

Analysis of Readiness to Use Target Costing Method in Production Cost Efficiency Efforts at Risha Bakery

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Abstract

Companies do not always have the ability to determine the selling price of the product as desired because there are a number of competitors offering a certain price. In order to maintain the quality of a product and have a competitive selling price, companies need to sort out the costs that are not needed in the production process so that profits can be more optimal. The target costing method is a method of determining the selling price based on market prices. Target costing aims to reduce production costs so as to optimize profit or profit. This study aims to analyze the readiness to use the target costing method at Risha Bakery. This type of research approach used in this research is a qualitative approach using descriptive analysis. The results showed that the readiness of Risha Bakery can be seen from several factors including setting the selling price as a means of competition with competitors, the desire of the company to get an increase in profit, setting cost targets, and reducing inefficient production costs or value engineering. Thus, Risha Bakery can be considered ready to use the target costing method.

Keywords

target costing; production costs; profit



I. Introduction

In the current era of globalization, there is a lot of intense competition in the business sector. With the rapid development of technology, the various types of products and services offered are increasingly diverse, giving rise to increasingly fierce competition (Malue, 2013). To survive and be able to compete in the business world, companies are expected to change attitudes in managing and running a business. Companies that want to develop or survive must be able to produce high production with good quality (Caroline & Wokas, 2016).

Manufacturing companies are companies that carry out production activities to manage raw materials into finished products (Jannah, 2018). The company's goal is to achieve optimal profit for the sake of maintaining business continuity. The company's way to obtain optimal profit is by increasing production activities. If production activities increase, the production costs needed to make products will be greater. The increase in production costs from year to year is caused by rising prices of raw materials and so on. This condition encourages changes in profit (Jannah, 2018).

Every business that wants to survive and excel in competition is required to respond well to changes in the environment. The situation of intense competition in the business world arises because many businesses increase buying and selling interactions. This intense competition occurs in various industries, one of which is the food industry (Pioh, 2019). To be able to compete in the business world, what a company must do is create a product, both goods, and services at an affordable price or offer the same price as competitors. Companies

must try their best to obtain the desired product, by reducing the costs that must be incurred in the production process.

The problem that is often faced by companies in the financing process. However, the company must know how the financing process is accurate and precise so that it can increase the efficiency of production costs. Production cost efficiency is a comparative relationship between inputs and outputs. According to Johan & Muanas (2014), high production results will be achieved if the company has high production efficiency. However, to achieve high production efficiency, several factors, both internal and external, are needed. These factors include labor, raw materials, factory overhead, production methods, and markets. Where labor, raw materials, and factory overhead are components of production costs.

Production costs are one part of the internal steps taken by the company to increase efficiency (Arifin, 2016). Production cost efficiency is important in increasing the competitive advantage of a company. The cost-efficiency in question is the activity of reducing production and non-production costs. Companies need to pay attention to the balance between production cost efficiency and company effectiveness so that the efficiency carried out on production costs does not interfere with the effectiveness of production results. The average variable cost budget plus a certain percentage and it can also be done by estimating the full cost plus the desired profit value (Sutomo in Mulyanti, 2020).

Cost is one of the things that affect profit that must be considered when you want to outperform the competition in the market (Anugerah, 2017). For manufacturing companies, costs need to be designed to be more strategic because it becomes the basis in determining the selling price of products that will be produced by a company. Determining the selling price is not an easy thing but you must also pay attention to the long-term benefits for the company, if the wrong decision is made, it will result in company losses. The determination of the selling price is expected to be competitive in the market. In addition, the set selling price must be able to cover the costs generated during the production process so that the profit obtained is achieved. However, determining the selling price based on the number of costs incurred cannot survive in the market because the company first calculates the costs to produce goods and then determines the selling price based on the costs incurred.

The costs incurred by the company in carrying out the production process need to be well controlled, even though the production process runs smoothly, and if it is not accompanied by efforts to be able to reduce production costs to a minimum, it will result in increased production costs. Therefore, to help companies achieve their goals in obtaining optimal profits, it is necessary to implement overall cost control by calculating target costing which is a method of determining prices in the market and then determining costs. Target costing is an effective calculation method to reduce costs (Juwita & Satria, 2017). According to Malue (2013) target costing is the determination of the expected cost for a product based on a competitive price, so that the product can generate the expected profit. Target costing considers the overall cost of a product or service in the product life cycle and aims to reduce the total cost of a product or service. With target costing, companies can determine product costs based on prices that consumers can afford.

The concept of target costing is very appropriate and in line with increasing competition and the level of supply that far exceeds the level of demand, then market forces have a greater influence on the price level. Based on this, it is necessary to target costing to achieve the company's objectives in the context of cost reduction, which will have an impact on competitive price levels. With target costing, companies can make goods or services that can meet consumer needs and can achieve the desired profit target simultaneously, where target costing considers the overall cost of the product in the product life cycle and aims to reduce the total cost of a product (Johan & Muanas, 2014).

There are various kinds of bakeries in Salatiga, one of which is Risha Bakery. Risha Bakery is one of the businesses engaged in manufacturing that produces various types of bread. Risha Bakery's main store is in Bekasi, which was established in 2002 and has a branch in Salatiga which was established in 2018, with a current number of 8 employees. Based on information obtained from the owner of Risha Bakery, determining the selling price is not based on market prices but determines the selling price based on the number of costs incurred. The application of this method is often not following the market price faced by the company. The company cannot always determine the selling price of the product as desired, because several competitors offer a certain price. To produce products that have competitive prices and maintain good product quality to earn a profit, they must be able to sort out, workaround, or even reduce costs or activities that are not needed in the production process so that the profits to be obtained are more optimal. Therefore, a target costing method is needed which aims to reduce production costs to optimize profits or profits. So it is necessary to be prepared to use the target costing method to increase production cost efficiency to increase profits at Risha Bakery.

II. Review of Literatures

2.1 Target Costing

Target costing is a method of determining production costs in advance to produce a product to reduce costs in achieving market prices and obtaining the desired profit (Juliani, 2019). Target costing is a cost accounting system that provides management with information to enable management to monitor the progress achieved in reducing product costs towards predetermined costing targets (Johan ET & Muanas, 2014). The main benefit of target costing is the determination of the cost of the product as the basis for determining the selling price so that it can achieve the desired profit target. According to Kusumadewi in Wuysang & Pusung (2019), target costing is a method of determining production costs first that must be issued based on competitive market prices so that the company can achieve the targeted profit. Based on some of these understandings, it can be concluded that target costing is a method of determining selling prices based on market analysis which determines production costs first to reduce production costs to be able to obtain the desired profit.

According to Rudianto (2013) target costing has several special characteristics, namely: target costing is used at the design and planning stage, target costing is planning or cost reduction, target costing is suitable for use by companies that are oriented towards making products in moderate quantities compared to industries oriented towards mass production processes, and target costing is more oriented to management and technique. Target costing is used to control production techniques and design specifications.

There are six principles of implementing target costing according to Witjaksono in Johan ET & Muanas (2014) as follows: First, the price determines the cost (price-led costing), determining the selling price of the product is not an easy thing because of increasingly fierce competition. The selling price is often determined by the market so that the market price is used to determine the target cost, namely the market price minus the desired gross profit. Both focus on the customer, the customer's need for cost, quality, and function together is contained in the product which is used to make decisions related to the design and calculation of the cost of the product. For the customer, the benefits offered by the product must be greater than the cost. The third focus is on product and process design, cost control is determined at the product design and process design stages. Fourth, every engineering must be carried out before the production process to reduce costs and reduce

time. A fifth, cross-functional team, this group is responsible for the whole product, from product idea to production stage. The sixth involves the value chain, all members of the value chain are involved in the target costing process. Product life cycle orientation, minimizing costs including raw materials, production costs, prices, and maintenance costs.

The following are five stages in implementing the target costing method according to Rudianto (2013) including determining selling prices based on market prices, determining profit targets, determining cost targets, conducting value engineering, and using kaizen costing which aims to eliminate production activities that inefficient and controlling operations.

2.2 Production Costs

Costs are all costs incurred by the company to obtain raw materials and products that will be used to make a product from the company (Riyadi, 2017). Costs in an economic sense are all burdens borne by producers to provide ready-made goods for consumers. While costs in the sense of production are all the burdens borne by producers to produce a production. Production costs are the burden borne by producers to produce goods and services. Production costs form the cost of production which is used to calculate the cost of finished products and the cost of goods at the end of the accounting period is still in process. According to Worotitjan & Morassa (2016), production costs are some economic sacrifices that must be sacrificed to produce an item. Based on this understanding, production costs are costs incurred during production.

The following are the three main elements of production costs according to Riyadi (2017), as follows: direct material costs are materials used in the production process, direct labor costs are costs needed to finance labor direction the production process, and factory overhead costs are labor generally defined as indirect materials, indirect labor and other factory costs, such as factory maintenance costs, which are not easily defined or assigned to a job.

2.3 Profit

According to Soemarso in Gade (2005) defines profit is the difference above income over costs incurred in connection with the effort to obtain the income. The profit which is often used as a measure of a company's ability to carry out its main activities is operating profit. Because operating profit is a profit that can only be obtained from the main activities of the company. Operating profit is also known as operating profit. Operating profit resulting from the difference between income is reduced by the costs incurred so that the difference is profit. This profit is a net addition to own capital. Operating profit is the main income from a company's routine business activities. Sitanggang state that Often times this process involves beautifying the financial statements, especially the bottom number, namely profit. Profitability is the company's ability to make a profit in relation to sales, total assets and own capital (Angelia, 2020). Then other factors are also influenced by the ineffectiveness of the profit-sharing financing model relating to entrepreneurs and the lack of interest in the scheme of profit sharing in business activities (Rahmati, 2018).

III. Research Methods

the type of research approach used in this study is a qualitative approach using descriptive analysis, which describes the object or problem. Qualitative descriptive research is in the form of research with a case study method or approach (Sugiyono, 2017). Researchers examine every event that occurs with the aim that researchers can know specifically according to the reality on the ground. Based on this, the researchers tried to find

out and describe the subject to be studied, namely the readiness to use the target costing method. Sources of data used in this study are derived from two sources including, primary data sources obtained by conducting direct interviews with the owner of Risha Bakery and secondary data sources obtained from records that are closely related to the problems to be discussed.

According to Sugiyono (2017:105), data collection techniques can be obtained by conducting observations, interviews, questionnaires, documentation, and a combination of the four. Based on the data collection technique, the researcher used data collection techniques in the form of observation (observation), the type of observation used by the researcher was passive participatory observation. Participatory observation is in which the researcher comes to the place of the activity of the person being observed, but is not involved in the activity. Interview, the type of interview used by the researcher is a structured interview. In addition, researchers also used semi-structured interviews where the interviews were more independent. Documentation is used to collect data and then reviewed it. This study uses documentation by taking pictures and reports related to the required data. The data analysis technique used in this study is based on the Miles and Huberman model in Sugiyono (2015). The following are the steps to analyze the data in this study, as follows: data collection, data reduction, data display, and concluding.

IV. Discussion

4.1 Overview of Risha Bakery

Risha Bakery is a business engaged in the manufacture of bread. This business was founded by Mr. Angga Nugroho in 2002 which is located in Bekasi. This business started from a desire to open a bakery business. There is an increase in bread production due to a large number of consumer interests in the community, making Risha Bakery open its first branch in 2018 which is in Salatiga, precisely on Jl. Osamaliki No.42. The process of developing this business from the beginning until now is quite developed, but in this business, it is not only profit but some challenges must be faced, namely the existence of competitors who offer the same product at a lower price, thus making voters have to innovate with their products. One of the innovations that can be made by business owners is to make permanent products or produce the latest products and pay attention to consumer satisfaction with the products produced.

4.2 Details of Production Costs

a. Cost of Raw Materials

Based on data obtained from the production data book, the raw materials used in producing bread are wheat flour, eggs, sugar, yeast, and improvers. Every day Risha Bakery produces bread according to the bread stock that has started to run out and the number of breads produced is around 250 pcs. The following are details of the raw materials that Risha Bakery uses in making bread.

Table 1. List of Raw Material Costs for Risha Bakery Bread

Product name	Quantity	Price
Flour	10 pcs/ 50 kg	Rp 560.000
Egg	5 chest	Rp 1.575.000
Sugar	70 kg	Rp 875.000

Yeast	25 kg	Rp 1.200.000
Improver	15 kg	Rp 730.000
Total cost		Rp 4.940.000

b. Labor Costs

Risha Bakery has a direct workforce of 4 people with the task of making bread to the packaging process and indirect labor of 3 people. Workers in a day have 8 hours of work for 6 working days a week. The payroll system is monthly and the salary issued is Rp. 1,500,000 per person for direct labor and the salary for indirect workers is Rp. 700,000 per person.

Table 2. List of Direct Labor Costs Risha Bakery

Labor	Total	Salary per Month	Total Salary
Direct Labor	4	Rp 1.500.000	Rp. 6.000.000
Indirect Labor	3	Rp. 700.000	Rp. 2.100.000
Total Salary			Rp. 8.100.000

c. Costs Overhead Factory

Overhead costs incurred by Risha Bakery every day in making bread by producing products range from 5,500 pcs of bread each month. The following are factory overhead costs incurred in producing bread, namely: Electricity, water, and telephone costs, for electricity costs incurred each month, are Rp. 1,300,000 and for water costs each month are Rp. 300,000. The transportation costs incurred for the purchase of vehicle fuel, namely operational cars, amounted to Rp. 1,000,000 for every month. Packaging costs are incurred by the company to complete the finished product to be marketed to make it look attractive to consumers. The packaging costs incurred by Risha Bakery for its bakery products are plastic, snack boxes, and stickers. The plastic cost is IDR 250,000, the snack box fee is IDR 450,000, and the sticker fee is IDR 400,000.

Table 3. List of Factory Overhead Costs Risha Bakery

Fee Type	Amount
Electricity, Water and Telephone Fees	Rp. 1.600.000
Freight Cost	Rp. 1.000.000
Packaging Fee	Rp 1.100.000
Total	Rp 3.700.000

4.3 Risha Bakery's Readiness in Using Target Costing Method

a. Selling Price Determination as a Competition Tool with Competitors

Selling price is one of the important things for a business. The existence of increasingly fierce and competitive competition makes determining the selling price of products, not an easy thing (Witjaksono, 2013). The determination of the selling price must be calculated and balanced with the needs of consumers because the selling price of the product is the most important thing for a business. The selling price itself is one of the things that influence

buyers in determining a product to be purchased (Hariyadi, 2016). So in determining the selling price, a business must take steps to set a good selling price. This happens so that there is no loss for a business or a consumer because if a business cannot determine a good selling price, it will be unable to compete with other businesses that produce the same type of product or can replace the product being sold.

If a business can determine a good selling price, the product made will be able to compete in the market and this can provide maximum profit as planned and expected before or during the production of the product. One way to be able to determine a good selling price is to reduce production costs because if a business can minimize costs, it can create a competitive advantage in selling prices. Determining the selling price also requires a supportive policy. The selling price setting policy is a decision regarding the prices that will be followed within a certain period, namely to follow market developments (Imron, 2021). Therefore, a business must determine the right selling price, because if it is wrong in determining the price it will affect the state of a business in the future.

Based on the results of interviews with the owner, the determination of the selling price of Risha Bakery bread is calculated using a cost-based method, namely determining the selling price based on the number of costs incurred, where $\text{Selling Price} = \text{Production Costs} + \text{Non-Production Costs} + \text{Expected Profit}$. The determination of the selling price does not take into account the selling price environment of the product outside or in other words, it is not based on the selling price in the market. This attempts to set prices above the purchasing power of consumers. This condition makes consumers choose a lower price. Based on the existing conditions, the target costing approach appears as a result of covering the weakness of a business that is unable to control the set price, which is carried out by determining the selling price based on market analysis.

The following are the components in determining the selling price of the product, as follows: a.) Consumer segmentation. Based on the results of interviews with the owner, the segmentation of consumers who are the target sales of Risha Bakery's bread products is the lower middle class. Thus, the set selling price is attempted to be reached by lower-middle-class consumers so that there is a balance. b.) Competitor prices. Before setting the selling price of the product, the researcher conducted a product survey of several competitors of Risha Bakery. For this reason, the determination of the selling price is carried out by compiling a price list of competitors' products that produce similar bread products. Based on the results of interviews with the owner, Risha Bakery has two main competitors, namely bakery A and bakery B. So far, Risha Bakery sells white bread for Rp. 15,000 rolls of shredded bread for Rp. 7,000 and various flavors of bread (cream, chocolate, banana, cheese, boy, and fruit) for Rp. 5,500.

Based on the survey results, when compared to other competitors, the selling price of Risha Bakery bread is more expensive than the selling price of its competitors because competitors offer more affordable bread prices, where the competitive selling price of white bread is Rp. 12,000, the competitive selling price of abon rolls is Rp. 6,000, the competitive selling price of boy bread and cream bread is Rp. 5,000, and the competitive selling price of various flavors of bread (chocolate, banana, cheese, fruit) is Rp. 4,500. After knowing the average selling price of these competitors, Risha Bakery can determine the selling price of bakery products that are the same as other competitors or determine the selling price of bread products that are slightly higher but rely on better product quality.

Determination of the selling price based on market analysis, makes Risha Bakery choose to set the lowest selling price from the price offered by competitors where the selling price of white bread is Rp. 12,000, the selling price of abon rolls is Rp. 6,000, the selling price of boy bread and cream bread is Rp. 5,000, and the selling price of various flavors of bread (chocolate, banana, cheese, fruit) is Rp. 4,500. The company chooses this price because

it is a competitive price in the market. As is also the case with research conducted by Ajie (2012) which states that the company sets the lowest price among the current market, the company chooses that price because the price can compete in the market. Therefore, Risha Bakery can be said to be ready to use the target costing method.

b. The Company's Desire to Get Increased Profit

Every business wants to achieve optimal profit. Based on the results of interviews with the finance department, so far Risha Bakery's profit has reached 40% of its product sales. However, the company wants an increase in profits from these sales. In the target costing method, the company sets a profit target of 50% which is expected to increase. According to Pioh FT C, Manossoh H & Tirayoh V. Z (2019) in their research on UD. Along with Bakery, shows that by implementing target costing, production costs can be reduced by Rp. 120,365,014 with a profit of Rp. 77,034,986, but after applying the concept of target costing, production costs can be reduced to Rp. 111,581,014 and profit increases to Rp. IDR 85,818,986. Based on the company's desire to obtain an increase in profit by determining the profit target is one of the factors of the company's readiness.

Although a business determines the size of the profit from the product produced, a business must also be able to pay attention to the environment or product prices outside and also pay attention to the ability of consumers who will be the target or target of selling existing products. The target consumer of Risha Bakery is the lower middle class. Based on the market selling price used following the market analysis that has been carried out in the previous stage. The calculation of the expected profit percentage is 50% multiplied by the market selling price that has been determined based on market analysis, namely plain bread at Rp. 12,000, rolls of shredded bread for Rp. 6,000, boy bread and boy bread for Rp. 5,000, and various flavors of bread (chocolate, bananas, cheese, fruit) for Rp. 4,500. Then the calculation of the profit expected by the owner is obtained, namely the profit of white bread of Rp. 6,000, the profit of shredded bread of Rp. 3,000, the profit of boy bread and cream bread of Rp. 2,500 and the profit of various flavors of the bread of Rp. 2,250.

c. Determination of Target Cost

Target cost can be determined from the difference between the selling price and the profit desired by a business (Destyriana, 2018). Determination of target costing is Target Costing = Target Selling Price – Target Profit Margin. The calculation of the target cost of white bread, rolls of shredded bread, boy's bread, cream bread, and various flavors of bread (chocolate, banana, cheese, fruit) based on the market selling price minus the profit that has been calculated in the previous stage, namely the target cost of white bread of Rp 6,000, the target The cost of abon rolls is Rp. 3,000, the target cost for boy bread and cream bread is Rp. 2,500 and the target cost for various flavors of bread is Rp. 2,250.

d. There Reducing Production Costs the Inefficient or Value Engineering (Value Engineering)

Engineering value (value engineering) is an activity that is necessary to analyze whether the components in a product can reduce the cost without compromising the functionality or quality of a product (Hariyawaningsih, 2017). At the value engineering stage, cost efficiency is carried out to achieve the desired profit target of Risha Bakery. The importance of value engineering applied to a business is influenced by several things, including:

1. Cost Limitations

Based on the results of the interview, Risha Bakery also hopes to optimize the cost efficiency used. Through value engineering, components that can be reduced in cost are raw materials by finding suppliers who sell raw materials at lower prices. Reducing costs by changing suppliers with lower prices but still maintaining the same quality of raw materials as the materials used previously, which is carried out on the following raw materials:

Wheat flour is the main ingredient in making bread, making bread at Risha Bakery requires 50 kg wheat flour, and buying flour from suppliers with brand chakra 10 pcs/ 50 kg Rp 560,000. The flour used is flour with a high protein type which makes the bread chewy and durable. The alternative given to Risha Bakery is to buy wheat flour with the same brand for IDR 376,000 10 pcs / 50 kg. This alternative is more practical and also cheaper, but will not change the texture of the bread because it uses the same type of flour as before.

Eggs, raw materials, namely eggs, were obtained from a supplier, namely Mr. Wijaya, but in ordering eggs, Mr. Wijaya did not confirm in advance when there was an increase in egg prices. When the eggs are received by Risha Bakery's production party, it will be confirmed that there is an increase in eggs, for which the company must continue to pay for 5 crates of eggs for Rp. 1,575,000. For this reason, the alternative given to Risha Bakery is in purchasing eggs, the company needs to reduce the purchase of eggs to Mr. Wijaya to 1 crate, which is Rp. 315,000, and the remaining 4 crates are obtained from Mr. Imam who is an egg producer at a cheaper price and the company knows the clearer price is Rp. 285,000/crate. The company can reduce the cost of purchasing eggs by Rp. 1,455,000/5 crates.

Sugar is one of the main components in making bread tastes sweet. There are various brands of sugar sold in the market. So far, Risha Bakery has chosen to use rose brand sugar in every bread making. Purchase 70 kg of sugar for Rp. 875,000, because the price of sugar from suppliers is too expensive, the alternative given is to buy sugar yourself for Rp. 10,000/kg.

2. The Price of Raw Materials Continues to Increase it

Can be seen that in the process of making bread the main ingredients needed include flour, sugar, and eggs. Where we often face those raw materials for sugar and eggs often experience price increases which make producers think hard to find the right alternative to solve the problem. The thing that Risha Bakery can do is to make efficiency in transportation costs, packaging costs and strikers to be made even more efficient.

3. Technological Advances

The development of technological advances makes the process of making the bread easier and saves time by using adequate machines and equipment. However, value engineering was not carried out on the existing workforce at Risha Bakery because it was considered sufficient and no longer needed to be reduced.

The importance of value engineering applied to Risha Bakery can reduce costs that are less effective in the production process besides the desire to obtain an increase in profit by looking at various alternatives to existing raw materials. According to Hidayat, Lukman & Salim, Suhandi (2013) in their research shows that PT Sakti Kandakawana is still able to increase profitability by making some corrections to production costs. The assumption is that the same number of selling intentions will get higher profitability if lower production costs are used. Because the ineffective costs are decreasing. This shows that value engineering makes production costs efficient and profit gains will increase. Therefore, Risha Bakery can be said to be ready to use the target costing method.

V. Conclusion

The results of the analysis of readiness to use the target costing method at Risha Bakery can be concluded as follows:

1. Determination of the selling price as a means of competition with competitors, seeing that there are competitors who offer cheaper prices Risha Bakery chooses to set the lowest selling price from the price offered by competitors where the selling price of white bread is Rp. 12,000, the selling price of abon rolls is Rp. 6,000, the selling price of boy bread and cream bread is Rp. 5,000, and the selling price of various flavors of bread (chocolate, banana, cheese, fruit) is Rp. 4,500. The company chooses this price because it is a competitive price in the market.
2. The company's desire to get an increase in profits, so far the profit earned by Risha Bakery has reached 40% of its product sales. However, the company wants an increase in profits from these sales. In the target costing method, the company sets a profit target of 50% which is expected to increase. The expected profit target of Risha Bakery is 50% of the sales of its bakery products.
3. The cost target is set, the target cost for plain bread is Rp 6,000, the target cost for shredded bread is Rp 3,000, the target cost for boy bread and cream bread is Rp 2,500 and the target cost for various flavors of bread is Rp 2,250.
4. There is a reduction in inefficient production costs or value engineering, through value engineering of components of raw material costs that can be engineered, namely wheat flour, sugar, and eggs. However, value engineering was not carried out on the existing workforce at Risha Bakery because it was considered sufficient and no longer needed to be reduced.

Based on these factors, Risha Bakery can be considered ready to use the target costing method.

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