


Comparative Analysis Of Cost Calculation With Activity-Based Costing And Traditional Methods

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Article Info	ABSTRACT
Keywords: Activity-Based Costing, cost calculation, traditional methods	In the modern business world, accurate cost calculation is crucial for effective decision-making. Traditional methods often fail to reflect actual resource consumption, leading to inaccurate pricing and resource allocation. This research aims to analyze the use of Activity-Based Costing (ABC) and compare it with traditional methods. The research approach is qualitative, employing literature review methods. The findings show that ABC, which allocates costs based on activities performed, provides more realistic and accurate cost estimates. ABC helps companies identify non-value-added activities, improve efficiency, and reduce waste. Although ABC is more complex and expensive to implement, it provides more precise cost information, supporting optimal decision-making regarding pricing, product strategy, and resource allocation. Conversely, traditional methods are simpler but often result in less accurate cost allocation and do not reflect variations in activity consumption. Therefore, ABC is superior in terms of accuracy and effectiveness in identifying waste and inefficient activities, despite requiring technological support and higher initial costs.
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INTRODUCTION

In today's business world, companies are faced with the challenge of optimizing efficiency and profitability. One aspect of financial planning is the cost calculation method (Kusumawati et al., 2024). Traditional methods often do not reflect actual resource consumption, which can lead to less accurate decisions. As technology develops and the complexity of business processes increases, traditional cost calculation methods become less relevant. Information technology allows more detailed data collection and analysis, which is the basis for implementing the Activity-Based Costing (ABC) method.

Accuracy in costing is essential for correct decision making. Errors in costing can lead to uncompetitive selling prices, inefficient resource allocation, and less effective business strategies. Therefore, companies need more accurate methods such as ABC. The ABC method helps in identifying non-value added activities and waste in the production process (Yahya et al., 2024). In this way, companies can make improvements that increase operational efficiency and reduce costs.

Traditional costing methods are often criticized for their excessive simplicity, which ignores variations in resource consumption by different products or services. This can cause cost distortions and incorrect determination of the cost of production (Prastiti et al., 2016). Making the wrong decision in setting the selling price of a product will be detrimental to the company. Selling prices that are too low or too high have their own consequences.

This research aims to understand the importance and analyze the use of the ABC method and differentiate it from traditional cost calculation. Thus, it is hoped that this research can contribute to increasing understanding of cost calculation methods that are more accurate and applicable in the context of modern business.

METHOD

The research method used is a qualitative approach. Qualitative methods are methods that describe and explain a phenomenon or event being studied as well as analyzing and interpreting research data (M. Waruwu, 2023). This approach emphasizes collecting descriptive data that provides insight into the meaning, experiences and views of individuals or groups towards the phenomenon under study. The data collection technique used in this research is literature review. Data collection through literature review is carried out by reviewing literature from relevant sources, such as books and journals, to then be analyzed and classified (M. Waruwu, 2023). The data that has been collected will be analyzed. The results of this analysis will be presented in descriptive and interpretive form, providing a comprehensive overview of both cost management methods.

RESULTS AND DISCUSSION

Activity-Based Costing (A B C)

Activity-Based Costing (ABC) is a more modern and accurate cost calculation method compared to traditional methods. The ABC method is designed to provide a more realistic picture of the costs associated with production and services by allocating costs based on the activities carried out (Puspita et al., 2023). The ABC method identifies the activities carried out in the production or service provision process. The costs associated with each activity are measured and calculated. These activities include direct and indirect costs. Activity costs are then allocated to products or services based on the use or consumption of those activities.

Activity-Based Costing (ABC) has an advantage in cost calculations. The ABC method provides accuracy in the costs of main production activities (Nikmah, 2023). This method provides more accurate cost estimates because it allocates indirect costs based on the activities that actually consume resources. This method allows companies to identify non-value-added activities and reduce waste by increasing efficiency. This method also helps in making decisions regarding selling prices, product strategy, and resource allocation with more precise cost information.

Although Activity-Based Costing (ABC) has a number of advantages, this method also has limitations. The ABC system may not provide benefits for the company if its products have little diversity (Zamhar et al., 2021). Companies are required to produce a variety of

products. The ABC method will provide significant advantages for companies that have a larger and more diverse range of products. This is because this method is able to allocate costs more accurately based on the activities carried out, thus reflecting actual resource consumption.

Differences with Traditional or Conventional Cost Calculation

Traditional or conventional cost calculations have a simpler measurement system and are based on general cost allocations. This method usually uses an allocation basis based on direct cost considerations, without considering indirect costs (Politon, 2019). Cost allocation is carried out proportionally based on the selected allocation base, but this approach often has limitations. One disadvantage is that traditional methods often do not consider variations in activity consumption, which can lead to inaccurate cost allocation. In other words, indirect costs may be allocated without taking into account differences in actual use or consumption of activities, so that the allocation results may be less representative and not fully reflect the costs incurred.

Comparison between Activity-Based Costing (ABC) and traditional methods shows significant differences in terms of accuracy. ABC offers a higher level of accuracy in allocating costs because this method associates costs directly with specific activities (Caroline & Wokas, 2016). In contrast, traditional methods are simpler but often produce less precise cost estimates because they are less accurate in allocating production overhead costs (only relying on basics such as direct materials, direct wages, or the number of units produced) (Kaukab, 2019). In addition, the ABC method is more effective in identifying waste and inefficient activities (RBP Waruwu et al., 2024). Traditional methods, on the other hand, do not have the same capabilities when it comes to waste identification. In the context of decision making, the ABC method provides better support by providing more accurate cost information, which allows managers to make more optimal decisions. Traditional methods, although easier to implement, may limit managers' ability to make decisions based on comprehensive and relevant cost data.

CONCLUSION

Activity-Based Costing(ABC) is a more modern and accurate cost calculation method compared to traditional methods. The ABC method allocates costs based on the activities carried out, thereby providing a more realistic cost estimate. The main advantage of the ABC method is its ability to provide higher cost accuracy and help companies identify non-value added activities, thereby increasing efficiency and reducing waste. In addition, the ABC method supports better decision making regarding selling prices, product strategy, and resource allocation. A comparison between ABC and traditional methods shows that ABC is superior in terms of accuracy and ability to identify waste and inefficient activities. Although more complex and expensive, ABC provides more precise cost information to support optimal decision making. In contrast, simpler traditional methods may limit managers' ability to make decisions based on comprehensive and relevant cost data.

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