Original Article

Flexible Budget and Overhead Analysis in Pharmacy Issuers

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Abstract

Flexible Budget and Overhead Analysis in Pharmaceutical Issuers explain and provide a theoretical description of flexible budgeting and overhead analysis in pharmaceutical companies, which aims to examine the characteristics of flexible budgets, the concept of flexible budgeting in performance evaluation, where this flexible budget relates to overhead rates that can be obtained from flexible budgets. Process and meaning The theoretical basis is used as a guide so that the research focus is in accordance with the facts in the field. The method used in this research is a case study study of literature. Case study research is research that is carried out intensively and in detail. Flexible Budget and Overhead Analysis at Pharmaceutical Issuers, it can be concluded that in preparing a flexible budget, the company can determine the level of performance of the production management section at several activity levels.

Keywords: Flexible Budget, AnalFill in Factory Overhead.

INTRODUCTION

Indonesia's economic growth is supported by investment in both the real sector and the non-real sector or the financial sector. Investment in the real sector (real assets) is investment in products that are physically visible, such as land, buildings, information and machinery, as well as workers whose skills are needed to use these resources, while investment is in the non-real sector. (financial assets) investing in products in financial markets such as common stocks and bonds (Bodie et al, 2008).

Most investments in the real sector require large capital and require a relatively long development time due to large capital. As a result, it is also a weakness, the liquidity is not as fast as investment in the financial sector (Simarmata et al., 2022). However, real income growth for this sector requires investment, both in the form of expansion and new investment, to increase capacity/production and create new products, which in turn will accelerate Indonesia's economic growth (www.okezone.com). One form of investment in the real sector is investing in the mining sector.

Along with the development and increasingly sharp competition in the business world, the needs and demands for information by company management are also growing. This is driven by the need for consideration in utilizing various funds and other sources optimally (Raniyah et al., 2022). One form is the preparation of a budget. Budget is very important for planning and controlling. In addition, the budget has other uses, namely for work evaluation and to direct the behavior of managers and employees. A flexible budget is a dynamic budget, which includes budgets for several activities.

Flexible budgets can be an alternative or selection in providing solutions to performance measurement in anticipation of changes that occur in activity levels within the budget period and can be used to properly analyze cost deviations. In preparing a flexible budget, it is always associated with an analysis of factory overhead, and the factory overhead itself includes variable factory overhead costs and fixed factory overhead costs (Hasibuan et al., 2020). Which includes factory overhead costs, namely all production costs other than direct material costs and direct labor costs. (Hansen & Mowen, 2006).

One form of planning effort that can also be used as a control tool, especially for production costs, is the budget. In the budget, it is determined in advance the amount or amount of costs expected to occur from each of the company's activities that will be carried out in the future.

Budgets are needed by management to plan all activities in the short and long term. Apart from being a planning tool, the budget is very important in coordinating activities. With good coordination and mutual cooperation so that a goal can be achieved (Purba et al., 2021). The budget as a means of controlling production costs has many benefits, in the production cost budget there are costs such as raw material costs, labor costs, and factory overhead costs related to monitoring and controlling production costs incurred by the company. Effective control requires a place of information to communicate planning results to all sections and levels of management.

With this flexible budgeting, the effectiveness of the management performance of each department can be seen in the production process so that this production budgeting functions to prevent the use of costs outside the company. So that the profit management budget can be adjusted and can be measured as the achievement of the predicted performance. Based on the description above, researchers will examine the research title "Flexible Budget and Overhead Analysis at Pharmaceutical Issuers (Case Study at PT Kimia Farma Tbk)".

LITERATURE REVIEW

Flexible Budget

Gunawan & Yunita (2017:22) say that a budget is a plan that is arranged systematically in the form of numbers and expressed in monetary units which cover all company activities. Meanwhile, a budget is a written plan regarding the activities of an organization which is expressed quantitatively, generally for a certain period of time and expressed in units of money, but can also be expressed in units of goods/services (M.Nafarin, 2013). A flexible budget (flexible budget) is a budget that allows a company to calculate estimated costs in a level of activity according to Hansen and Mowen, (2012: 443). Flexible budgets aim to provide the more frequent feedback managers need to implement controls and carry out plans effectively. The preparation of this flexible budget requires a budget based on a range of several levels of activity. To calculate different levels of output, it is necessary to know the pattern of cost behavior for each item in the budget (Mauliddah et al., 2021). The estimated total costs increase in line with the increase in production levels because the total variable costs increase in line with the increase in output according to Hansen and Mowen (2012: 445). Sujarweni (2015:3) cost control is a series of activities to monitor and evaluate the appropriateness of the realization and budget costs that occur in the company. According to Kholmi (2013; 19) control is a procedure designed to ensure that the actual operations (activities) of the organization are in accordance with a predetermined plan. In general, control is carried out by comparing reports on budget execution that have been made periodically to ensure that objectives have been realized (Andrianto et al., 2018). Based on the description above, it can be concluded that control is monitoring, checking and evaluating carried out by leaders and existing resources to achieve predetermined goals, continuously and continuously so that all can function optimally so that organizational goals can be achieved optimally. effective and efficient.

Production Cost

According to Mulyadi (2012:16) Production costs are costs incurred in processing of raw materials into products. So that it is directly related to the production of a product and is matched with income in the period in which the product is sold. Before sold, production costs are treated as inventory. These costs consist of raw material costs, direct labor costs and factory overhead costs. Production costs are costs associated with making or acquiring products or providing services that directly generate revenue for a company. Costs are part of the cost of production that is sacrificed in an effort to earn income, while the cost of goods can be referred to as part of the cost of goods acquired or can be the purchase price of assets whose loading is deferred.

Planning and Control

According to Siswanto (2010: 42), a plan is the basic process used to select goals and determine the scope of their achievement. In its implementation, planning seeks some of the uses needed, namely: human resources (human resources), natural resources (natural resources), and other resources (other resources). While control is a systematic process to evaluate organizational activities that have been carried out on a set plan, if it has not been carried out according to plan then the cause is diagnosed and repairs are made. There are 3 steps in control according to Sri and Andry (2013: 2), namely: (a) setting standards, (b) comparing results with standards, (c) correcting deviations that occur.

Variance Analysis

Variance (difference) is a difference that arises because the actual result is not the same as the standard which can be caused by external or internal factors. Management can only control a small part of the internal factors. Therefore external factors (factors that cannot be controlled) must be separated from internal factors (variance that can be controlled) such as raw material costs, direct labor costs and factory overhead costs. In compiling this research report, so that the discussion does not expand, the researchers limited the research to only the flexible budget and factory overhead costs of PT Kimia Farma in 2020 and 2021.

METHODS

This type of research is included in the type of descriptive research.This study will explain and provide a theoretical description of flexible budgeting and overhead analysis in pharmaceutical companies, which aims to examine the characteristics of flexible budgets, the concept of flexible budgeting in performance evaluation, where this flexible budget relates to overhead rates that can be obtained from flexible budgets. This study uses a qualitative approach. Qualitative research is research that is descriptive in nature and tends to use analysis. Process and meaning (subject perspective) are emphasized in qualitative research. The theoretical basis is used as a guide so that the research focus is in accordance with the facts in the field. The method used in this research is a case study study of literature.

RESULT AND DISCUSSION

a. Characteristics of a Flexible Budget

Flexible budgets are a very useful control tool because they allow management to calculate output costs at various levels of activity. A flexible budget is a budget that does not limit itself to only one level of activity, but is aimed at a range of activities as well, a flexible budget can be prepared at any time as a comparison of the actual costs at any level of activity that is within the relevant range (Garrison, Noreen, 2000). Is a budget that is arranged sequentially, which is a comparison of the level of capacity volume where the budget is classified into a fixed cost budget and a variable cost budget.

Flexible budgets (also known as variable budgets) are based on knowledge of cost pattern behavior. A flexible budget is made for a range of activities, not just for one level of activity, and in essence is a series of budgets that can be adjusted at different levels of activity. Ideally, a flexible budget is prepared after you have a detailed analysis of how each cost is affected by activity changes.

A flexible budget has the following clear characteristics: a) It is prepared for a range of activities and not for just one level of activity; b) provide a dynamic basis for making comparisons, as they will automatically provide information regarding different volume levels.

The characteristics of a flexible budget are: 1) Prepared for a range of activities and not for just one activity. 2) Provide a dynamic basis for making comparisons, because the budget will automatically be able to provide information regarding different levels of volume. A flexible budget can be made with a certain level of sales or a certain volume before or after sales or production are carried out. A flexible budget can provide information in the form of costs that must be incurred for a level of output.

Simamora (1999) stated that the Benefits of Flexible Budgets states that the benefits of flexible budgets for companies are: 1) Flexible budgets can be used to formulate budgets before there is data on activity level estimates. 2) Because a flexible budget can determine how much it will cost at various activity levels, it can be used after the data is available to calculate how much it should cost for the actual activity level. 3) Flexible budgets can help management in dealing with uncertainty by enabling them to see estimated results within a certain range of activities.

Flexible budgets have many uses, both before and after the period in question. Flexible budgets are especially useful when managers are trying to choose between a wide range of activities for planning purposes. Also very helpful at the end of the period, when the manager is trying to analyze actual results.

In theory, the process of preparing a good budget is prepared using the bottom-up method, meaning that in preparing the budget, ideas, suggestions and suggestions are included from each department, starting from the lowest department to the highest department that requires a budget. This is important because they know more about the needs and activities of the units they lead directly

b. Flexible Budgeting Concept

Flexible budgets are usually designed to anticipate the impact of changes in volume and how they affect revenues and expenses. To accurately predict changes in costs, management must identify fixed costs and variable costs. In this area of operation, fixed costs remain constant while variable costs continue to increase as production increases. Variable costs are usually presented in budgets as a percentage of total revenue or as a constant per unit produced. A flexible budget is a more detailed plan that controls multiple costs. Activity levels are within a reasonable range for the company. Available flexible budgets provide a better basis for comparing the actual and expected costs of actual activity amounts. When creating this flexible budget, it should be based on several different levels of activity. To calculate different production levels, it is necessary to know the cost behavior model of each budget. Estimated total costs increase with increasing production levels, because total variable costs increase with increasing production (Hansen and Mowen, 2012: 445).

Overhead deviation Direct materials and direct labor are usually divided into costs and usage. In fact, many organizations believe that it is not worth while to pay attention to individual overhead items to the same extent. In some cases, however, it may be beneficial to subdivide the flexible overhead variance, especially for variable overhead.

Part of the deviation of flexible overhead costs has to do with controlling the cost driver and part of controlling the use of the overhead itself. When the actual cost driver activity differs from the standard amount, allowing the actual output to be achieved, a flexible overhead efficiency deviation will occur. The preparation of the operational cost budget in a trading and distribution pharmaceutical company uses a bottom up procedure or also called from the bottom up. Thus the budgeting will be the same as the conditions, facilities and capabilities of each section due to active participation and communication between one department and other departments within the company in preparing the budget. The operational cost budget is said to be profitable if the realized value is less than the predetermined budget value and is said to be unprofitable if the realized value is greater than the predetermined budget value. The value of a deviation occurring is measured by a percentage indicating whether the deviation is still within the reasonable or unreasonable category. Pharmaceutical companies have different percentage values for each cost, because each fee has a different standard deviation percentage.

c. Flexible Budget and Overhead Rate Analysis

The preparation of the operational cost budget in a pharmaceutical company uses a bottom up procedure or also called from the bottom up. Thus the budgeting will be the same as the conditions, facilities and capabilities of each section due to active participation and communication between one department and other departments within the company in preparing the budget.

The production cost budget prepared by the company is based on a certain amount of output. This causes deviations from the variance which is quite large because the volume of production results differs greatly between the budget and the realization. So, the company needs to evaluate the preparation of the budget that has not taken into account fluctuations in the company's production volume.

Setting a production cost budget for a company, especially a manufacturing company/manufacturing company that processes raw materials into finished or semi-finished products is a must, because it relates to the determination of basic prices and costs. Products manufactured by the company.

Therefore, careful research is required when analyzing and budgeting production costs to prevent companies from wasting non-production or margin-related costs that ultimately affect or reduce company profits.

The operational cost budget is said to be profitable if the realized value is less than the predetermined budget value and is said to be unprofitable if the realized value is greater than the predetermined budget value. The value of a deviation occurring is measured by a percentage indicating whether the deviation is still within the reasonable or unreasonable category. At PT. Kimia Farma has a different percentage value for each cost, because each fee has a different standard deviation percentage.

A flexible budget for production costs that is prepared with production volume based on several activity ranges shows the company's level of efficiency. Regarding the flexible budget and the determination of the flexible budget, its control as the basis for determining the flexible budget still needs to be reviewed according to the types of costs to be incurred so that the allocation does not exceed the budget that has been set.

Deviations that arise between the budget and realization require more attention so that efficiency in the use of costs and activities is achieved. Deviation analysis needs to be done either for profitable deviations or adverse deviations. From the results of the analysis then look for the causes of deviations. Profitable deviation does not mean that the company has been efficient in using costs. Deviations may occur because the company sets standards that are too high. So it's not that the company has used costs too efficiently. Likewise with adverse deviations, these deviations do not always occur due to waste and employees not working efficiently, but may be caused by the standards set being too low.

Likewise with the deviation of overhead costs, if the amount is material then it is allocated to the cost of goods sold and inventory. But if the amount is not material then it is allocated to the profit and loss calculation.

In addition, through controlling production costs, companies can improve performance standards and coordination. Evaluation of the company on major deviations that arise (such as factory overhead costs) is expected to be able to evaluate properly and improve performance standards for machines and labor and be able to carry out better coordination between divisions. Thus, flexible budgets are implemented by companies in order to be able to deal with uncertainty, increase supervision, and improve performance standards and coordination.

With this flexible budgeting, the effectiveness of management from each department can be seen in the production process so that production budgeting functions to prevent the use of costs outside the company. So that the profit management budget can be adjusted and can be measured as the achievement of the predicted performance.

d. Overhead Deviation

Direct materials and direct labor are usually divided into costs and usage. In fact, many organizations believe that it is not worth while to pay attention to individual overhead items to the same extent.

In some cases, however, it may be beneficial to subdivide the flexible overhead variance, especially for variable overhead. Part of the deviation of flexible overhead costs has to do with controlling the cost driver and part of controlling the use of the overhead itself. When the actual cost driver activity differs from the standard amount possible to achieve the actual output, a flexible overhead efficiency deviation will occur.

Overhead rates can be calculated by dividing the amount of budgeted overhead costs at normal capacity by normal capacity. As for the main benefits of this standard overhead rate includes, variable and fixed factory overhead elements are to determine cost of goods and planning. In order for this overhead rate to be utilized for cost control, this rate must be separated into fixed and variable rates. to control overhead costs in standard cost standards it is necessary to make a flexible budget separating fixed and variable cost factors, and treating fixed overhead costs as costs whose total amount is fixed in a certain volume. With this flexible budget, it can provide a good analysis of irregularities.

Overhead deviation is the difference between actual overhead costs and predetermined overhead costs. Based on its behavior, this overhead can be divided into variable overhead and fixed overhead. There are many ways to analyze overhead deviations using:

1) Two difference method consisting of:
   - Controlable Variance, namely the difference between actual overhead costs and budgeted costs.
   - Volume Variance, namely the difference between budgeted overhead costs in standard hours and costs charged to products.
2) The three difference method consisting of:
   - Spending variance is the difference between actual overhead costs and standard overhead costs according to actual hours worked.
   - Idle capacity variance is the difference between the allowable overhead costs, based on actual working hours and overhead applied on the basis of actual working hours.
   - Efficiency variance is the difference between overhead costs charged according to actual working hours and overhead costs charged according to standard prices.

When analyzing deviations, the following steps must be taken into account: 1) Determine the size of the difference between standard costs and actual costs. 2) Analyze the causes of deviations. 3) Take corrective action to minimize future deviations. By analyzing the possible variable costs of production, business leaders can more closely analyze the activities carried out for further planning.

CONCLUSION

Based on the discussion conducted regarding Flexible Budgets and Overhead Analysis at Pharmaceutical Issuers, it can be concluded that the preparation of a flexible budget, the company can determine the performance level of the production management department at several activity levels. With a flexible budget, companies can also find out how much deviation there is, namely the variance of factory overhead costs. A flexible budget can be made with a certain level of sales or a certain volume before or after sales or production are carried out. A flexible budget can provide information in the form of costs that must be incurred for a level of output.

Cost deviations occur when charged to cost of goods sold, to inventories and in the calculation of the profit or loss concerned. Cost deviations can be charged directly in the profit and loss calculation caused by the wasteful use of raw materials, direct labor and factory overhead costs which are immaterial.The difference is used as a basis for management to take corrective action, because with this difference it can be seen which parts require corrective action and which parts have not been corrected.

To achieve this goal, in this study using the method of using flexible budgets as a tool for planning and controlling overhead costs will provide information that is closer to the truth, thorough and does not mislead management in making decisions because it requires cost flexibility in each financial report. To avoid continuous increase in production costs, companies need to prepare budgets that have a flexible nature as a planning and control system within the company. As a basis for cost control, the budget must be systematic, realistic, and capable of being used to measure cost deviations that occur by comparing actual costs to budgeted costs.

When preparing a production cost budget, it is better to include all the elements and components in the company to achieve the greatest possible result. This condition also motivates employees and contributes to work. A production cost budget made from planning, implementation to final results requires continuous prudence. So that the company can minimize the risk of deviation from the given budget.

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