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Cost Analysis: Full Cost vs. Variable Cost in Pricing at Bucket Syalala Telang

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Abstract

The importance of calculating the cost of production for determining product prices. It mentions two methods, full costing and variable costing, and their differences. The research's objective is to identify how these methods are applied in determining selling prices. The research methodology is qualitative with a descriptive approach, and data collection involves observation, interviews, and documentation. The analysis includes pre-field and during and after field phases. The research findings reveal that the Syalala Bucket Shop doesn't use either full costing or variable costing methods in its production cost calculations, resulting in a lower production cost due to a lack of understanding of proper cost components like depreciation costs.

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Introduction

Business development is currently in a rapid phase, following the development of trends and changes that occur. In Indonesia, various companies or even micro-enterprises in various sectors, such as manufacturing, services and trade, have become an integral part of the ever-changing business landscape. One concrete example of this development can be found around Madura's Trunojoyo University, namely the "Bucket Syalala" shop. This store has chosen its own path by offering a variety of products that are very relevant to important moments, such as graduations and birthdays. Strategically located close to the Madura Trunojoyo University campus, especially during the graduation season, makes this shop increasingly considered in the local business scene.

However, the success of this store does not only depend on the uniqueness of its products. In an increasingly competitive business environment, store management must be able to manage operations with a high level of effectiveness and efficiency to ensure business continuity. Store management must ensure that the selling prices of their products remain affordable while maintaining superior quality and service.

Every business has a number of goals which are the main focus of its operations. These objectives include achieving maximum profits, determining accurate production costs based on calculations of production costs and cost accumulation, the ability to compete in the market, and providing benefits to society. According to Suryana (2017), business success refers to achieving the goals set by the business. Success or failure in the world of entrepreneurship is largely determined by an individual's ability as an entrepreneur.

To achieve profit goals, companies have two possible approaches to use. The first approach is to increase the selling price of the product or service they offer. This can result in higher profits per unit of product sold, but it can also affect competitiveness in the market and possibly reduce the number of interested customers. The second approach is to reduce production costs efficiently and control every cost component involved. By managing production costs carefully, companies can minimize expenses and maintain competitive selling prices, so that they remain attractive to consumers. In an effort to achieve maximum profits, controlling production costs is key, which involves operational efficiency and wise cost management strategies.

Determining the cost of production is a key stage in the financial management of a company. The reason is very clear, because in the decision-making process related to pricing, the cost of production provides vital information for determining the selling price of a product or service. Unfortunately, there are still many companies and micro businesses that still apply a simple approach in calculating the cost of production and setting selling prices. They often only focus on achieving profits in product sales without considering the basic principles of cost accounting. This can have a serious impact on the accuracy of determining the cost of production and selling prices. If the cost of production is not determined correctly, the company risks experiencing losses or losing market share if the price applied is too high. Conversely, if prices are too low, profits can decrease. Therefore, managing the cost of production correctly is an important factor in maintaining company continuity and profitability.

Bastian Bustami and Nurlela (2013:49), cost of production is defined as a combination of production costs, including raw material costs, direct labor costs, and factory overhead costs, which are added to the difference in product inventory in process between the beginning and end of the period. Yulianti and Saputra (2017:4), raw materials refer to the raw materials used in making finished products. Meanwhile, Mranani. et al. (2019:49), direct labor is a term to refer to all workers who are directly involved in the production stage to produce finished products. Suprianto. et al. (2019:34), Factory overhead is all costs that are not included in raw material costs and direct labor costs. In calculating the cost components in the cost of production, there are two approaches that are commonly used, namely full costing and variable costing.

So far, Bucket Syalala has not calculated the cost of production and selling price of its products by including in detail all the cost components involved in the

production process. As a result, the data produced is inaccurate, so that the cost of production and product selling prices are less accurate. Therefore, this research aims to analyze production costs by applying full costing and variable costing methods, as well as determining more accurate selling prices for the products offered by Bucket Syalala.

RESEARCH METHODS

This research applies qualitative methods with a descriptive approach. The object of the research is an analysis of the application of full costing and variable costing methods in calculating the cost of production and their impact on determining selling prices. Primary data is the main source in this research, which was obtained directly by researchers from sources. This data was collected through observation and direct interviews with the data owner.

This research was carried out at Bucket Syalala, a business engaged in making bucket flower arrangements for various events such as graduations and birthdays. The location is close to the Trunojoyo Madura University campus, precisely in Telang Village, Kamal District, Bangkalan Regency. The analysis in this research consisted of two stages. The first stage is analysis before field research, which involves evaluating data from preliminary studies to determine the focus of the research. The results of this stage are temporary and will develop further after analysis during and after the field research is carried out. Analysis during field research involves interviews with sources, and the results will be reduced, presented, and conclusions drawn from the research results.

RESULT

The Bucket Syalala business is a business that provides a variety of products that are very suitable for special moments, such as graduation and birthday celebrations and is included in the small and medium enterprise (UKM) category and was founded in 2021, the owner of this business is named Fitria Islami. The Syalala Bucket was set up in a kiosk not far from the Madura Trunojoyo University campus. Where the biggest sales occur during the graduation season.

The results of research at Bucket Syalala indicate that the method for determining the cost of production used still uses a simple approach. In this approach, production costs have not been detailed carefully, so the calculation of the cost of production becomes less accurate.

In determining the cost of production, the company calculates various costs as follows:

a) Raw Material Costs

Table 1. Result

Raw Materials	Cost
Fake satin flowers	IDR 4.800.000
Wrapping paper	IDR 5.400.000
Greeting card	IDR 1.800.000
Snacks	IDR 6.000.000
Decorative ribbon	IDR 1.800.000
Rolled lace	IDR 2.400.000
Flannel fabric	IDR 3.000.000

Glue gun	IDR 840.000
Clear tape	IDR 960.000
Skewers	IDR 600.000
Cardboard/thick paper	IDR 2.400.000
Total	IDR 30.000.000

Raw Material Costs Syalala Bucket for 2022

Based on the data in the table, the company has allocated a cost of IDR 30,000,000 for the procurement of raw materials, including fake satin flowers, wrapping cards, greeting cards, snacks, decorative ribbons, rolled lace, flannel fabric, hot glue, clear tape, skewers. , cardboard/thick paper. With this budget, the company plans to purchase and manage these resources to support their production.

b) Labor Costs

Table 2. Result

Labor	Cost
Employee salary	IDR 12.600.000
Total	IDR 12.600.000

Labor Costs Syalala Bucket for 2022

Based on the information from Table 2, it can be concluded that the company pays wages of IDR 35,000 per day to the only employee they have. With total wages of IDR 12,600,000 in 2020, it can be concluded that the only employee received wages of that amount during that year.

Table 3. Result

Information	The amount of costs
Raw Material Costs	IDR 30.000.000
Labor costs	IDR 12.600.000 +
HPP	IDR 42.600.000
Production Volume	800 bucket

COGS calculation According to the 2022 Syalala Bucket

The table above indicates that the costs listed only include raw material costs and labor costs. The company does not take into account costs other than raw material and labor costs or other additional costs, such as machine maintenance, vehicle depreciation, machine depreciation, and other costs in calculating the cost of production.

The selling price desired by "Bucket Syalala" to achieve a profit of 50% with a production volume of 800 flower buckets is IDR 79,875 per unit.
HPP : IDR 42.600.000
Desired profit : 50% x IDR 42.600.000 = IDR 21.300.000
Number of production units : 800 flower buckets
Selling price per unit: (IDR 42.600.000+Rp21.300.000)/800 unit = IDR 79.875

The Syalala Bucket Company has been calculating the basic costs of bucket production by collecting all raw material and direct labor costs. However, when they determine the selling price, they only make an estimate by dividing the total cost of production by the production volume, then adding 50% profit as a profit margin.

Calculation of Cost of Goods Production using the Full Costing Method

Table 4. Result

Information	Amount of Fees
Raw Material Costs:	
Fake satin flowers	IDR 4.800.000
Wrapping paper	IDR 5.400.000
Greeting card	IDR 1.800.000
Snacks	IDR 6.000.000
Decorative ribbon	IDR 1.800.000
Rolled lace	IDR 2.400.000
Flannel fabric	IDR 3.000.000
Glue gun	IDR 840.000
Clear tape	IDR 960.000
Skewers	IDR 600.000
Cardboard/thick paper	IDR 2.400.000
Total :	**IDR 30.000.000**
Direct labor costs :	
Employee salary	**IDR 12.600.000**
Variable Factory Overhead	
Costs:	**IDR 4.800.000**
Electricity cost	**IDR 600.000**
Gasoline Costs	
Fixed Factory Overhead Costs:	
Cost of depreciation :	
Printing	**IDR 41.500**
Laptops	**IDR 374.000 +**
Cost of goods sold :	**IDR 48.415.500**
Desired profit	50%
Profit	IDR 24.207.750
Total Cost of Goods Production	IDR 72.623.250
Total Production	800 unit
Selling price	**IDR 90.779**

Cost of Goods Production Full Costing and Selling Price Syalala Bucket for 2022

Table 5. Result

Method	Cost of Goods Produced
Company	IDR 42.600.000
Full Costing	IDR 48.415.500
Difference	IDR 5.815.500

Difference in Comparison of Cost of Goods Production Method of Syalala Bucket Shop & Full Costing

Tabel 6. Result

Method	Cost of Goods Produced
Company	IDR 79.875
Full Costing	IDR 90.779
Difference	IDR 10.904

Difference in Selling Price Comparison between Syalala Bucket Shop & Full Costing Methods

The results of calculations using the full costing method produce nominal figures the are much different from the method used by the Syalala Bucket Shop. The cost of production based on the full costing method in 2022 is IDR 48,415,500, while the selling price obtained by the company is IDR 90,779.

The difference in the comparison of the cost of production between the method used by the company and the full costing method in 2022 is IDR 5,815,500. This difference caused by the company's inaccuracy in allocating factory overhead costs. That full costing method calculates all production costs, including overhead costs, both fixed and variable.

The difference in selling price between the method used by the Syalala Bucket Shop and the Full Costing method in 2022 is Rp. 10,904, the results of this difference indicate that in the Full Costing method, the selling price tends to be higher than that used by the company. There may be differences in the cost components or calculation methods used in these two approaches.

With this significant difference between cost of goods manufactured and selling price, companies may need to conduct further evaluation of their calculation methods or their pricing strategy to understand and manage this difference.

Calculation of Cost of Goods Produced (COGS) with the Variable Costing Method

Table 7. Result

Information	Amount of Fees
Raw material cost:	
Fake satin flowers	IDR 4.800.000
Wrapping paper	IDR 5.400.000
Greeting Card	IDR 1.800.000
Snack	IDR 6.000.000
Decorative ribbon	IDR 1.800.000
Rolled lace	IDR 2.400.000
Flannel fabric	IDR 3.000.000
Glue gun	IDR 840.000
Clear tape	IDR 960.000
Skewers	IDR 600.000
Cardboard/thick paper	IDR 2.400.000
Total :	**IDR 30.000.000**
Direct Labor Costs:	
Employee salaries	**IDR 12.600.000**
Variable Factory Overhead Costs:	**IDR 4.800.000**
Electricity Cost	**IDR 600.000 +**
Cost of Gasoline	
Cost of Goods Produced (COGS):	**IDR 48.000.000**
Desired profit	50%
Profit	IDR 24.000.000
Total Cost of Goods Produced	IDR 72.000.000
Total Production	800 unit
Selling Price	**IDR 90.000**

Cost of Goods Produced Variable Costing and selling price Buket Syalala for

Table 8. Result

Method	Cost of Goods Produced
Company	IDR 42.600.000
Variable Costing	IDR 48.000.000
Difference	IDR5.400.000

COGS Comparison Difference Syalala Bucket Store Method &; Variable Costing

Table 9. Result

Method	Cost of Goods Produced
Company	IDR 79.875
Variable Costing	IDR 90.000
Difference	IDR 10.125

Difference in Comparison of Selling Prices with the Syalala Bucket Shop Method & Variable Costing

DISCUSSION

The results of calculations using the variable costing method produce nominal figures the are much different from the method used by the Syalala Bucket shop and the full costing method. The cost of production based on the variable costing method in 2022 is IDR 48,000,000. The cost of production using this method is cheaper than the full costing method, because in variable costing, only variable factory overhead costs are calculated. Meanwhile, the selling price obtained by the company is sebesar Rp90.000. From the information contained in the table, this selling price is slightly lower than the selling price calculated using the full costing approach, because the variable method does not include fixed factory overhead costs in the price calculation.

The difference in the comparison of Cost of Goods Production (HPP) between the method used by Bucket Syalala and the variable costing method in 2022 is IDR 5,400,000. This difference is caused by the company's lack of accuracy in allocating factory overhead costs.

The difference in selling price of IDR 10,125 between the method used by the company and the Variable Costing method in 2022 illustrates that the Variable Costing method tends to produce a higher selling price compared to the method applied by the company. This could mean that Bucket Syalala may apply a more conservative pricing policy or ignore some cost elements in their selling price calculations, thereby causing a fairly large difference in selling prices.

With this significant difference between the cost of production and the selling price, companies need to carry out further evaluation of their calculation methods and the pricing strategies used to understand and manage this difference. This will help companies make more informed decisions regarding pricing and cost management.

From the calculation results using three different methods, it can be seen that the Syalala Bucket produces lower basic production costs compared to the full costing and variable costing methods. That is caused by a lack of understanding by MSME owners about the correct way to calculate the cost of production. They do

not include all costs that should be included in the calculation of the cost of production, such as depreciation costs.

By including all appropriate cost components, the calculation of the cost of production will become more accurate, which will ultimately result in a more appropriate selling price ad potentially increase Syalala Bucket profits.

CONCLUSION

The company's approach in determining selling prices based on the cost of production is less relevant because it only includes raw material costs and direct labor costs. In his calculations, the Syalala Bucket produces a cost of production per unit of IDR. 42,600,000 with a selling price of IDR 79,875. However, the full costing method results in a higher cost of production, namely Rp. 48,415,500 with a selling price of Rp. 90,779, while the variable costing method produces a lower cost of production, namely Rp. 48,000,000 with a selling price of IDR 90,000. Using the full costing method accumulates all cost elements, both fixed and variable, in factory overhead costs, so that the cost of production becomes higher. On the other hand, the variable costing method only takes into account factory overhead costs in the cost of production. Overall, the comparison shows that the Syalala Bucket method results in lower costs of production due to a lack of understanding of proper cost calculations, such as depreciation costs. Therefore, companies need to consider more comprehensive methods to determine accurate selling prices and potentially increase profits.

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