Analysis on the Application of Activity-Based Costing Method for the Cost of Production Setting at PT Fajar Taurus

Syamsuhartien

PT Fajar Taurus is a company producing some processed milk products, i.e. pasteurized milk, yogurt, and kefir. During this time, the company has applied a conventional method for allocating the overhead cost to each product, i.e. by dividing the overhead cost proportionately based on the volume of each product. This study aims at allocating the overhead cost by Activity-Based Costing (ABC) method. The result of the cost of production setting using ABC method will be compared to the cost of production set by the company.

Allocating the overhead cost to each product using ABC method is conducted in three phases, i.e.: (1) identifying the load of activities for each product; (2) breaking down the overhead costs based on activities; and (3) determining the tariffs of activities. Based on the result of the identification of activities, it is found that yogurt and kefir consume more activities than the pasteurized milk, where yogurt and kefir shall pass the fermentation and incubation processes which do not occur in the pasteurized milk production. Based on the result of the allocation of overhead cost to each product based on the activities consumed, it is found that during this time the company sets a higher the cost of production (overvalue), of around 0.34 – 11.99%, to the pasteurized milk, and a very low the cost of production (undervalue), of around 20.51 – 72.24%, to yogurt and kefir. Thus, a cross-subsidy among product costs occurs.

A proper ABC method shall be applied in the cost of production setting at PT Fajar Taurus because: (1) the overhead cost which is allocated based on non-unit has a significant percentage toward the total cost of overhead; and (2) the consumption ratios among activities based on unit and activities based on non-unit are different.