

ANALYSIS IMPACT OF COST FACTORS ON NET INCOME

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ANALYSIS IMPACT OF COST FACTORS ON NET INCOME

(Case Study at PT Indofood Sukses Makmur Tbk-Indonesian)

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Abstract

This study focuses on the failure of achieving net income target at a company. The main problem discussed in this study, are factors that impact it, namely : raw material costs, general & administrative costs. This explanatory study is to elaborate impact of raw material costs and general & administrative costs on net income, in order to know, how the factors could give a contribution to the net income company. This study conducted at PT Indofood Sukses Makmur Tbk, Indonesian. The purpose of study is to analysis, describe and test of mentioned factors impact on net income. The method used in this study is descriptive statistical method. The data observed on this study is secondary data. The results showed that the cost of raw materials has partially a positive and significant impact on net income with value is $0.002 < 0.05$, and Administrative & general costs have partially a positive and significant impact on net income with a significance value is of $0.001 < 0.05$. They have simultaneously a positive and significant impact on net income, with significance value is $0.001 < 0.05$. From the result mentioned, that raw material costs has more significant impact than general & administrative costs on net income. And Both of independent variables, based on the tests, deduced that raw material costs and Administrative & general costs have a positive and significant impact on net income 99.1 % and the remaining 0.9% is impacted by other factors that unreported.

Keywords: Raw Material Costs, Administrative & General Costs, Net Profit

1. Introduction

The world of current economy has created a fierce competition among similar companies in the domain of industries, but just the business sectors that have good performance will survive or sustainable, therefore the company must struggle with supporting a good planning to solve problems and obstacles appear, such as operational, financial, and marketing problems of kinds products produced. The focusing of succesful a company could be generally achieved by reaching a maximum profit, so it could survive and maintain its existence in the future. The basic goal of any organization, whether it is a national or a multinational organization, is to get maximum profit in an attempt to persuade the shareholder's needs or stakeholder's asset maximization as revealed by Pandey, I. M. (2000),

Profit is generated from the difference between incoming resources (income and losses) and output resources (expenses and losses) for a certain period of time. For achieving its profit, the company will involve with costs, that are very necessary in continuing a company's business, they are cost of raw materials and general & administrative costs. The major impact of commodity movement in a manufacturing company involves the raw materials used to deliver a specific finished good as customers required. It is clear that any volatility in the price of raw materials as inputs provides to fluctuate in finished goods' as outputs price. This influence may be severe if the price of finished good is highly economically lying with raw materials' price. The cost of raw materials is a major component of company, so the company will creat and produce many product expected as customer and market demand. Meanwhile administrative and general costs as supporting are used to accommodate company's activities in order to accelerate well production process. Both of raw materials and administrative and general cost are important variabel in determining end product price.

Some researchers have already studied concerning with a relationship raw material and administrative & general cost on net income or profit, such as : Hadi Moheb-Alizadeh and Robert Handfield (2018) researched at The shafts Company in an American corporation that manufactures agri- cultural, construction, and

forestry machinery, diesel engines, drivetrains used in heavy equipment and lawn care equipment. Research result proved that there is an impact of price fluctuation of raw materials on the minimum COGS, so the company has a capability to determine selling price product and has impact to increase company profit and many others researchers like Bhanawat (2010) and Chisik et al. (2014) analyzed the influence of raw material cost on manufacturing.

From explanation mentioned above, The resercher has a purpose to analyze, describe and test whether the cost of raw materials and general & administrative costs either partialy or simultaneously have a positive and significant impact on net income at PT. Indofood Sukses Makmur Tbk for the period 2013-2018.

2. Literatur Review

2.1 Raw Material Cost

Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales and "work in progress". Schroeder (1995:4), said that Inventory is material stock used for making light of production process or to make customer demand and satisfaction, and Kusuma (2009:132) said that inventory is material stock used or sold at forthcoming periode of time. V. Wiratna Sujarweni (2015: 9) said that Costs have two meanings namely: "broadly and narrowly. Cost in the broadest sense is the sacrifice of economic resources measured in units of money in an effort to get something to reach a certain goal both what has happened and hasn't happened yet.

Meanwhile, raw material costs are main components cost that make up the whole of finishing product, V. Wiratna Sujarwati and Sujarweni (2015: 27) and Mulyadi (2015: 275) said : " The value of the raw material used in production process is called the cost of raw materials. From statement of experts mentioned above could be emphasized that raw material is inventory stock that company well provides for production process to become finished goods for customers request or ready sold or sent to the market, where raw material keeps as a prime cost production. According to Salman (2013: 26) cost of raw materials is "the

magnitude of the use of raw materials included in production to produce finished products".

Regnier (2007) examined monthly producer prices for thousands of products over the 139, during period January 1945 through August 2005. Their results showed that crude oil, refined petroleum, and natural gas prices are more volatile than prices for about 95% of products sold by domestic producers. Relative to crude commodities, however, crude oil prices are currently more volatile than about 65% of other products

2.2 Administrative and general costs

According to Baldrick Siregar (2013: 31) "Administrative and general costs are costs incurred in order to direct, run, and control the company to produce finished goods. Administrative & general costs include employee salary costs, equipment costs and utility costs. "According to Mulyadi (2015: 14): "Administrative & general costs are costs to coordinate the production and marketing activities of the product." According to Baldrick Siregar (2013: 31): "Administrative & general costs are costs incurred in order to direct, run, and controlling companies to produce finished goods. Administrative & general costs include employee salary costs, equipment costs and utility costs. "According to Lilik Pirmaningsih (2016: 6):" Administrative costs are costs that come from implementing and controlling an organization and from general activities. Mulyadi (2015: 8) costs are:" sacrifice of economic resources, measured in units of money that have occurred or are likely to occur for a particular purpose.

Ghozali (2007) conducted a research on the variables that affect the profitability of Bank Syariah Mandiri in 2004-2007 by using CAR (Capital Adequacy Ratio), FDR (Financing to Deposit Ratio), OCOI (Operational Cost and Operating Income) and NPL (Non performing Loan) as independent variable and profitability as dependent variable. The result of the research is CAR and NPL have negative and significant effect. While the FDR and OCOI variables are positively and significantly related to the profitability of the Bank in Bankan Syariah Mandiri. (Central Library, State Islamic University Maulana Ibrahim

Malik: p.12). Waqar Khalid¹, Saifullah Khan (2017) studied the impact of operating and financial expenses on sales revenue of the Fauji Fertilizer Company Limited in Pakistan. The time series data for fourteen years covering 2002-2015 used were analyzed by using the Ordinary Least Square technique and a multiple regression model. The results also confirmed that there is a significant increase in the sales revenue of the company caused by a unit change in operating expenses.

2.3 Net Income

Profitability is related to the survival of any business of company and is significant interested to the stakeholders (owners, government, employees, and their host communities). It is when a company makes a profit that it can fulfill its obligations to the stakeholders, payment of tax to the government, payment of dividend to shareholders, payment of enhanced remuneration to workers and investment in corporate social responsibility in its operating environment. The reverse will be the case for unprofitable companies. Greuning et al., (2013: 39) states that profit is the amount that can be given to all ordinary shareholders of the parent (who has control or not). Herny Simamora (2013: 46) said that "Net income comes from income transactions, costs, profits and losses." These transactions are summarized in the income statement

According to Kasmir (2014: 303) "Net Income is profit that has been reduced costs that are the burden of the company in one period." According to Henry Simamora (2013: 46) the definition of net income is: "Net income derived from income transactions, expenses, advantages and disadvantages.

2.4 Relationship Raw Material Cost with Net Income

Inventory of raw material is firstly provided to make a processing production could run well, another, keeping a production factor seems to be 'idle resources', so it needs a well manage in processing production and have a capability to solve a fluctuation of raw material requirement (buffering stock). Adam and Ebert (1989) said that the main purpose of inventory optimasi is to

assure of inventory with low cost and better service level (on time delivery product to customer).

Profitability, in no small extent, depends on the capacity of the company to grow its earnings and tame its cost profile through cost control techniques. Until companies operating in the manufacturing industry understand the actual costs associated with raw materials and the impact it has on profitability and can review the benefits of alternative approaches, they will continue to be complacent thereby accepting average profits when much more can be gotten, Prempeh,(2016)

The research conducted by Etale and Bingila, (2016) examined the effect of inventory cost management proxied by raw materials cost, work in process cost and finished goods cost on the profitability which was represented by a gross margin. The study revealed that efficient inventory cost management has a positive influence on profitability.

The statement mentioned above is in line with research of Fadillah Zainnah Ramadhan (2015) that production costs (raw material, labor and factory overhead) have a significant and positive effect on net income (profit)

2.5 Relationship Administrative & general costs with Net Income

Few manufacturing companies that are still operating within the Nigeria market have resulted in using cost control as a strategy for sustaining their earnings. Cost control strategies are expected to be an integral part of any profit-making venture that wants to continue in business especially in the current downturn as no firm will stay in business if it does not have precise mechanisms in place to check its costs so that the expenses do not surpass the estimated projections. If charges are not properly checked the outcome can be detrimental to the smooth running of the business. Company management must match budgeted and actual costs and strive to ensure that they always remain within the estimated projections

Evidence from the telecom sector in Saudi Arabia was examined by Sharma and Husain (2015). For marketing expenses and profitability; there was a positive correlation among all the independent variables, i.e., the selling and marketing expense, dealers' commission, advertising expenses and salary, wages, employee

benefits paid to the selling and marketing staff of these companies. It is a further confirmation of the study conducted by (Oloko, Anene, Kiara, Kathambi & Mutulu, 2014). The study concluded that selling and marketing expenses hold great significance in companies' profitability.

2.6 Relationship Raw Material Cost and Administrative & general costs with Net Income

Profit is generated from the difference between incoming resources (income and profits) and outgoing resources (expenses and losses) for a certain period of time. "From an economic perspective, the prices of inputs (raw material and operational cost) and outputs (finishing product) are the main determinant which have an impact on company profits. These factors also affect the company's decision to carry on its production or not at all.

Keitany, Wanyoike, and Richu (2014) revealed a significant increase in organizational performance as a result of material management and advocated that emphasis should be directed to improve organizational performance. The research conducted by Etale and Bingila, (2016) examined the effect of inventory cost management proxied by raw materials cost, work in process cost and finished goods cost on the profitability which was represented by a gross margin. The study revealed that efficient inventory cost management has a positive influence on profitability.

Hypothesis in this research are:

H0: There is no significant impact of raw material cost and administrative & general costs on net income at PT. Indofood Sukses Makmur Tbk.

Ha: There is a significant impact of raw material cost and administrative & general costs on net income at PT. Indofood Sukses Makmur Tbk.

3. Research Methods

3.1 Data Sources

The research approach used is quantitative research. Quantitative research is a research whose data is in the form of numbers ranging from data collection, interpretation of the data, and the appearance of the results, Sugiyono (2017) and the data source used is secondary data. Secondary data is generally in the form of evidence, historical records or reports that have been arranged in a publicized and unpublished archive.

3.2 Data Analysis

In processing and analysis data used IBM Statistics Production Science (SPSS) version 22 software with descriptive statistical data. In this analysis consists of descriptive statistical tests, classic assumption tests (tests of normality, autocorrelation, heteroscedasticity and multicollinearity), multiple linear analysis and hypothesis testing (t test, F test, and coefficient of determination).

4. Research results And Analysis

Tabel.1
Descriptive Statistics

Variabels	N	Minimum	Maximum	Mean	Std. Deviation
Raw material Costs	6	27542223	34662360	30338741.67	2454800.312
Administration charge. & general	6	3277191	4466279	3866693.83	424838.154
Net profit	6	3416635	5266906	4613607.67	826009.422
Valid N (listwise)	6				

Sources : Result of Data processing
Article Error

Based on table 1 above, the number of measurements (N) has been researched for six years, the result shows that the maximum value of raw

materials cost is bigger than maximum value of administration & general costs (Rp.34,662,360 million > Rp.4,466,279 million) at the maximum profit level is Rp.5,266,906 million. It means that raw materials cost has a strong impact on net income/profit at PT. Indofood Sukses Makmur Tbk.

Tabel 2
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		6
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	77282.95810340
Most Extreme Differences	Absolute	.270
	Positive	.270
	Negative	-.186
Test Statistic		.270
Asymp. Sig. (2-tailed)		.196 ^c

- a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Sources : Result of Data processing
Article Error

Based on table 2 above, the results of the Kolmogorov-Smirnov calculation shows that the Asymp value. Sig (2-tailed) of 0.196, where $0.196 > 0.05$. So that the normality test results can be concluded that the data is normally distributed.

Tabel 3**Coefficients^a**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	32410.72962	623310.385		5.200	.014		
Raw Material Costs	-.505	.049	-1.502	-10.276	.002	.137	7.323
Administration charge. & General	4.321	.284	2.222	15.203	.001	.137	7.323

a. Dependent Variable: net income

Sources : Result of Data processing

Based on tabel 3 above, the tolerance value and VIF of raw material costs and general & administrative costs are 0.137 and VIF 7.323. This shows that all independent variables are greater than 0.10, so the research variables are free from multicollinearity symptoms. Based on output of SPSS version 22, there is no clear pattern, and the points spread above and below the number 0.5 on the y-axis number, it can be concluded that each variable does not contain heteroscedasticity, so it meets the requirements in regression analysis.

Tabel 4**Runs Test**

	Unstandardized Residual
Test Value ^a	-21518.38424
Cases < Test Value	3
Cases >= Test Value	3
Total Cases	6
Number of Runs	5
Z	.456
Asymp. Sig. (2-tailed)	.648

a. Median

Sources : Result of Data processing

Based on tabel 4 above, Autocorrelation Test using Run Test, known Asmp value. Sig (2-tailed) is $0.648 > 0.05$, it can be concluded that there are no symptoms of autocorrelation.

Tabel 5

Correlations

		Raw Material Costs	Adm and General cost	Net Income
Raw Material Costs	Pearson Correlation	1	.929**	.563
	Sig. (2-tailed)		.007	.245
	N	6	6	6
Administration charge. & General	Pearson Correlation	.929**	1	.827*
	Sig. (2-tailed)	.007		.043
	N	6	6	6
Net income	Pearson Correlation	.563	.827*	1
	Sig. (2-tailed)	.245	.043	
	N	6	6	6

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Sources : Result of Data processing
Article Error

Based on table 5 above, the value of Persion Correlation between the cost of raw materials with a net profit of 0.563, the results of raw material costs have a moderate correlation to net income. While general & administrative costs show the number 0.827, which means that administrative & general costs have a very strong correlation to net income.

Tabel.6**Coefficients^a**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3241072.962	623310.385		5.200	.014
Raw Material Costs	-.505	.049	-1.502	-10.276	.002
Administration charge. & General	4.321	.284	2.222	15.203	.001

a. Dependent Variable: Net income

Sources : Result of Data processing
Article Error

Based on the table 6 above, the hypothesis test of raw material costs on net income shows a value of Sig. (0.002) < 0.05 (α = 5%), based on these provisions it concluded that ~~Ho reject~~ Ha accepted. It means there is a significant effect of raw material costs on net income. For the hypothesis test of general & administrative costs on net income shows that Sig. (0.001) < 0.05 (α = 5%). Based on these provisions it can be seen that Ho was rejected and Ha was accepted. This shows that there is a significant effect of general & administrative costs on net income.

From the result mentioned, that raw material costs has a stronger impact than general & administrative costs on net income.

Tabel.7**ANOVA^a**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3381594548461.274	2	1690797274230.637	169.854	.001 ^b
	Residual	29863278066.060	3	9954426022.020		
	Total	3411457826527.334	5			

a. Dependent Variable: Net Income

b. Predictors: (Constant), Administration charge. & General, Raw Material Costs

Based on the table 7 above, it is known that the amount of Sig. (0.001) <0.05. based on these provisions it can be seen that H_0 was rejected and, H_a accepted. This shows that there is a significant effect of raw material costs and general & administrative costs on net income.

Tabel 8

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.996 ^a	.991	.985	99771.870

a. Predictors: (Constant), Administration charge. & General, Raw Material Costs

Based on SPSS results at tabel 8 above, the value of R^2 (coefficient of determination) of raw material costs (X1) and general & admission costs (X2) have a value 0.991, which means the ability of variable raw material costs (X1) and adm costs. & general (X2) to influence the magnitude of the variable net income (Y) are 99.1%, and the remaining 0.9% is influenced by other factors not examined.

5.0 Discussion

Based on the partial test results the variable cost of raw materials obtained the value of Sig. 0.002 so it can be concluded that the cost of raw materials affects the net profit of PT Indofood Sukses Makmur Tbk for the period 2013-2018.

The results of this study are in line with research of Fadillah Zainnah Ramadhan (2015) that production costs (raw material, labor and factory overhead) have a significant and positive effect on net income. But conversely, Denny Prabu Syaputra (2018) states that the cost of raw materials has no effect on net income. Partial test results of general & administrative costs obtained Sig. 0.001 <0.05 (5%), so it can be concluded that general & administrative costs affect net income. It is in line with research of Setia Kumalasari (2017) states that administrative costs has a significant and positive effect on net income. But it does not support a

research of Denny Putra Hapsari (2018) states that administrative & general costs do not affect net income. The value of F test shows that all independent variables have an influence on the dependent variable, with significant value is $0.001 < 0.05$ (5%). So it can be concluded that raw materials costs and administrative & general costs have a simultaneously impact on net income at PT Indofood Sukses Makmur Tbk.

6.0 Conclusions

Based on the results of research and discussion at PT Indofood Sukses Makmur Tbk can be concluded that:

1. The Raw materials cost of PT Indofood Sukses Makmur Tbk has fluctuated since 2013-2018, with the lowest value is Rp.27,542,223 and the highest value is Rp.34,662,360 million.
2. The Administrative & General Costs of PT Indofood Sukses Makmur Tbk has fluctuated since 2013-2018, with the lowest value is Rp. 3,277,191 and the highest value is Rp. 4,476,279 million.
3. PT Indofood Sukses Makmur Tbk's Net Profit has experienced up and down profit since 2013-2018, with the lowest profit value is Rp.3,416,635 million, and the highest profit value is Rp.5,229,489 million.
4. Both of variabel factors (Raw materials cost & Administrative & General Costs) have a positive and significant impact on Net Income of PT Indofood Sukses Makmur Tbk, with determinan (R^2) value is 0.991 or 99.1 %.

7.0 Recommendation

The suggestions that can be given in this research for companies are as follows:

1. In issuing raw material costs, Management must be considered the costs previously incurred, because if there is no supervision in the use of these costs will indicate the expenditure of other costs.

2. Management must certainly be effective and efficient in the use of raw materials cost, and administrative & general costs are especially in the use of office maintenance costs, this needs to be considered because to support the company's operational activities of course there must be oversight regarding good office machines that have been used there must be a response from the cost manager in the company.
3. The company has basically succeeded of making a profit from its business activities, in achieving the target, the company must be able to reduce costs and greater sales.

8.0. Data Description, Presentation and Its Limitations

The available data set used in this research for the empirical investigation consists of the annual observations on raw material cost, administration & general cost, and net income of PT Indofood Sukses Makmur Tbk, over the period 2013-2018.

For the next researchers Suggested to use the recently datas and taken more than one sample with the same companies profile, so that the result could be compared each other. And the independent variabel is better used production costs (raw material, labor and factory overhead cost) in order to make completely analyzing impact on net income or profit margin company.

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Wrong Form You may have used the wrong form of this word.



Garbled Grammatical or spelling errors make the meaning of this sentence unclear. Proofread the sentence to correct the mistakes.



Proofread This part of the sentence contains a grammatical error or misspelled word that makes your meaning unclear.



Article Error You may need to use an article before this word.



Wrong Article You may have used the wrong article or pronoun. Proofread the sentence to make sure that the article or pronoun agrees with the word it describes.



Missing ", " You may need to place a comma after this word.



Article Error You may need to use an article before this word. Consider using the article **the**.



Article Error You may need to use an article before this word.



Prep. You may be using the wrong preposition.



Article Error You may need to use an article before this word. Consider using the article **the**.



Prep. You may be using the wrong preposition.



Possessive You may need to use an apostrophe to show possession.



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Run-on This sentence may be a run-on sentence. Proofread it to see if it contains too many independent clauses or contains independent clauses that have been combined without

conjunctions or punctuation. Look at the "Writer's Handbook" for advice about correcting run-on sentences.



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Article Error You may need to remove this article.



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Article Error You may need to use an article before this word. Consider using the article **a**.



P/V You have used the passive voice in this sentence. Depending upon what you wish to emphasize in the sentence, you may want to revise it using the active voice.



Article Error You may need to use an article before this word. Consider using the article **the**.



Prep. You may be using the wrong preposition.



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Missing "," You may need to place a comma after this word.



Article Error You may need to use an article before this word.



Article Error You may need to remove this article.



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S/V This subject and verb may not agree. Proofread the sentence to make sure the subject agrees with the verb.



Sentence Cap. Remember to capitalize the first word of each sentence.



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Coord. Conjunction These sentences begin with coordinating conjunctions. Try to combine them with the sentences that precede them.



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Missing "," You have a spelling or typing mistake that makes the sentence appear to have a comma error.



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