

## TRAINING ON CALCULATION COST OF PRODUCTION FOR NUT PEAK MSMEs IN LHOEKSEUMAWE CITY

Rico Nur Ilham<sup>1</sup>, Irada Sinta<sup>2</sup>, Amru Usman<sup>3</sup>, Em Yusuf Iis<sup>4</sup>, Rusydi Abubakar<sup>5</sup>

<sup>1,3,4,5</sup> Faculty of Economics and Business, Universitas Malikussaleh

<sup>2</sup> Faculty of Agriculture, Universitas Malikussaleh

Corresponding E-mail: [riconurilham@unimal.ac.id](mailto:riconurilham@unimal.ac.id)

### ABSTRACT

One of the fundamental problems faced by MSME players is a lack of ability in accounting, including calculating the cost of goods manufactured correctly. This phenomenon shows that there are still many MSME actors who have not been able to obtain optimal profits because of their inability to calculate the cost of production correctly. Calculating the cost of production is very important considering that the benefit of information on the cost of production is to determine the selling price of the product. Errors in calculating the cost of production will cause errors in determining the selling price of the product. Ibu Yati's Peanut Rempeyek MSME is one of the MSMEs engaged in the production and sale of various wet cakes and pastries. The results of the service team's initial communication with Mrs. Yati's Peanut Rempeyek showed that this business had never calculated the cost of production for the products it produced because the owner did not have an understanding of the importance of calculating the cost of production. Under these conditions, it is difficult for MSMEs to develop and set selling prices that compete in the market with other products so that maximum profits can be obtained. Based on the problems faced by Ibu Yati's Rempeyek Nut SMEs, the main solution that can be provided to overcome the problems faced by Ibu Yati's Rempeyek Nut SMEs is the application of the calculation of the cost of production for the products they produce which includes identifying production costs and calculating the cost of production. The output resulting from this solution for Mrs. Yati's peanut brittle UMKM is the availability of basic production cost calculations for each type of product produced by Mrs. Yati's peanut brittle UMKM.

*Keywords: Production Costs, Cost of Goods Production, MSMEs*

### 1. INTRODUCTION

Small, micro and medium enterprises (MSMEs) in various countries, including Indonesia, are one of the drivers of a strong people's economy. This is because most small and medium entrepreneurs start from family or home industries. Thus, consumers also come from the relatively large lower middle class. MSMEs have a very important and strategic role in supporting national economic development. These roles include: its position as a major player in economic activities in various sectors, the largest provider of employment opportunities, an important player in the development of local economic activities and community empowerment, and a creator of new markets and sources of innovation, as well as its contribution in maintaining the balance of payments through export activities. MSMEs have been proven to be able to contribute significantly in spurring economic growth, providing employment opportunities to reduce unemployment, and distributing the results of development. The growth in the number of MSMEs in Indonesia is quite rapid and is able to absorb almost 97.2% of the workforce from the total existing employment figures. However, the rapid growth in the number of MSMEs is not accompanied by high sales figures. The problems often faced by MSME entrepreneurs are multidimensional, which means that

MSMEs have many problems. One of the fundamental problems faced by MSME players is a lack of ability in accounting, including calculating the cost of goods manufactured correctly.

This phenomenon shows that there are still many MSME actors who have not been able to obtain optimal profits because of their inability to calculate the cost of production correctly. This is partly due to the lack of ability of MSME actors in classifying costs so that there are several costs that are not taken into account in the cost price, such as depreciation and labor costs which come from the owners themselves. This is partly due to the lack of ability of MSME actors in classifying costs so that there are several costs that are not taken into account in the cost price, such as depreciation and labor costs that come from the owner himself. So far, companies have only set selling prices according to market prices without calculating the costs incurred during the production process in accordance with accounting procedures and lack of detail. The cost of production (cost) is the cost required to process a product. Production costs consist of material costs, labor and overhead. There are several benefits if a company knows the cost of each product produced, namely determining the selling price, monitoring cost realization, calculating profit and loss, and calculating the cost of inventory of finished goods and goods in process.

Calculating the cost of production is very important considering that the benefit of information on the cost of production is to determine the selling price of the product. Errors in calculating the cost of production will cause errors in determining the selling price of the product. As a result, product selling prices are set too high or even too low. A selling price that is too expensive actually creates a bad image for the company. If this condition occurs, it can result in the products offered by the company being difficult to compete with similar products on the market. On the other hand, if the selling price of the product is too low, it will result in the company's profits being too low. This condition will ultimately lead to bankruptcy. Apart from being a basis for determining selling prices, calculating the cost of goods produced is useful for evaluating whether the company is producing efficiently. Based on production cost information, cost components that are wasteful can be identified and improvements can be made immediately, so that cheaper production costs can be obtained. Information on the cost of production is also useful in calculating the actual profit/loss earned by MSME players, so that their business development can be known. Furthermore, information on the cost of goods manufactured is useful in calculating the value of inventory, both finished goods and goods in process. Pay attention to the description above how important it is to determine the right selling price for the sustainability and progress of micro, small and medium enterprises (MSMEs).

MSME Peanut brittle is one of the MSMEs in Lhokseumawe City. This peanut business is processed using fried rice flour or wheat flour which is mixed with water to form a slightly runny dough, seasoned with spices, especially salt and garlic, and topped with a special filler, usually peanut seeds. This MSME is engaged in the production and sale of various types of peanut shells. The owner of this UKM is a woman named Mrs. Yati. It is because of these skills that this business owner continues to run his business to support his family. This is indicated by the large number of enthusiasts who have bought it, so that most of them have subscribed to Mrs. Yati's peanut brittle cooking products. The sustainability of a business is greatly influenced by determining the right selling price. Determining the selling price incorrectly can cause losses or goods not being sold easily because the selling price is too high. Therefore, determining the selling price must be based on a correct calculation of the costs that have been incurred to produce the goods. The results of the service team's initial communication with Mrs. Yati's peanut brittle UMKM showed that this UMKM had never calculated the cost of production for the products it produced. Where, the owner of this MSME does not yet have an understanding of the importance of calculating the cost of production correctly for his business. This MSME does not calculate the cost of production as a basis for determining the selling price because it does not yet have the ability to calculate the cost of production. This MSME determines the selling price based on market prices. As a result, these MSMEs have difficulty determining a reasonable selling price for their

products in order to maintain the viability of their business. Under these conditions, it is difficult for MSMEs to develop and set selling prices that compete in the market with other products so that maximum profits can be obtained. The aim of this service activity is to increase the capacity of Ibu Yati's peanut rempeyek MSMEs in calculating the cost of production.

## 2. METHOD OF IMPLEMENTATION

### Implementation Stages

The target to be achieved from this community service program is that the owner of the Peanut Rempeyek MSME, Mrs. Yati, can carry out calculations and prepare reports on the cost of production so that she can produce accurate production cost information. This service activity was carried out using direct training and simulation methods with Peanut Rempeyek partner Mrs. Yati. This training will be held in October 2023 at partner businesses. The training material was presented by the Malikussaleh University Lecturer Team. The implementation of the training was assisted by 3 (three) students from the Malikussaleh University Accounting Study Program. For this reason, the implementation method used is by means of intensive assistance and guidance, the implementation stages of which are as follows:

#### 1. Planning Stage

- a. Analyze partners' cost of production calculations to identify the types of fixed costs and variable costs that occur and what costs are involved in calculating the cost of production. The results of this analysis will be used as a basis for developing a product cost calculation format that best suits the conditions of Mrs. Yati's peanut brittle SMEs.
- b. Develop a production cost format consisting of raw material costs, labor costs and overhead costs.
- c. Coordinate with partners regarding confirmation of the schedule and location for training implementation.
- d. Procurement of materials on the format for calculating the cost of production of Ibu Yati's Rempeyek Nuts.

#### 2. Implementation Stage

The implementation of intensive mentoring and guidance is carried out in 3 sessions as follows:

- a. The first training session provided knowledge to the owner of the Peanut Rempeyek MSME, Mrs. Yati, about the cost components of calculating the cost of production.
- b. The second mentoring session focused on the activity of calculating the cost of production of Ibu Yati's peanut brittle products by classifying production costs into raw material costs, labor costs and overhead costs, both fixed and variable. The implementing team together with partners tried to identify the costs that occurred when producing cakes at Ibu Yati's Rempeyek Nuts, starting from purchasing materials, using materials, paying wages, and other costs that occurred during the cake making process. The cost of production consists of three main components, namely:
  - 1) Direct material costs which include material purchase costs, purchase discounts, purchase transportation costs, storage costs, and others.
  - 2) Direct labor costs which include all employee wage costs who are directly involved in the process of making raw materials into finished goods or goods that are ready to be sold.
  - 3) Factory overhead costs include all costs excluding direct material costs and direct wages.
- c. The third mentoring session focused on preparing a report on the cost of production of Ibu Yati's peanut brittle peanuts. In this third session, the service team will guide partners to transform the results of recording and summarizing into a report on the cost of production of Ibu Yati's Rempeyek Nuts. Calculation of production costs uses the full cost method, which is easier to do without having to choose between variable costs and fixed costs. Calculation of the cost of production using the full costing method is a determination of the cost of a

product that takes into account all elements of production costs, namely raw material costs, direct labor costs, and variable and fixed factory overhead costs.

### **Evaluation of Program Implementation and Program Sustainability**

Evaluation of the implementation of activities is carried out to see the partner's level of understanding in calculating the cost of production for their business. At this evaluation stage, the service team and partners will jointly evaluate whether the mentoring activities that have been carried out have been able to help improve the understanding and ability of MSME owners in preparing product cost reports using the following stages:

- a. The service team evaluates the achievements successfully completed by partners by assessing the accuracy of filling in all formats, both in the correct posting and in the correct amount.
- b. The service team will provide examples of cases of calculating the cost of production that must be completed by partners and discuss them.
- c. If partners still have problems understanding the material presented, the service team will provide more intensive input and guidance until partners can actually calculate the cost of production independently.

For the sustainability of this program, the service team will continue to communicate and provide assistance to Ibu Yati's Peanut Rempyek partners in providing solutions related to problems in calculating the cost of production, so that the MSMEs of Mrs. Yati's Rempyek Nuts can independently calculate the cost of production of their products in the format provided by service team. The service team will provide a book containing a format for calculating the cost of production, so partners only need to enter data on the costs incurred to produce the cake into the format provided. The production cost data can then be summarized into a report format for calculating the cost of production.

### **3. RESULTS**

Based on the situation analysis resulting from initial survey activities on the Rempyek Nut UMKM, Mrs. Yati Lhokseumawe has never calculated the cost of production for the products she produces. This is because the owner of this MSME does not yet have an understanding of the importance of calculating the cost of production correctly for his business. To resolve the partner's problems, the steps taken include providing training and assistance in preparing the cost of production report. In the initial stage of training, training participants are given material regarding the steps to determine the cost of production using the full costing method. Next, in the second stage, participants are given material on how to determine the selling price based on the cost of production that has been calculated previously. After a series of materials were provided, a question and answer session was held regarding these materials. In the final stage, an evaluation is carried out to measure the level of success of this community service activity program.

#### **Recording production cost transactions**

Production costs are costs incurred by partners during the production or management process with the aim of producing products that are ready to be marketed. This production cost calculation will be carried out from the beginning of processing, to finished or semi-finished goods. The accumulated expenditure required by a company to be able to process raw materials into finished products is called production costs. Production cost coverage contains 3 elements, including raw materials, direct labor and factory overhead. Production costs will be charged until the processing process produces goods that are ready to be sold on the market. Later, these costs will be calculated per unit of product, making it easier to calculate and extract profit figures. Based on the table in, Mrs. Yati's Peanut Rempyek MSME only needs to fill in the tables in the picture above, including material costs, amount of wage payments and overhead costs. Ibu Yati's Peanut Rempyek UMKM

at the beginning of each period must be able to estimate the initial inventory of the ingredients used to produce their processed products. Information on the initial inventory amount of materials is recorded in the initial inventory entry for each material. Ibu Yati's Peanut Rempeyek UMKM must recap the number of purchases of ingredients for production every month. The value of each month's purchase of materials is recorded in the purchase form for each material. Information on the initial inventory amount plus the number of purchases of each ingredient will provide information regarding the amount of ingredients available at Ibu Yati's Peanut Rempeyek UMKM. To obtain information on the use of ingredients for their processed products every month, previously Ms. Yati's peanut brittle SME had to enter information on the final inventory of each ingredient each month in the final inventory form.

By having the recording form above, it will make it very easy for Ibu Yati's peanut brittle SMEs to record payments for production costs which include purchasing materials, paying labor wages and paying overhead costs. The information recorded in the table above will be used as a basis for calculating the cost of production for Ibu Yati's peanut brittle UMKM.

### **Calculation of the cost of production**

The cost of production is the production cost which is calculated from the sum of three cost components, namely labor costs, raw material costs and factory overhead costs. The cost of production is an important component that must be recorded in the financial statements. This calculation will be a sales benchmark and consideration for Ibu Yati's peanut brittle UMKM. As the name suggests, the cost of production is a list of costs that must be incurred during the production process in a certain period. Therefore, companies inevitably have to take into account the cost of their production. The benefits of calculating the cost of production include that it can be taken into consideration by companies in determining product selling prices, as a means of controlling production costs, calculating profit and loss, and determining the cost of product inventory. With the form for calculating the cost of production, Ibu Yati's peanut brittle SMEs can find out the production costs per unit of product produced. Information on the production costs of each product can later be used as a reference in determining the price of products sold by Ibu Yati's Peanut Rempeyek UMKM. Figure 4 shows the cyan form for calculating the cost of production. Based on the evaluation results, it was found that the service partner, in this case the Peanut Rempeyek MSME, Mrs. Yati, had understood the explanation of the material presented and was able to prepare a report on the cost of production. The form of evaluation provided is that partners are asked to prepare a production price report for one type of product produced in the format provided. Partners are able to identify production costs for the products to be produced and are able to prepare good production cost reports. The cost of production produced is lower than the selling price.

## **4. CLOSING**

### **Conclusion**

The conclusion from the implementation of this science and technology application activity is the availability of a form that can be used by Ibu Yati's Peanut Rempeyek MSMEs in recording their business transactions. The owner of the Peanut Rempeyek MSME, Mrs. Yati, generally understands the importance of the cost of production report. The owner of the Peanut Rempeyek MSME, Mrs. Yati, has been able to identify production costs and is able to prepare reports on the cost of production.

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