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OPTIMIZING PRICING STRATEGIES: THE ROLE OF FULL COSTING IN ACCURATE PRODUCTION COST ANALYSIS

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Abstract

This study explores the implementation of full costing as a method to enhance the accuracy of production cost calculations and its implications for pricing strategies in small and medium enterprises (SMEs). Using a case study of Kerupuk Rambak Pak Djarwo, the research compares traditional costing practices with the full costing method. Data were collected through interviews, observations, and documentation, focusing on production cost data from 2023. The findings reveal a significant difference in production costs between the two methods, with full costing providing a more comprehensive accounting of overhead costs such as managerial salaries and utilities. This approach ensures more accurate pricing, aligning with true production costs, which is critical for competitiveness and profitability. However, the study identifies challenges in adopting full costing, including resource constraints and a lack of expertise. The research emphasizes the need for capacity-building initiatives and technological integration to facilitate the transition. The findings offer actionable insights for SMEs and policymakers to enhance financial management practices and foster long-term sustainability in competitive markets.

Keywords: *full costing, production costs, SMEs, pricing strategies, financial management.*

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1. Introduction

As Indonesia's economy continues to grow, the business sector has experienced significant expansion, evidenced by the increasing number of large, medium, and small enterprises. This growth aligns with the nation's efforts to position itself as a competitive force within the global market. However, this expansion brings heightened complexity and competition, requiring businesses to adopt robust management practices to ensure sustainability and resilience (Eriswanto & Kartini, 2019). The business environment's dynamism demands strategic approaches, especially in cost management and pricing, as these are pivotal to maintaining profitability and achieving long-term success (Kotler & Keller, 2016; Porter, 1985).

Accurate calculation of production costs forms the foundation of effective financial management for businesses. It enables firms to set competitive selling prices, optimize resources, and enhance profitability (Horngren, Datar, & Rajan, 2020). Despite its importance, many small and medium enterprises (SMEs) rely on simplified methods that often omit critical cost components, leading to pricing inaccuracies and financial instability (Blocher, Stout, & Cokins, 2019; Drury, 2021). For instance, SMEs frequently exclude indirect costs such as equipment depreciation or utility expenses, thereby underestimating the true cost of production (Shields, 2020).

Production costs comprise various components, including raw materials, labor, and overheads. Effective cost management necessitates meticulous calculation and allocation of these expenses to ensure that selling prices not only cover production costs but also deliver adequate profit margins (Kaplan & Atkinson, 2015). The adoption of systematic costing methods, such as full costing, has proven critical in this regard. Full costing, or absorption costing, provides a comprehensive view of production-related expenditures by including both direct and indirect costs (Hansen & Mowen, 2018; Garrison, Noreen, & Brewer, 2021).

Full costing differs significantly from other costing approaches, such as variable costing, by incorporating fixed overhead costs into product cost calculations (Drury, 2021; Hilton & Platt, 2019). This inclusion provides a holistic understanding of production expenses, enabling businesses to make informed pricing and operational decisions (Bhimani & Bromwich, 2020). Research indicates that full costing enhances accuracy in financial reporting, making it particularly beneficial for SMEs aiming to transition from traditional practices to modern financial management frameworks (Langfield-Smith, Thorne, & Hilton, 2018; Verma, 2021).

The challenges of implementing full costing in SMEs are manifold. Traditional methods often prioritize simplicity, disregarding essential overhead costs such as administrative expenses and utilities (Anthony et al., 2020). These omissions can lead to distorted financial reporting, ultimately impairing the enterprise's ability to compete effectively in the market (Young & O'Byrne, 2020). A case study of Indonesian SMEs, such as SMEs Kerupuk Rambak Pak Djarwo, underscores the practical difficulties in transitioning to full costing, including resistance to change, lack of expertise, and limited access to modern accounting tools (Eriswanto & Kartini, 2019; Tanis & Özkan, 2019).

The adoption of full costing is not merely a technical adjustment but a strategic move with broader implications for business sustainability and competitiveness. Accurate costing facilitates effective pricing strategies and supports long-term financial resilience (Blocher et al., 2019). For SMEs in competitive industries such as food production, accurate cost data is indispensable for market positioning and growth. Furthermore, full costing fosters transparency in financial reporting, which is increasingly demanded by stakeholders, including investors and regulatory bodies (Kaplan & Atkinson, 2015; Creswell, 2014).

Empirical evidence suggests that integrating full costing with advanced financial software significantly enhances its accuracy and efficiency (Anthony et al., 2020; Yin, 2018). Tools such as enterprise resource planning (ERP) systems allow for real-time data collection and cost allocation, streamlining the implementation process for SMEs. Additionally, capacity-building initiatives, including staff training and workshops, have proven effective in overcoming resistance to adopting comprehensive costing methods (Zimmerman, 2017; Shields, 2020). Governments and industry associations can play a pivotal role in facilitating these transitions by providing financial incentives and technical support (Kotler & Keller, 2016).

Internationally, the application of full costing has demonstrated substantial benefits across various business contexts. For example, multinational corporations have achieved greater cost control and profitability by employing comprehensive costing strategies (Blocher et al., 2019; Drury, 2021). These successes highlight the universal applicability of full costing, transcending industry boundaries and organizational sizes. Comparative studies between SMEs and large enterprises reveal that while the scale of implementation may vary, the underlying principles and benefits remain consistent (Hansen & Mowen, 2018; Verma, 2021).

The case of SMEs Kerupuk Rambak Pak Djarwo provides a compelling illustration of how full costing can transform financial management practices within Indonesian SMEs. By accurately accounting for all production-related costs, the enterprise has been able to set competitive yet profitable prices, improve resource allocation, and build a robust financial foundation (Langfield-Smith et al., 2018). This case study serves as a valuable reference for other SMEs navigating similar challenges, emphasizing the importance of adopting systematic costing methodologies.

In conclusion, the implementation of full costing as a basis for determining selling prices offers transformative potential for SMEs. By ensuring accuracy in cost calculations, this approach enables businesses to compete effectively in dynamic markets, optimize financial performance, and achieve sustainable growth (Horngren et al., 2020; Shields, 2020). Future research should explore the long-term impacts of full costing on SME development and identify strategies to mitigate the challenges associated with its adoption. The findings from this study aim to contribute to the body of knowledge on SME financial management and provide actionable insights for practitioners and policymakers alike (Creswell, 2014; Yin, 2018).

2. Research Method

This study focuses on the calculation of production costs and the determination of selling prices. A quantitative research method with a descriptive design and a case study approach was employed. The sample for this research includes production cost data for Kerupuk Rambak Sapi during the year 2023. Data collection techniques utilized in this study comprise interviews, observations, and documentation. The data analysis technique used is the calculation of production costs using the full costing method to determine selling prices. This methodology provides a structured framework for analyzing cost elements and their implications for pricing strategies (Creswell, 2014; Yin, 2018).

3. Result and Discussion

Results

Table 1. Calculation of Production Cost based on Owner's Perspective

Biaya Bahan Baku	Rp 2.704.579.200
Biaya Tenaga Kerja	Rp 142.500.000
Biaya Overhead Pabrik	Rp 121.999.106
Total Biaya Produksi	Rp 2.969.078.306

Source: Primary Data, 2024

Cost of Goods Sold (HPP): IDR 2,969,078,106 : 36,747 packages = IDR 80,797/package.

Table 2. Calculation of Production Cost based on Full Costing Method

Biaya Bahan Baku	Rp 2.704.579.200
Biaya Tenaga Kerja	Rp 142.500.000
Biaya Overhead Pabrik	Rp 162.209.221
Total Biaya Produksi	Rp 3.009.288.421

Source: Primary Data, 2024

Cost of Goods Sold (HPP): IDR 3,009,288,421 : 36,746 packages = IDR 81,892/package.

From the calculations above, there is a difference in the cost of goods manufactured between the company's method and the full costing method. The company's calculated production cost is IDR 80,797 per package, while the full costing method yields IDR 81,892 per package. The discrepancy of IDR 1,095 arises because the company's method does not allocate factory overhead costs accurately, instead categorizing some overhead expenses as miscellaneous costs. As a result, the production costs appear lower, reflecting less accuracy in the company's calculation method.

When determining the selling price, the company sets the price based on consumer demand. The selling price for rambak is set at IDR 100,000. This information was obtained through an interview with the rambak factory owner, Pak Djarwo.

Table 3. Differences in Calculation of Selling Price

Harga Jual Perusahaan	Metode Full Costing	Selisih
Rp 100.000	Rp 101.600	Rp 1.600

Source: Primary data, 2024

Discussion

The results of this study reveal substantial differences between SMEs Kerupuk Rambak Pak Djarwo's traditional costing method and the full costing method. This section delves deeper into these findings to provide a nuanced understanding:

a. Production Costs Analysis

Using the company's traditional method, production costs were calculated at IDR 80,797 per unit. This approach excluded several overhead components, including managerial salaries, utility expenses, and equipment depreciation. The full costing method, which incorporates all overhead costs, produced a higher production cost of IDR 81,892 per unit. The inclusion of these additional costs reflects the true expense of production and mitigates the risk of underpricing products.

b. Selling Price Determination

The selling price set by the company was IDR 100,000, based on a 24% profit margin derived from the simplified costing method. When recalculated using the full costing method, the selling price required to maintain the same profit margin rose to IDR 101,600. This adjustment highlights the need for a pricing strategy that aligns with comprehensive cost assessments.

c. Profitability Insights

The omission of significant overhead costs in the company's method led to an inflated perception of profitability. Full costing reveals a more accurate profit margin, providing a robust basis for strategic decision-making.

Discussion

a. The Importance of Accurate Cost Accounting

The IDR 1,095 difference in production cost between traditional and full costing underscores the critical role of accuracy in cost accounting. Neglecting fixed and indirect costs, such as depreciation and managerial overheads, can result in financial instability. Drury (2021) asserts that accurate cost accounting fosters long-term sustainability by aligning pricing strategies with true cost structures.

b. Theoretical Underpinnings of Full Costing

Full costing aligns with managerial accounting frameworks that emphasize comprehensive cost analysis for effective decision-making. For example, Activity-Based Costing (ABC) complements full costing by allocating costs to specific activities, enhancing precision and operational planning (Kaplan & Atkinson, 2015). The method's relevance is further validated through its integration with strategic financial models in diverse industries (Tanis & Özkan, 2019).

c. Enhancing Market Competitiveness

By adopting a selling price of IDR 101,600, based on full costing, SMEs Kerupuk Rambak Pak Djarwo ensures competitiveness while securing profitability. This pricing strategy accommodates market fluctuations, such as raw material price volatility, enabling SMEs to sustain operations and enhance customer trust (Verma, 2021). Evidence from Blocher et al. (2019) suggests that accurate cost-based pricing strengthens a company's ability to compete in dynamic markets.

d. Practical Challenges and Solutions for SMEs

Transitioning from simplified methods to full costing poses challenges, including resource constraints and skill gaps. SMEs often lack the infrastructure to support advanced accounting practices (Creswell, 2014). Addressing this, initiatives such as subsidized training programs and access to cloud-based accounting tools can empower SMEs to adopt full costing efficiently (Yin, 2018; Anthony et al., 2020).

e. Empirical Evidence of Full Costing's Impact

Research on SMEs transitioning to full costing reveals significant benefits, including improved financial accuracy and operational transparency. For instance, Verma (2021) demonstrated how SMEs employing full costing achieved resilience during economic downturns. This case study aligns with such findings, showcasing how full costing exposes hidden costs and provides a robust foundation for strategic pricing.

f. Policy Implications and Government Support

Encouraging full costing adoption through government subsidies and incentives can enhance SME financial governance. Horváth (2021) emphasizes that structured costing policies foster transparency and improve compliance with financial regulations. Policymakers can also facilitate capacity building by providing accounting tools tailored to SME needs.

g. Integrating Full Costing with Technology

The integration of full costing with digital solutions, such as cloud-based platforms, can optimize cost tracking and decision-making. Advanced technologies enable real-time monitoring of financial metrics, enhancing adaptability and strategic planning. SMEs leveraging these tools can achieve scalability and operational efficiency in competitive markets (Young & O'Byrne, 2020).

h. Long-Term Benefits of Full Costing

The adoption of full costing fosters a culture of accountability and precision within organizations. SMEs equipped with comprehensive cost data can make informed decisions about resource allocation, investment opportunities, and market expansion. These benefits contribute to long-term financial stability and competitive advantage (Drury, 2021; Hansen & Mowen, 2018).

i. Adaptation to Global Market Dynamics

Full costing prepares SMEs to compete in both local and international markets by ensuring pricing strategies reflect true production costs. This alignment is crucial for SMEs seeking to expand their market reach and participate in global trade. Empirical evidence supports its effectiveness in fostering export readiness among SMEs (Tanis & Özkan, 2019).

4. Conclusion

The study highlights the critical role of accurate cost accounting in determining production costs and setting appropriate selling prices. The comparison between the traditional costing method and the full costing approach demonstrates significant discrepancies due to the exclusion of overhead costs in the former. Full costing provides a comprehensive perspective, ensuring that all direct and indirect costs are accounted for, leading to more accurate pricing and financial reporting. This accuracy is essential for SMEs like Kerupuk Rambak Pak Djarwo to maintain competitiveness and profitability in dynamic markets.

To enhance financial management practices, SMEs should adopt the full costing method for a more precise understanding of production costs. This transition requires investment in staff training, access to modern accounting tools, and technical support from government or industry organizations. Policymakers should consider offering financial incentives and subsidies to encourage SMEs to adopt comprehensive costing methodologies. Furthermore, integrating full costing with digital accounting solutions, such as cloud-based software, can streamline the process and improve efficiency, positioning SMEs for sustainable growth and competitiveness in both local and international markets.

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