



Cost of Production to Determine Selling Price in Gowa Jaya Cake

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Abstract

This study aims to determine the selling price of the product using a full costing approach at Gowa Jaya Cake. The type of research used in this research is case study research with qualitative methods. The data used in this study are primary data and secondary data. Processed data is data in the form of records of the cost of production such as raw material costs, labor costs, and factory overhead costs. While the data analysis technique used in this research is the full costing method. The results of the study indicate that the costs incurred in the production of Gowa Jaya Cake bread have a major influence in determining the selling price of the bread itself, such as calculating the cost of production using the full costing method.

1. INTRODUCTION

The calculation of the cost of production is something that needs to be considered in determining the selling price of a product. Calculation of the right and accurate cost of production is something that needs to be done by every company, because without a precise and accurate calculation of the cost of production, the manufacturing company concerned will experience problems in determining the selling price of a product for the company with the aim of achieving optimum profit. the selling price and the realization of production costs have a very large effect on the measure of success in achieving the objectives of the company concerned and winning the increasingly sharp competition with other similar companies. One very important factor to achieve this is to make production costs as efficient as possible so that it will increase profits. The production cost efficiency strategy and the right price fixing must be balanced with the improvement of production and service quality towards customer satisfaction, thus choosing a high competitive value with the products of other similar companies.

Gowa Jaya Cake is a manufacturing company that operates in the process of making bread, therefore in calculating the

cost of production of the products obtained it is necessary to remember and to further reduce costs that are not needed for the company. Currently, there are several products made by the company, so accuracy is needed when calculating the cost of production of each product. During its operation, the Gowa Jaya Cake bakery factory has not applied the calculation of the cost of production, but only estimates the production costs to produce its products. Recording by the Gowa Jaya Cake bakery is very simple, that is, it only records the company's profit or loss. As a result, the Roti Gowa Jaya Cake factory does not have accurate cost information which has an impact on the factory having difficulty determining the selling price, which previously determined the selling price based on estimates from the owner and receiving orders at special prices which often happens to companies.

Thus, researchers deem it necessary to conduct research related to this matter, especially determining the cost of production using the *full costing method*. By using the *full costing method*, the company can determine the selling price per unit for each product that has been produced, so that the company will not suffer losses because it sells its products below the costs



incurred during the main production. In addition, the company will also get the maximum profit because it already knows the costs incurred during production.

2. LITERATURE REVIEW

2.1 Cost of goods sold

The cost of production can be used as one of the basic determinants of the selling price. Provisions in calculating the cost of production is absolutely necessary because if an error occurs in the calculation it will cause a loss for the company. Stating that the cost of production is a collection of production costs consisting of raw materials , direct labor, and factory overhead costs plus product inventory in the initial process and less product inventory in the final process. The cost of production will be the same as production costs if there is no product inventory in the initial and final processes (Bustami and Nurlela, 2010:49).

2.2 Elements of Cost of Production

The elements that make up the cost of production are direct material costs , direct labor costs, and factory overhead costs. In general, direct material costs and direct labor costs are also called prime costs, while the others are called conversion costs. These costs are incurred to convert raw materials into finished goods.

a. *Direct material costs*

Material costs are all raw materials that form an integral part of the finished product and are included explicitly in the product cost calculation.

b. *Direct labor costs*

Direct labor costs are labor that converts raw materials directly into finished products and can be properly assigned to certain products.

c. *Factory overhead costs*

Overhead costs, also called manufacturing overhead, manufacturing expenses, or expenses, consist of all manufacturing costs that are not directly

traceable to a particular output. Factory overhead usually includes all manufacturing costs except direct materials and direct labor.

2.3 Method of Determining Cost of Production

The method of determining the 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 (Halim, et al (2013: 47) . Variable costing is a method of determining the cost of production. The difference between these methods lies in the treatment of production costs that behave in a fixed manner. In full costing, factory overhead costs, both fixed and variable, are charged to products on the basis of actual factory overhead costs. Whereas in the variable costing method, factory overhead costs are charged to products only for behavioral costs.

2.4 Selling Price Determination

Determining the selling price of a product or service is an important type of management decision making. For management, determining the selling price of a product or service is not only a policy in the field of marketing or finance, but a policy related to all aspects of the company's activities. The selling price of a product or service, in addition to affecting the volume of sales or the number of buyers of the product or service, will also affect the company's total income (Halim, et al 2013: 47).

2.5 Selling Price Determination Method

The selling price determination method is as follows:

a. Determination of the normal selling price (*Normal Pricing*)

The method of determining the normal selling price is often referred to as Cost-plus pricing, because the selling price is



determined by adding future costs to a *markup* percentage (additional over the total costs) which is calculated by a certain formula.

b. Cost of capital

The cost of capital is the cost incurred for investments made in the company. The amount of the cost of capital is strongly influenced by the source of assets invested in the company.

2.6 Selling Price Determination Strategy

In the form of strategies that can be applied by companies to determine the selling price of new products or services as follows:

a. Skimming pricing

Is a strategy for determining the selling price of products for new services by determining a relatively high initial selling price. The purpose of this strategy is for the company to obtain maximum profits in the short term.

b. Penetration pricing

Is a form of strategy for determining the selling price by determining the initial selling price - initially the process is low, so that the company can gain a larger market share for the product or service in the short term.

3. RESEARCH METHOD

This study uses a qualitative approach. This type of research uses the type of full costing method, namely to calculate the determination of the cost of production, then to calculate the joint costs using the joint cost allocation calculation using the selling price method. The type of data used in this study is primary data obtained directly from original sources (not through intermediary media), making observations and direct interviews with company leaders and several related company employees. In this study, answers to primary data were obtained from interviews with company leaders and

company employees, then on secondary data obtained by researchers indirectly through intermediary media (permitted and recorded by other parties), data obtained from company documentation materials and sources. Other written information may have something to do with the discussion of this thesis such as sales prices.

Data collection in this study used an observation technique in which researchers directly observed the situation at the Gowa Jaya Cake bakery company located in Central Mamuju, then the interview technique carried out was direct interviews with direct involvement and understanding and being able to provide information (illustration) in determining the cost of production at Gowa Jaya Cake. The following is a list of sources to gather the information needed:

**Informant Number
Description**

1.	Sri Handayani	owner
2.	Kristina	Production Department
3.	Goddess	Employee

4. RESULTS AND DISCUSSION

4.1 Research Result

Gowa Jaya Cake is a group that produces bread and various cakes which are located at Topoyo, Central Mamuju Regency. The several types of bread produced by Gowa Jaya Cake include pizza, toast bread, cake, white bread, risol, donuts, banana cake, pastries, shredded bread, chocolate bread, burgers, layer cakes, eclairs . The main raw materials used are wheat flour, sugar, eggs, butter, butter, milk, salt and seasonings. Gowa Jaya Cake wants a profit rate of 50% of the selling price. The profit that Gowa Jaya Cake gets per day can reach IDR 3,000,000 (still dirty). In this study the authors focus on the cost of production to determine the selling price of pizza bread.



a. Calculation of Production Costs

Table 1
List of Raw Materials in One Month on Sales of Gowa Jaya Cake Bread

	No	Material	Many	Price	Quantity
1.		Flour	25 kgs	Rp. 300,000	Rp. 9,000,000
2.		Sugar	10 kgs	Rp. 120,000	Rp. 3,600,000
3.		Egg	7 shelves	Rp. 315,000	Rp. 9,450,000
4.		Butter	10 kgs	Rp. 200,000	Rp. 6,000,000
5.		Butter	10 kgs	Rp. 200,000	Rp. 6,000,000
6.		Milk	10 cans	Rp. 150,000	Rp. 4,500,000
7.		Salt	½ pack	Rp. 2,500	Rp. 75,000
Total					IDR 38,625,000

Source: *Gowa Jaya Cake*

Based on the table above shows that the total cost of raw materials required for the production process of Gowa Jaya Cake bread in one month is Rp.38,625,000. Purchase of raw materials occurs as a

whole, meaning that each company's production always buys raw materials for making bread so that in a month the company requires costs as has been listed in the table above.

Table 2
List of Gowa Jaya Cake Direct Labor Costs
(Wages for 1 month of work)

Description	Number of Workers	Wages (Rp)	Total (Rp)
Printing Section	2	Rp. 800,000	Rp. 1,600,000
Production Section	1	Rp. 1,500,000	Rp. 1,500,000
Packaging Section	2	Rp. 800,000	Rp. 1,600,000
Total			Rp. 4,700,000

Source: *Gowa Jaya Cake*

The total direct labor costs that occur each month are IDR 4,700,000, the wages received by each person are different, namely for employees in the production division, they get a salary of IDR 1,500,000,

and for employees in the printing and packaging department, each gets a wage Rp. 800,000. Each employee works for 8 hours per day starting at 08.00-16.00.

Table 3
List of Overhead Costs for the Gowa Jaya Cake Production Process Factory

Fixed Variable	Description		
	Cost of auxiliary materials	-	Rp. 3,000,000
	Repair and Maintenance Costs	Rp. 300,000	Rp. 300,000-
	Other costs that directly issue money	-	Rp. 500,000
	Employee Salary Expenses	Rp. 3,100,000	-
	Amount	Rp. 3,400,000	Rp. 3,800,000
Total			Rp. 7,200,000

Source : *Gowa Jaya Cake*

From table 5.5, the total factory overhead costs per month are Rp. 6,900,000. Factory overhead costs are

divided into two, namely fixed and variable overhead. Fixed factory overhead costs consisting of repair costs and employee



salary costs, amounting to Rp. 3,400,000. while variable factory overhead costs consist of supporting material costs (bananas, jam, jam, TBM, gas cylinders),

electricity and water costs, amounting to Rp. 3,500,000.

Cost of Production of Gowa Jaya Cake

Type of Cost Amount (Rp)	
Raw Material Costs	Rp. 38,625,000
Direct labor costs	Rp. 4,700,000
Factory Overhead Cost	Rp. 7,200,000
Total	Rp. 50,525,000

Source: *Gowa Jaya Cake*

From table 5.6 it can be seen that the total monthly production cost of Gowa Jaya Cake is Rp. 50,525,000, the result is the sum of raw material costs, direct labor costs, and factory overhead costs. Then the calculation of the selling price per unit with the company's desired profit of 50% is as follows:

a. Calculation of Cost of Production with Full Costing Approach

The calculation of production costs using the *full costing approach* is the calculation of all costs used in the production process which will be classified as production costs, both variable and fixed. The following is the calculation of production costs using the *full costing*

approach

Raw material costs Rp. 38,625,000
Direct labor costs Rp. 4,700,000
Variable factory overhead costs Rp. 3,800,000
Fixed factory overhead costs Rp. 3,400,000
Total production Rp. 50,525,000

Product selling price = Product Cost × Profit Margin = Rp. 90,000 × 150% = Rp. 135,000

From the calculation of the cost of production using the *full costing approach* that has been done, a total production of IDR 50,525,000 is obtained. The total selling price obtained was IDR 135,000.

**Gowa Jaya Cake
Income statement
Full Costing Method**

Sales of IDR 135,000,000
Cost of goods sold:
Initial inventory
The cost of production is <u>IDR 50,525,000</u>
Goods available for sale IDR 50,525,000
Final supplies
Cost of goods sold <u>Rp. (50,525,000)</u>
Gross profit on sales of Rp. 84,475,000
Commercial fee:
Marketing IDR 2,000,000
Administration and general <u>Rp.1,000,000</u>
Net profit IDR 81,475,000

The calculation of the cost of production using the *variable costing approach* is different from the calculation of

full costing, the difference is that in *full costing* all elements of variable and fixed costs are taken into account in the cost of



production, whereas in *variable costing* only variables are calculated. The following is the calculation of the cost of production using the *variable costing approach*:

Raw material costs Rp. 38,625,000
 Direct labor costs Rp. 4,700,000 Variable
 factory overhead costs
Rp. 3,800,000

Total production cost Rp. 47,125,000

From the calculation of the cost of production in determining the selling price of bread, using the *variable costing approach* the cost of production is Rp. 47,125,000.

**Gowa Jaya Cake
 Income statement
 Variable Costing Method**

Sales of IDR 135,000,000
Less variable costs:
Variable production costs IDR 47,125,000
Variable marketing costs:
Copy of label Rp. 300,000
Administration charge. & common variables:
Machine repair and maintenance Rp. 600,000
Motor fuel (gasoline) Rp. 100,000
Electricity, water and telephone costs <u>Rp. 500,000</u>
Total variable costs <u>IDR 48,625,000</u>
<u>Less fixed costs:</u>
Fixed factory overhead
<u>Rp. 3,400,000</u>
Net profit IDR 82,975,000

The following is a comparison of the calculation of the cost of production in

determining the selling price of Gowa Jaya Cake:

**Calculation Comparison between
 Full Costing Approach and variable costing.**

Information	Full Costing	Variable Costing	Difference
Cost of goods sold	Rp. 50,525,000	Rp. 47,125,000	Rp. 3,400,000

The comparison between the *full costing* and *variable costing approaches* in calculating the cost of production for determining the selling price is very clear where in the calculation of *full costing* the total cost of production is Rp. 50,525,000, while in the calculation of *variable costing* the cost of production is Rp. 47,125,000. The difference that occurs in the total production price of Rp. 3,400,000. The calculation of the cost of production using the *full costing approach* is greater than the

method of calculating the cost of production using the *variable costing approach*.

This research is supported by previous researchers, namely Mielientesa Irman and Desi Lestari (2016). The results of this study indicate that the results of the two HPP calculations using the *full costing method* yield higher results than those applied by business owners using the *variable costing method*. The other studies that support this research are researchers conducted by Ninik H Samsul (2013). The results of this study indicate that based on a



comparison of the *full costing* and *variable costing methods* in calculating the cost of goods manufactured at the company, the *full costing method* has a higher nominal value than the *variable costing method*, because the calculation of the cost of goods manufactured in the *full costing method* includes all good cost accounts. variable or fixed type.

5. CONCLUSION

Based on the research that has been done, the conclusion that I draw as a writer is that the calculation of the cost of production at Gowa Jaya Cake is still very simple, also the recording of financial statements is also fairly simple. Based on the results of the analysis that has been done, it is known that the calculation of the cost of production using the *full costing method* produces a higher value than using the *variable costing method*. This is because the *full costing method* includes all costs, both fixed and variable, in calculating the cost of production.

After conducting research and discussing the results of research on Gowa Jaya Cake, the advice given by researchers is that in order for the company to survive and develop, the company must have good and neat financial reports in order to be able to provide basic information as well as a source of data that is useful for internal and external parties. This financial report, yes it is *full costing* and *variable costing* must be made in a company so that it is easier to calculate the cost of production. These two methods cannot be compared because each has a different calculation, but in calculating the cost of production for setting a lower selling price, the company should use a *variable costing approach*. *It is better to use a computer to input both financial and other data related to the company so that it is easier to calculate, analyze and control the expenses and income that occur within the company.*

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