

## A. Background

Development of globalization result in increasing levels of competition among business enterprises, both companies engaged in industry, services and trade. The high level of business competition, require company always prepare a winning strategy with emphasis on long-term goals in order to continue to compete with other companies. The company's goal is to obtain the optimal profit and maintain the viability of the company. It can be achieved if the company is able to adapt to the environment, because the environment is an external factor affecting the life and development of the company.

Developments in science and technology is a major factor cause of globalization. Advances in science and information technology resulted in the company must be prepared to face consequences, where the information flow is fast and intense competition in the business world must be addressed by the company by applying an appropriate strategy. One strategy that can be done by the company is to change the cost accounting system used by the new cost accounting system that is able to produce more accurate cost information.

Many concepts and cost accounting methods developed in the past are no longer suitable for use in a business environment today is experiencing many changes. The concept of past cost accounting, now has turned into a new cost accounting concepts in contemporary management. The new concept is expected



to record costs as they are and can motivate management in providing products or services in a cost effective manner. Companies in providing products or services in a cost effective need to have benchmarks that can be used, one of it is the cost of goods manufactured.

Companies need to do some calculations on the formation of the cost of goods manufactured carefully. The calculation of cost of goods manufactured with carefully can help companies to achieve cost effective. The lack of accurate in determining the cost of production will lead to errors in determining the selling price, which in turn affects the size of the profits made by the company. Counting the cost of production includes direct material costs, direct labour costs, and factory overhead costs. The calculation of the cost of production must be done carefully especially in factory overhead is an indirect cost of opening a product or service.

One of the cost accounting concept is traditional cost accounting system or the conventional method of allocating overhead costs to production based on units. According to Filipe & Cordeiro (2009:666), “traditional cost accounting mainly focuses on production, a source related allocation of logistics cost to cost units cannot be achieved”. This reason is that logistics costs are mostly overhead costs. Calculation of raw materials, direct labour and there is no problem when using traditional cost accounting, but there will be a problem in the calculation of the cost of an enterprise the overhead using traditional cost accounting system, especially the company produces a wide range of products.

The new accounting concept provides solutions to overcome the problems posed by conventional methods is using Activity Based Costing System (ABC System) is a "system-oriented cost information on providing detailed information about the company's activities to enable personnel management discriminate against activities". According to Horngren, Harrison, & Bamber (2005:1036), "Activity Based Costing (ABC) focuses on activities as the fundamental cost objects. The costs of those activities become building blocks for compiling the indirect cost of products, services, and customers." ABC System is a new accounting concept that is able to reduce the disadvantages of the traditional cost accounting, because the ABC system doesn't regard the expense as something that should be allocated, but also to understand what activity is the cause of the onset of the cost. ABC system will show how the resources released by tracing the activities undertaken in producing the product.

The calculation of the cost of goods manufactured by using traditional cost accounting has many differences when compared with the calculation method of the ABC system. The products were initially assessed benefit by using the traditional system, but it is a harmful product if calculated by the method of the ABC system. In addition, accounting principal product pricing is too high on the high-volume products and too low on the low-volume product when compared to the ABC system. This causes irregularities in decisions determining the selling price of the product by the management which will ultimately affect the profitability of the company.

PG. Kebon Agung Malang engaged in the sugar producing industry. The company is located at Kebon Agung village, Pakisaji sub district, Malang regency, for about 480 meters above the sea level, 5 km on the south of Malang city, between the main road of Malang and Blitar. The reasons for selecting the company as a research object because the allocation of overhead costs factory still use the traditional or conventional system, that is by charging manufacturing overhead based on the amount of units produced as cost, so that the calculation of the cost of production becomes inaccurate.

Based on the description above, this research will discuss the implementation of the ABC system on PG. Kebon Agung Malang in an effort to determine the cost of production so as to produce cost effective product. Researcher intend to conduct research entitled "**IMPLEMENTATION OF ACTIVITY BASED COSTING (ABC) SYSTEM TO DETERMINE THE COST OF GOODS MANUFACTURED**" (**Case Study at PG. Kebon Agung Malang**).

## **B. Problems Formulation**

Based on the background of described earlier, it can be the formulation of the problem as follows:

1. How is the traditional cost accounting calculations in determining the cost of goods manufactured at PG. Kebon Agung Malang?
2. How is the ABC system calculations in determining the cost of goods manufactured at PG. Kebon Agung Malang?



3. How is the difference between the cost of goods manufactured calculations based on traditional cost accounting system and ABC system at PG. Kebon Agung Malang?

### C. Research Objectives

Based on the formulation of the problem, the objectives of this study are as follows:

1. To know the traditional cost accounting calculation in determining the cost of goods manufactured at PG. Kebon Agung Malang
2. To know the ABC system calculations in determining the cost of goods manufactured at PG. Kebon Agung Malang
3. To know the differences between the cost of goods manufactured calculation based on traditional cost accounting system and ABC system at PG. Kebon Agung Malang.

### D. Research Contributions

1. Theoretical

The study is expected to be useful for the development of cost accounting in particular science and can be used as a reference or comparison to studies conducted the days to come.



## 2. Practical Benefit

This study is expected to be used mainly as an ingredient information and consideration for the company on the issue of the determination of the cost of production.

## E. Systematic Implementation

Systematic implementation of the study are as follows:

### CHAPTER I : INTRODUCTION

This chapter consist of background, problems review, research objectives, research contributions and systematic implementation of the research conducted.

### CHAPTER II : THEORITICAL REVIEW

This chapter describes the various theories that are used as the basis of research conducted, including the theory of cost accounting, cost accounting theory traditional (conventional method), the theory of cost accounting with ABC system.

### CHAPTER III : RESEARCH METHOD

This chapter describes the types of research, research focus, research sites, data sources, types, data collection techniques, research instruments, and data analysis used in the discussion.

## CHAPTER IV : RESULTS AND DISCUSSION

This chapter outlines the results of research, which is called the presentation of data that includes an overview of the company, history of the company, organizational structure, data analysis, and data interpretation.

## CHAPTER V : CONCLUSION

This chapter contains the conclusion and suggestions that the researcher give the results of the discussion of the research that has been done.

