COGS	3640	37,182,600

Source: data processing

After calculating COGS without accepting special orders, the next step is to calculate COGS when accepting special orders which will be shown in Table 5. On special orders there are additional labor costs and overhead costs.

Table 5. Calculation of COGS when Accepting Special Orders

Name of Cost	Cost per Unit	Total
Raw material costs	2944	56,542,464
Labor costs	240	4,609,440
Overhead costs	458	8,738,730
COGS	3642	69,890,634

Source: data processing

The cost calculation above is for accepting a special order, which removes several components from overhead costs with the following details:

- If rejecting the order, the overhead cost consists of the cost of gas, machine repairs and maintenance, electricity and telephone, and administrative staff salaries.
- If accepting the order, the overhead costs consist of packaging costs, additional costs for gas, and administrative salaries.

The next step is to compare Table 4 and Table 5, which will be calculated in Table 6.

Table 6. Comparison Using the Relevant Cost Method

Name of Cost	Accepting Special Orders		Rejecting Special Orders		B – D (E)
	Cost per Unit (A)	Total (B)	Cost Per Unit (C)	Total (D)	
Raw material costs	2944	56,542,464	2944	30,072,960	26,469,504
Labor costs	240	4,609,440	240	2,451,600	2,157,840
Overhead	458	8,738,730	456	4,658,040	4,080,690

Name of Cost	Accepting Special Orders		Rejecting Special Orders		B – D (E)
	Cost per Unit (A)	Total (B)	Cost Per Unit (C)	Total (D)	
costs					
Total Relevant Costs	3642	69,890,634	3640	37,182,600	32,708,034
Profit	-	35,742,366	-	24,107,400	11,634,966

Source: data processing

From the calculation in the table above, the profit is obtained from the sales proceeds minus the total relevant costs listed in the table. The price of bread from rejecting special orders is Rp6,000, with a total production of 10,215, resulting in total sales of Rp61,290,000. Meanwhile, if UD Ika Bakery accepts a special order, the price per unit becomes Rp5500 rupiah with a total order of 19,206 bread during 2023, resulting in total sales of Rp105,633,000.

If they accept special orders, UD Ika Bakery will have an increase in raw material costs, labor costs, and overhead costs, with a total of Rp32,708,034. However, if UD Ika Bakery accepts special orders, there will be an increase in profit of Rp11,634,966 when compared to the profit earned without accepting special orders. Quantitatively, UD Ika Bakery will experience a 48% increase in profit if they accept special orders.

DISCUSSION

According to the result and the calculation above, UD Ika Bakery is classified as not showing development in the period January–October 2023. This is evidenced by the total amount of production, which does not have a significant increase every month. If UD Ika Bakery does not make other alternatives in its operational activities, it will not be able to compete with other bakeries that have the same products. This problem is further worsened by its non-strategic location. However, UD Ika Bakery has regular customers who usually place special orders for certain events. This is evidenced by the number of special orders that have a large difference with the total production of bread if it does not receive special orders. Although there will certainly be an increase in production costs, UD Ika Bakery will also get higher profits if they accept special orders.

The profit earned by UD Ika Bakery without accepting special orders is Rp24,107,400 with total sales of Rp61,290,000. Meanwhile, if they accept special orders, the profit earned is Rp35,742,366 with total sales of Rp105,633,000. The increase in profit that will be earned by UD Ika Bakery is Rp11,634,966 and has quantitatively increased by 38%. This considerable increase can help UD Ika Bakery maintain its business and compete with other bakeries. Even though there was an increase in raw material costs, labor costs, and overhead costs with a total of Rp32,708,034, the management did not need to hesitate in accepting orders. The 48% increase mentioned above shows that accepting special orders can help UD Ika Bakery compete and maintain business. In this problem, the implementation of relevant costs in tactical decision-making is proven to help management in deciding whether to accept or reject an order. Based on this discussion, UD Ika Bakery decided to accept special orders. In addition, the

availability of idle capacity is also a supporting reason for accepting special orders.

CONCLUSION

The development of an increasingly competitive business world makes competition between business actors even tighter. This competition also has an impact on SME such as UD Ika Bakery. Its non-strategic location and poor marketing make UD Ika Bakery's production volume for the January–October 2023 period still quite small. Management is then faced with tactical decisions, which include accepting or rejecting orders as a form of maintaining business and competing with similar competitors. UD Ika Bakery will face several changes in costs incurred during production if it accepts special orders. From the research done, UD Ika Bakery has not implemented relevant costs in making tactical decisions in the form of accepting or rejecting orders. This research helps UD Ika Bakery in making these decisions through relevant costs because, before making decisions, UD Ika Bakery should implement relevant costs. Relevant costs are able to show how much profit UD Ika Bakery will get. This is in line with research conducted by Arizah (2019). The result is that UD Ika Bakery is known to be able to benefit by 48% if it receives a special order. Therefore, UD Ika Bakery is advised to accept special orders because, besides increasing profits, this decision is also supported by the idle capacity at UD Ika Bakery.

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