



**FACULTY OF ECONOMICS
ANDALAS UNIVERSITY**

THESIS

**“ANALYSIS OF OVERHEAD COST ASSIGNMENT TO PRODUCT
(Case Study at PT. Semen Padang)”**

**Submitted in Partial Fulfillment of the Requirement for Undergraduate
Degree in Economics**

By :

STEPHANI NOTARISSA

06 153 037

Accounting Department Student of S1 Program

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CHAPTER I

INTRODUCTION

1.1 Background

At this time Indonesian government is carrying out development in all aspect. It was directed to the industrial sector in order to develop for the stable and strong industries. It proved by the companies which deal with industry aspect. Each industrial enterprise constitute one of the economic institutions which perform manufacturing activity, furthermore in that manufacturing systems will grow production with a high efficiency level within the management role requirement.

In the company which included industry type, their activities related to the calculation of management and control production costs. As we know, the cost which involved into the production consists of raw material cost, direct labor cost, and factory overhead cost.

Factory overhead costs are all the production cost that can not easily and accurately traced by a product, therefore it requires a proper treatment for the achievement toward cost of goods sold determination accurately.

Handling of factory overhead costs become seriously and crucial is the problem of assignment into each products appropriately and accurately. Assignment costs accurately to object cost is essential. The accuracy is a relative concept, and should be done fairly and logically in using the methods

of assignment cost. The assignment costs which get distortion can produce the wrong decision and bad evaluation.

Accuracy of the assignment cost can produce high quality information and can be used to make a good decision. The accuracy of assignment cost to object is influenced by the accuracy of the election basis allocation. If the allocation basis inaccurate, so the assignment costs to the cost object also inaccurate. The main problem in calculating the object cost is assignment of indirect cost because of selection in the allocation cost basis inappropriate can make the object cost of good sold is too high (*over costing*) or too low (*under costing*). If the cost is too high, so the products become less competitive because the selling price will be higher than competitors. On the contrary, if the cost of good sold is too low, so the product is very competitive because prices would be lower than competitors. However, if the product would be profitable, but in fact even loss (*Riwayadi, 2006:23*).

The bad financial situation often occurs because of mistakes which are made by management in production costs calculation. This mistake can be caused by using inaccurate factory overhead cost calculation. This Factory overhead cost is difficult in determining mean while the number and the influence are relative large while compared by the costs of direct material and direct labor costs.

Factory overhead cost has specific characteristic that should be considered in the assignment of the products appropriately. The first characteristic concerned with the relationship between the factory overhead

costs and the product itself. Factory overhead costs are costs that can not be followed and indirectly related to the product. There is no evidence or proof of worker's working time which used to declare the amount of overhead costs such as supporting materials or indirectly wages included in a job or the outcome of a production. In connecting the overhead costs with a job or a particular outcome, then it should be a clear allocation of overhead costs.

The second characteristic concerns with the changing some elements of overhead costs because there is changing of production volume, that is overhead costs can be fixed, variable or semi variable. Overhead costs remain relatively constant, although there is a changing in production volume, mean while fixed overhead cost per unit will vary in contrast to volume production. Semi-variable overhead costs vary, but incomparable toward the production units. If the volume of production changes, the combined effects of various patterns of this overhead can result in plant costs per unit of a large fluctuation, unless it sought a method to stabilize the cost of overhead in the production unit.

With the three properties inherent to these overhead costs, the assignment of factory overhead costs to products become complicated a problem. In addition there are various kinds of base that can be used to charge overhead costs to products, such as product unit, the cost of direct materials, direct labor costs, direct labor hours and machine hours.

According to Mulyadi (2009:212), factory overhead rate determination can be implemented through the following three stages:

1. Arrange Factory Overhead Budget.

2. Selecting the basic assignment factory overhead costs to products..
3. Calculate the Factory Overhead cost rates.,

Based on the description above, it can be assessed importance of implementing accounting system for assignment factory overhead costs to products. PT Semen Padang as the object of study is one of the largest manufacturing company located in West Sumatra. PT Semen Padang is the oldest cement company in Indonesia which was established in 1910 under the name *NV Nederland Indische Portland Cement Maatschappij* (NV NIPCM). At this time PT Semen Padang assignment of factory overhead system to product is apply the traditional volume-based costing or functional based costing is more units produced, the factory overhead costs will be higher and the contrary, smaller the unit that produced the lower factory overhead .

As stated above, the intense competition forced by the company to strive more efficient and effective in carrying out its activities.

Based on that reason, the writer is interested to develop the research which entitle "**Analysis of Overhead Cost Assignment to Product in PT. Semen Padang.**"

1.2 Problem Definition

Based on the background explained above, the writer considers the following research questions:

1. What is cost accounting approach used by PT. Semen Padang?
2. How does PT. Semen Padang assign the factory overhead cost to product?

1.3 Purpose and Benefits of the Research

In doing the research, the writer have two purposes, there are :

1. To know cost accounting approach used by PT. Semen Padang
2. To evaluate the factory overhead cost assignment to each type of cement product in PT. Semen Padang

The benefits of this research are:

1. For the writer is to explore the cost accounting system to assignment factory overhead costs.
2. For the company is to assist management in the form of proposals and suggestions to improve the company's cost accounting system and management company in the future.
3. For Academic, this research can be a reference for future research.

CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

Based on the discussion that had been presented in the previous chapter, the conclusions are as follows:

1. Up to 2009, PT. Semen Padang is still using traditional costing, because PT. Semen Padang assigned factory overhead cost to product by using unit level driver (machine hours). Cost pool which is used by PT. Semen Padang to assign factory overhead cost to product is department.
2. The dividing of service department in PT. Semen Padang was inappropriate, because the workshop should be included into service department, workshop also gives service to production department.
3. Assign of service department cost to production department not accurate because allocation of service department cost to production department still using direct allocation method. The allocation of service department cost to production department should be used the step allocation method, cause service department doesn't only give service to production department but also to other service departments.

4. The uses of machine hour as cost driver to assign the factory overhead cost to product is appropriate because all of factory used machine intensively.
5. The calculation of factory overhead costs in PT. Semen Padang uses software to assigned factory overhead cost to products since 2007.

5.2 Recommendation

Based on conclusion above, the writer gives some recommendation to the company, as follow:

1. Allocation of service department cost to production department at PT. Semen Padang is recommended to use the step allocation method, and not use direct allocation method. because service department cost should be allocated to other service department beside from production department
2. PT. Semen Padang is recommended to consider the assignment of factory overhead cost to product based on Activity Based Costing (ABC) to improve the accuracy, effective and efficient. It's possible because PT. Semen Padang is national level company which requires the high efficiency and accuracy of product cost and has implemented software (Oracle E- Business Suite Manufacturing & Supply Chain Management).
3. PT. Semen Padang should improve the capability of the accounting staff about cost accounting because when the writer was doing this

research, many of accounting staffs in PT.Semen Padang did not understand about assignment of FOH.

5.3. Research Limitation

In doing this research, there are several limitations that prevented the perfection of the result :

The data used in this research is estimation cost, since the real data can not be obtained due to the secrecy of company's internal data.

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