

Optimizing Cost Management in Dynamic Business Environments: An In-depth Analysis of Production Cost Budgeting, Considering Specific Elements and External Factors

Tatang Suhidayat¹, Ravitilova², Ai Handayani³, Fransisco Wanviano Daniel Tambunan⁴

¹Accountancy, Master of Accounting, University Sangga Buana

²Digital Marketing, Faculty of Economics and Business, University of Padjadjaran

³Accountancy, Faculty of Economics and Business, STAN IM

⁴Management, Faculty of Economics and Business, STAN IM

Corresponding Author: ¹tsuhidayat@gmail.com, ²ravitilovaa14@gmail.com,
³mrsaihandayani@gmail.com, ⁴fransswd1@gmail.com

ABSTRACT

This research discusses the effectiveness of using budgets as a means of controlling production costs at PT. Sari Tuna Makmur in the 2017-2021 period. By examining the budget and realization of direct labor costs (salary costs), factory overhead costs, as well as differences in budgeted tuna production costs, this research aims to identify factors that influence variations between budget and realization. The research results show that the company is generally successful in controlling production costs. Although there are variations in direct labor costs during the COVID-19 pandemic, PT. Sari Tuna Makmur was able to achieve production costs that were lower than the budget in previous years. Internal factors such as business policies, production capacity, and production facilities, as well as external factors such as competition and consumer demand, play an important role in successful cost control. However, special challenges arise during the pandemic, where the decision not to reduce the workforce may result in direct labor cost deviations. Therefore, this research recommends increasing the accuracy of budget preparation and more detailed attention to factors that influence production costs, especially in unexpected situations. This research contributes to the understanding of production cost control strategies amidst the dynamics of the business environment. The practical implication is the need for companies to continue to optimize cost control strategies, consider changes in external conditions, and increase accuracy in preparing budgets to maintain the company's operational and financial sustainability.

Keywords: Production cost budget, Production cost management, Operational efficiency, Budget analysis

INTRODUCTION

Production cost management plays a crucial role in the continuity and operational efficiency of a company (1). In the competitive business era, the ability to manage and optimize production cost budgets is a must for company continuity and growth. Therefore, this research aims to carry out an in-depth analysis of the production cost budget with a focus on increasing the efficiency of production cost management (2). The production cost budget is not just a documentation of numbers, but is a strategic

tool that is able to provide a comprehensive view of expenses related to production (3). Production cost budget analysis is a critical step to identify potential increases in efficiency, manage financial resources more wisely, and optimize production results (4). Increasing the efficiency of production cost management is the main focus of this research, considering its immediate impact on the company's profitability and competitiveness. By analyzing the production cost budget, it is hoped that areas that need improvement can be identified, so that the company can take

strategic steps to increase efficiency and reduce waste (5).

This research will not only explore the technical aspects of production cost budgeting, but will also explore its strategic implications for overall production cost management. By understanding and improving production cost budgets, companies can take proactive steps in achieving their financial and operational goals (6).

Through in-depth analysis and a systematic scientific approach, this research aims to make a real contribution to the understanding and application of best practices in production cost management (7). Thus, it is hoped that the results of this research can be a valuable guide for companies in their efforts to increase their efficiency and competitiveness in an increasingly dynamic and competitive market.

Table 1: Favorable/Unfavorable at PT. Sari Tuna Makmur

No	Year	Budget	Realization	Variance	F/UF	Percentage
Tuna Cost Realization Budget						
1	2017	IDR 63,922,000	IDR 61,261,000	IDR 2,661,000	F	4.2%
2	2018	IDR 80,146,000	IDR 76,713,000	IDR 3,433,000	F	4.4%
3	2019	IDR 77,924,000	IDR 74,597,000	IDR 3,327,000	F	5.5%
4	2020	IDR 39,018,000	IDR 37,339,000	IDR 1,679,000	F	4.3%
5	2021	IDR 40,897,000	IDR 39,214,000	IDR 1,683,000	F	4.1%
Factory Overhead Costs						
1	2017	IDR 6,500,000	IDR 5,967,000	IDR 533,000	F	5.3%
2	2018	IDR 6,000,000	IDR 5,707,000	IDR 293,000	F	4.9%
3	2019	IDR 7,700,000	IDR 6,991,000	IDR 709,000	F	6.2%
4	2020	IDR 4,350,000	IDR 4,156,000	IDR 194,000	F	4.0%
5	2021	IDR 4,899,000	IDR 4,676,000	IDR 223,000	F	4.6%
Direct Labor Costs (Wage Costs)						
1	2017	IDR 3,986,000	IDR 3,829,000	IDR 157,000	F	3.9%
2	2018	IDR 5,750,000	IDR 5,490,000	IDR 260,000	F	4.5%
3	2019	IDR 6,375,000	IDR 5,995,000	IDR 320,000	F	6%
4	2020	IDR 5,550,000	IDR 5,611,000	Rp (61,000)	UF	-1.1%
5	2021	IDR 5,520,000	IDR 5,560,000	IDR (40,000)	UF	-0.7%

F = Favorable UF = Underperformance

Managing company finances, analyzing production cost budgets is a crucial aspect to ensure operational efficiency and continuity. This research will focus on evaluating the production cost budget, taking into account

key variables such as the Realized Tuna Cost Budget, Factory Overhead Costs, and Direct Labor Costs (Salary Costs). Based on historical data for the last five years, there are trends in these variables that need to be

understood in more depth. For example, in the Tuna Cost Realization Budget, significant variations can be seen from year to year, with achievement levels reaching 4.1% to 5.5%. Something similar is also seen in Factory Overhead Costs and Direct Labor Costs, where variability and percentage changes create interesting dynamics to investigate (8).

It is important to understand what factors may influence these variances, whether they are caused by changes in operational policies, market fluctuations, or internal company factors. By exploring these variants, this research aims to provide better insight into the efficiency of production cost management and look for potential improvements (6).

In addition, through an analysis of Direct Labor Costs that recorded an Unfavorable Variance in 2020, this research will also explore the causes of this discrepancy and find solutions to increase efficiency (9). Through a better understanding of this variability, it is hoped that this research can contribute to improving production cost budgeting strategies and overall advancing the efficiency of cost management in this company (10). While the importance of production cost management has been widely recognized in modern business, there is a research gap that needs to be investigated further (2). Several previous studies have provided an in-depth understanding of the concept and application of production cost budgeting, but have not fully explored the potential for increasing the efficiency of production cost management (11).

One research gap that can be identified is the lack of focus on in-depth analysis of critical elements in production cost budgets that can have a significant impact on operational efficiency (12). Some studies tend to be general in nature and have not highlighted specific areas that require further attention (13). Filling this research gap, this research will focus on an in-depth analysis of the production cost budget by considering specific elements that can contribute to increasing the efficiency of production cost management (14). By identifying and filling this research gap, it is hoped that this research can provide a more comprehensive understanding of how to increase the efficiency of production cost management in dynamic and complex business realities (15,16). In addition, it is hoped that the results of this research can provide practical guidance for companies in developing more effective and adaptive strategies in facing the challenges of ever-growing production costs (17).

How can in-depth analysis of production cost budgets improve the efficiency of production cost management in a dynamic business context, taking into account specific elements in the budget as well as external factors that influence strategy implementation?"

METHODS

This research is a qualitative approach with descriptive methods, where each variable will be tested and analyzed separately to gain a

deeper understanding of each variable that is the object of research.

RESULTS AND DISCUSSION

Based on data from 2017 to 2021, this research notes that there is always a comparison with the previous year to assess production growth. The following is a summary of tuna production results, direct labor costs (salary costs), and factory overhead costs:

- Tuna Fish Production in 2017:

Production reached 4.2% of the budget, namely IDR 61,261,000 from a budget of IDR 63,922,000.

Variance of IDR 2,661,000 or 4.2%.

- Tuna Fish Production in 2018:

Production reached 4.4% of the budget, namely IDR 76,713,000 from a budget of IDR 80,146,000.

Variance of IDR 3,433,000 or 4.4%.

- Tuna Fish Production in 2019:

Production reached 5.5% of the budget, namely IDR 74,597,000 from a budget of IDR 78,924,000.

Variance of IDR 4,327,000 or 5.5%.

- Tuna Fish Production in 2020:

Production reached 4.3% of the budget, namely IDR 37,339,000 from a budget of IDR 39,018,000.

Variance of IDR 1,679,000 or 4.3%.

- Tuna Fish Production in 2021:

Production reached 4.1% of the budget, namely IDR 36,710,060 from a budget of IDR 40,897,000.

Variance of IDR 1,683,000 or 4.1%.

This data analysis shows the company's efforts to face challenges, especially in 2020 due to the COVID-19 pandemic (18)(19). Even though there has been a decline in production, effective budget management is able to maintain a balance between budget and realization (6).

Direct Labor Costs (Salary Costs) are a number of costs incurred to use labor in the production process. These costs can be divided into direct and indirect labor costs. After preparing the direct raw material cost budget and direct labor cost budget, the next step is to prepare the factory overhead cost budget (20).

Table 1. Shows the budget and actual direct labor costs (salary costs) at PT. Sari Tuna Makmur for 2017-2021:

- 2017:

The budget and realization reached 3.9% of the budget, namely IDR 3,829,000 from the budget of IDR 3,986,000.

Variance of IDR 157,000 or 3.9%.

- Year 2018:

The budget and realization reached 4.5% of the budget, namely IDR 5,490,000 from the budget of IDR 5,750,000.

Variance of IDR 260,000 or 4.5%.

- 2019:

The budget and realization reached 6.0% of the budget, namely IDR 5,995,000 from the budget of IDR 6,375,000.

Variance of IDR 380,000 or 6.0%.

- Year 2020:

The budget and realization reached -1.1% of the budget, namely IDR 5,611,000 from the budget of IDR 5,550,000.

Variance of -Rp 61,000 or -1.1%.

- Year 2021:

The budget and realization reached -0.7% of the budget, namely IDR 5,560,000 from the budget of IDR 5,520,000.

Variance of -Rp 40,000 or -0.7%.

In 2020-2021, such as tuna production costs and factory overhead, direct labor costs in employee salaries did not decrease. This was due to the company's decision not to cut its workforce during the COVID-19 pandemic, which led to wasteful salary costs and unprofitable results.

Factory Overhead Costs at PT. Sari Tuna Makmur for 2017-2021 is represented in Table 1:

- 2017:

The budget and actual factory overhead costs reached 5.3% of the budget, namely Rp. 5,967,000 from the budget of Rp. 6,300,000.

There is a variance (difference) of Rp. 333,000 or 5.3%.

- Year 2018:

The budget and actual factory overhead costs reached 4.9% of the budget, namely Rp. 5,707,000 from the budget of Rp. 6,000,000.

There is a variance of Rp. 293,000 or 4.9%.

- 2019:

The budget and actual factory overhead costs reached 6.2% of the budget, namely Rp. 6,991,000 from the budget of Rp. 7,450,000.

There is a variance of Rp. 459,000 or 6.2%.

- Year 2020:

The budget and actual factory overhead costs reached 4.0% of the budget, namely Rp. 4,156,000 from the budget of Rp. 4,330,000.

There is a variance of Rp. 174,000 or 4.0%.

- Year 2021:

The budget and actual factory overhead costs reached 4.6% of the budget, namely Rp. 4,676,000 from the budget of Rp. 4,859,000.

There is a variance of Rp. 183,000 or 4.6%.

This data shows that factory overhead costs at PT. Sari Tuna Makmur during this period ranged from 4.0% to 6.2% of the budget, with variations in the difference measured in nominal Rupiah.

Effectiveness of Using Budgets as a Tool for Controlling Production Costs at PT. Sari Tuna Makmur

The results of the research show that the factors that cause unprofitable variations between budget and production costs at PT. Sari Tuna Makmur can be identified as follows: every year, the company sets a budget

that is greater than the actual production costs, increasing net profit. Data analysis shows that PT. Sari Tuna Makmur effectively uses

budgets to control production costs. Production costs in 2017-2021 were lower than budget, indicating target achievement.

Table 2: Differences in Tuna Fish Production Cost Budgets for 2017-2021

No	Information	Production Cost Budget
1	HPP Raw materials	IDR 52,018,000
2	HPP Goods in process	IDR 1,234,000
3	HPP Packaging Materials	IDR 3,354,000
4	HPP Finished goods	IDR 7,136,000
Total		IDR 63,742,000

The production cost budget has changed over the last five years, as seen in Table 2. Budget preparation by management helps in monitoring deviations that are detrimental or profitable.

Causes of Budget Differences and Unfavorable Realization of Production Costs at PT. Sari Tuna Makmur

Research data shows that direct labor costs in factory employee salaries have not decreased in 2020-2021, in contrast to tuna production costs and factory overhead costs. The COVID-19 pandemic has caused companies not to reduce their workforce, resulting in wasted salary costs. Companies need to be more careful in preparing budgets to minimize unprofitable production costs. PT Manager. Sari Tuna Makmur also needs to detail the budget more accurately.

Favorable/Unfavorable at PT. Sari Tuna Makmur

Unfavorable deviations in direct labor costs (salary costs in 2020-2021). The reduction in

production volumes during the pandemic resulted in direct labor costs being cut.

The analysis shows an unfavorable difference in PT's direct labor costs. Sari Tuna Makmur. Company management needs to plan budgets and realization more precisely, and internal and external factors such as business policies, production capacity, workforce, production facilities, competitors, and demand influence the achievement of budgets and the realization of production costs.

Controlling production costs must be carried out carefully to anticipate waste. Reporting and evaluating production costs helps companies understand the use of funds in the production process, allowing for more effective control.

PT. Sari Tuna Makmur has succeeded in managing its production budget quite effectively over the last few years. The use of the budget as a cost control tool appears to be providing positive results, although there are several deviations that need to be considered,

especially in direct labor costs (salary costs) in 2020-2021.

Analysis of the budget and realization of tuna production costs shows that the company is able to plan and realize the budget well, resulting in lower production costs than budgeted. However, there are several challenges, especially related to direct labor cost management during the COVID-19 pandemic period.

Steps to increase the effectiveness of production cost control can include preparing more accurate budgets, special attention to internal and external factors that influence production, and optimizing direct labor cost control strategies (21).

Situations where companies cannot reduce workforce during the pandemic, it is important to budget carefully and consider various factors, such as business policies, production capacity, workforce, production facilities, competitors, and consumer demand.

Through more careful cost control and a deeper understanding of the factors that influence the budget, PT. Sari Tuna Makmur can continue to improve its performance in managing production costs effectively.

CONCLUSIONS

Based on the results of research conducted at PT. Sari Tuna Makmur regarding controlling tuna production costs, it can be concluded that the company has succeeded in implementing its budget strategy effectively. Although there were some deviations, especially in direct

labor costs (salary costs) during the COVID-19 pandemic, the company's overall cost control performance tended to be profitable.

The use of budgets as a tool for planning and controlling production costs has been proven to provide positive results. The company was able to realize the budget well, achieving lower production costs than budgeted in previous years. Internal factors such as business policies, production capacity, and production facilities, as well as external factors such as competition and consumer demand, play a crucial role in the success of controlling these costs.

However, special challenges arise during the pandemic, where the decision not to reduce the workforce may result in direct labor cost deviations. Therefore, companies need to be more careful in preparing budgets to minimize the negative impact of situations like this.

As a step forward, companies can improve the accuracy of budget preparation, pay more detailed attention to the factors that influence production costs, and continue to optimize strategies for controlling direct labor costs. Thus, PT. Sari Tuna Makmur can maintain the effectiveness of controlling its production costs and continue to adapt to changes in the business environment.

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